

Judicial Pensions – What you need to know

As a group 5 salaried judge, you will receive a pension from the Ministry of Justice (MoJ). This factsheet sets out the key features of the different schemes available to you and information around tax changes that may affect your pension.

Key features

The MoJ provides a defined benefit pension with an employer contribution rate of 25.7% (compared to an average 12.7% employer contribution rate for private sector career average schemes).¹ A group 5 salaried judge will become a member of one of 2 schemes:

- The 2015 scheme; or
- The 1993 scheme.

A judge who has held a fee-paid office may have accrued benefits under the Fee-Paid Judicial Pension Scheme. Those benefits will stay within this scheme with the accrued pension benefits paid at retirement. Judges who are already a member of the 2015 scheme as a result of a fee-paid or other salaried appointment, will continue to be a member of the scheme for their salaried service, on appointment as a group 5 salaried judge.

Which scheme applies?

Which scheme a judge appointed as a group 5 salaried judge will join depends on their age and whether they have previously held judicial office (this includes any eligible fee-paid office).

- The 2015 scheme applies if the appointment to judicial office is a first appointment; and/or the individual held judicial office on 1st April 2012 but was under the age of 51.5 years on that date.
- The 1993 scheme applies if the judge held office on 1st April 2012 and was aged 55 or older. If the judge held office on 1st April 2012 and was aged between 51.5 and 55 years s/he is entitled to a defined period of time when s/he can be a member of the 1993 scheme and only join the 2015 at the end of that period.

The 1993 scheme

This scheme is a non-registered scheme and its benefits **do not count** towards the Annual or Lifetime Allowances.² The main features of the scheme are:

- Final salary with an accrual rate of 1/40th for each year subject to a maximum of 20 years;
- Automatic additional lump sum of 2.25 times the value of the pension;

¹ *Occupational Pension Schemes Survey 2014* – Office for National Statistics

² The Annual Allowance is a limit to the total amount of contributions that can be paid to defined contribution schemes and the total amount of benefits that can be built up, in a defined benefit pension scheme each year for tax purposes. The Lifetime Allowance is a limit on the amount of pension benefit that can be drawn from pension schemes – whether lump sums or retirement income – without triggering an extra tax charge.

- Unreduced benefits payable at age 65, with actuarially reduced benefits payable for retirements between the age of 60 and 65;
- Contribution rates are lower than those for the 2015 scheme, but are not tax deductible and are therefore equivalent to the rate paid after tax relief is applied for the 2015 scheme;
- Provisions for both medical retirement and death in service. In addition, a pension for surviving spouse/civil partner of 50% of the member's pension and pensions for eligible children are payable.

The 2015 scheme

The scheme is a tax-registered scheme which means that pension benefits accrued will count towards the Annual and Lifetime Allowances. Those who have registered with HMRC for Enhanced or Fixed Protection must be aware that if they join the 2015 scheme, **they will lose those Protection rights**. If, after taking personal financial advice, a newly appointed judge decides not to join the 2015 scheme, this should be made clear to the MoJ at the time of taking up the appointment. There is no salary addition available in lieu of joining the 2015 scheme.

The main features of the scheme are:

- It is a career average pension scheme. Every scheme year a member will 'bank' an amount of pension in their individual pension account at the rate of 2.32% (equivalent to 1/43) of their pensionable earnings (salary) in that scheme year. The final pension is made up of the amounts banked each year with index linking (currently in line with CPI) added;
- Members can take part of their earned pension as a lump sum, subject to HMRC tax limits, with each £1 of pension given up buying £12 of lump sum;
- The age at which pensions are payable is linked to the member's own State Pension Age. Members may draw their pension before that age, although not before age 55 under current tax rules. Retirement before State Pension Age will attract an actuarial reduction to the benefits payable;
- Full time group 5 salaried judges will contribute 7.35% of their earnings towards their pension;
- There are provisions for both medical retirement and death in service;
- A pension for a surviving spouse of 37.5% of the member's pension and pensions for eligible children are payable.

As an alternative to membership of the 2015 scheme a judge can become a member of the Partnership Pension Account (PPA). This is a stakeholder pension arrangement which is registered for tax purposes and so will also count towards the Annual and Lifetime Allowances. The MoJ will make a contribution equivalent to 19% of salary into the Account with the individual paying a minimum of 3% of salary. The PPA is administered by the Prudential.

Tax Changes

In the Summer Budget 2015 the Chancellor of the Exchequer announced a change to the Annual Allowance for 2016-17 and in future years. The change introduces a tapered Annual Allowance for those with income over £150,000. The definition of income also includes the value of the pension benefits accrued in the year less the contributions paid by the member. The Annual Allowance is

tapered away at the rate of £1 for every £2 over the adjusted income, down to a limit of £10,000 for those with incomes over £210,000.

The following example illustrates the impact of the changes for a group 5 salaried judge with a salary of £145,614.

- The judge's income equals their salary plus the value of the pension accrued in a year³ - minus the contributions they paid into their pension.⁴
- This gives an income of £188,963 which, as it exceeds £150,000 (by £38,963) means that the Annual Allowance is £20,518.50.
- Deducting the Annual Allowance of £20,518.50 from the value of the pension benefits accrued of £54,052⁵ means that £33,533.50 will be subject to the Annual Allowance charge at the individual's marginal tax rate (i.e. tax payable of £13,413 for those whose marginal rate of tax is 40%).

The member may choose to pay the tax due themselves or alternatively the scheme can pay the tax due. If the scheme does pay the tax in any year that it is due, then at retirement the gross pension is reduced by an actuarially calculated factor.

Effect of pension provisions

If a candidate has questions about the effect of the pension provisions on their individual circumstances they may wish to take independent financial advice, but may also raise questions with the Judicial Pensions Committee at Paul.Monsarrat@judiciary.gsi.gov.uk

³ £54,052 equals the judge's salary, multiplied by 2.32%, multiplied by the HMRC factor of 16

⁴ Contributions are equal to salary received multiplied by the contribution rate, i.e. £145,614 x 7.35%

⁵ See footnote 3