

## Changes to State Pensions and contracting out - a message from the Employers

This information is for UK colleagues who are members of one of the Lloyds Banking Group's (the Group) UK Defined Benefit (DB) pension schemes (see full list of schemes impacted below).

You will not be affected if you are a member of Your Tomorrow or if you are not a member of any Group pension scheme. Nor will you be affected if you reach State Pension age before 6 April 2016.

### **What is changing and why?**

The UK State Pension is made up of two parts – the Basic State Pension (BSP) and an additional pension - the State Second Pension (S2P). From 6 April 2016 the government is replacing the two separate pensions with a new flat-rate pension.

The Group's DB pension schemes are contracted out of the S2P and members therefore pay reduced National Insurance (NI) contributions. When the new State Pension system launches in April 2016 the government will also end contracting out. This will lead to an increase in NI contributions for some colleagues and therefore result in a reduction in take-home pay.

The Group will also incur a higher Employer's NI cost as a result of the changes.

### **What is the impact?**

Colleagues who are members of a contracted-out scheme benefit from a saving in their NI. This NI saving will be withdrawn from 6 April 2016 and all colleagues will pay the normal rate of NI regardless of the pension scheme they are in. The current saving is 1.4% of gross pay between £486 and £3,337 a month.

For example, a colleague in one of the Group's DB pension schemes with an annual salary of £25,000 will see a reduction in net pay of approximately £22 per month.

### **Will the Group make changes to its pension schemes as a result of this?**

The impact to the Group of the increase in Employer NI costs is anticipated to be over £20million a year. Employers have been allowed by law to make changes to their contracted-out pension schemes to help offset these increased costs.

The Group has decided that it will **not make further changes to its pension schemes in April 2016**. We recognise that colleagues are still adjusting to the change to the Pensionable Pay Cap that was made in 2014 and that they will be further impacted by these State Pension changes.

If, in the future, changes do become necessary, we will consult with colleagues who might be affected.

### **Next steps**

We have provided some Frequently Asked Questions below which we hope will be useful in explaining what the changes will mean. If you would like more information about the State Pension reforms and NI contribution changes, please follow the links in the [government's guidance sheet](#).

## Frequently Asked Questions – State Pension update April 2016

### **How do I know if I am affected?**

If you are a member of one of the following pension schemes:

- Lloyds Bank Pension Scheme No. 1 (DB Section)
- Lloyds Bank Pension Scheme No. 2
- HBOS Final Salary Pension Scheme\*
- Scottish Widows Retirement Benefits Scheme
- Equitable Pension Fund and Life Assurance Scheme

and you pay NI contributions in the UK, you will be affected.

\* The HBOS Final Salary Pension Scheme and the Lloyds Bank Offshore Pension Scheme are contracted out for Isle of Man colleagues. However, the Isle of Man is not currently changing its State pension system. Isle of Man colleagues will not be affected at this time.

### **Does the change affect my pay in April 2016?**

Yes. If you are a member of one of our DB pension schemes and you pay NI contributions in the UK, your April salary payment is the first time that you will see the impact of these changes.

### **Why is the government making this change?**

The government is reforming the State Pension system and replacing the current State Pension which is a two-tier system made up of Basic State Pension (BSP) and State Second Pension (S2P) - with a single flat-rate pension from April. This new State Pension will apply to everyone under State Pension age (SPA) on 6 April 2016.

### **Will my past service in contracted-out employment affect how much State Pension I will receive?**

Yes. Your contracted-out employment will continue to have an effect on the new State Pension you will receive. The new flat-rate State Pension is different to the present State Pension. However, if you have been a member of a contracted-out pension scheme under the present State Pension system, then your new flat-rate State Pension will be adjusted to take account of the period of contracted out employment.

You can find more information [here](#).

### **Has the Group made this change?**

No. This change is one part of the changes to the State Pension system introduced by the government.

### **Does this change affect only Group colleagues?**

No. This is a government change and affects all members of pension schemes in the UK that are contracted out of the S2P.

### **I am over SPA. Do these changes affect me?**

No. If you are over SPA at 6 April 2016 this will not affect you.

There have recently been some changes to pension increases, read more [here](#).

### **I am not based in the UK and pay Social Security offshore. Do these changes affect me?**

No. If you do not pay NI contributions in the UK this will not affect you.

### **Where can I get more information about the State Pension changes?**

At the [GOV.UK website](#)

### **Will I get a bigger State Pension because I am paying more NI contributions?**

Not necessarily. The State Pension is changing and you should visit the [GOV.UK website](#) to find out more.

### **I am in the Your Tomorrow pension scheme – does this affect me?**

No. Your Tomorrow is not contracted out of the S2P so your NI contributions will not increase as a result of this change.

### **When does the change come into effect?**

The change takes effect from 6 April 2016. The April pay date is 20 April and therefore the new rate of NI contributions will be applied to the full April salary payment.

### **Can I opt out of the changes?**

No. These changes are being introduced by the government as part of the reform of the State Pension system.

### **Where can I find out more about this?**

The [Pensions pages](#)\* on the Reward site provide more information about this change.

\*Please note that you can only access the Group Interchange site when connected to the Group network.