National Gas Transmission Pension Scheme

ngtps

Bridge the gap

An option to help you bridge the income gap until your State pension starts

January 2024

What is bridge the gap?

Available at retirement, this is an option that enables you to receive a larger pension from the Scheme until you can start to claim your State pension. You then receive a smaller pension from the Scheme afterwards. In the Scheme Rules, this is called the levelling option.

It's open to you if you're taking your pension from the Scheme before your State pension age, unless you're taking it on the grounds of ill health.

How is this option linked to the State pension?

It's linked to the amount of the basic State pension received by people who reached their State pension age before 6 April 2016. The annual amount of this basic State pension as at April 2023 is £8,122.

A different State pension system was introduced by the Government from 6 April 2016. The amount of State pension you'll get at State pension age will be based on this new system and will depend on your National Insurance contribution record.

You can check your State pension online at: **www.gov.uk/check-state-pension**, where you can also find out when you can start to claim your State pension.

Does this option affect other Scheme benefits?

No. Other Scheme benefits such as the retirement tax-free cash sum and the death benefits paid by the Scheme will be calculated in the same way, regardless of whether you take this option at retirement.

Is it possible to choose a different amount under this option?

Your Scheme retirement quotation letter will tell you the maximum amount that you can take under this option. You can choose a lower amount but not a larger one. You may want to choose a lower amount if you expect to receive a lower State pension at your State pension age, or to avoid being affected by the Annual Allowance (see page 11 for more information about this).

Should I get financial advice?

This option won't be right or suitable for everyone, so a decision to take it should be made on a sound financial basis, and you should consider taking independent financial advice about this before deciding to go ahead. You should be aware, however, that a financial adviser will charge you for giving such advice. You can find a financial adviser by going to **www.unbiased.co.uk**

How does it work?

Example

Jason retires at age 60, six years before his State pension age of 66. Using the bridge-the-gap option, Jason can have a maximum increase to his annual Scheme pension of £6,546 until he reaches his State pension age.

Jason's Scheme pension	**£11,000 a year**
Jason's increased Scheme pension if he chooses the bridge-the-gap option	**£17,546 a year**
Reduction to Jason's Scheme pension from State pension age	**£8,122**
Jason's reduced Scheme pension	**£9,424 a year**

From State pension age, Jason's permanently reduced Scheme pension of £9,424 a year is paid for the rest of his life.

What about annual pension increases?

Scheme pensions are reviewed each year to help them keep pace with the cost of living, in line with the Scheme Rules. Jason's increased pension (£17,546) and the amount of the reduction (£8,122) are both affected by any future Scheme increases.

Assuming his Scheme pension increases by a total of 18% (3% per year) over the six years to his State pension age, Jason's figures would then be:

Scheme pension just before State pension age	**£20,705 a year**
Amount of reduction at State pension age	**£9,584**
Scheme pension from State pension age	**£11,121 a year**

A summary of Jason's choices

	Without bridge the gap	With bridge the gap
Scheme pension at age 60	**£11,000 a year**	**£17,546 a year**
Scheme pension by age 66*	**£12,980 a year**	**£20,705 a year**
Permanent reduction to Scheme pension at Jason's State pension age of 66	**£0**	**£9,584**
Scheme pension from Jason's State pension age	**£12,980 a year**	**£11,121 a year**

*assuming total increases of 18% over the six years to Jason's State pension age.

This is just an example. The actual figures will vary depending on a number of factors including your State pension entitlement, Scheme membership and the bridging factors in place when you retire.

The State pension becomes payable to Jason at his State pension age. Whether his overall income (Scheme pension plus State pension) goes up or down will depend on how much State pension he receives, but he has used the bridge-the-gap option to smooth his overall income during his retirement.

Things to think about

- Using the bridge-the-gap option, your Scheme pension is reduced at State pension age. Your total income from State pension age might go down under this option if:
  - your State pension is lower than the reduction to your Scheme pension
  - you are by then already receiving some form of State benefit which you exchange for your State pension.
- The reduction in your Scheme pension is for the rest of your life. It's therefore possible that you may 'give up' more total pension income after your State pension age than the extra pension income you receive before State pension age, depending on how long you live.
- The increased pension payable using the bridge-the-gap option counts towards your Annual Allowance. There are extra tax implications if you exceed this allowance.
- You should check whether receiving a higher income through taking this option could affect any entitlement you may have to other State benefits.
- Your Scheme pension will reduce with effect from your State pension age, even though your State pension may start on a different day. Your State pension statement will confirm the date it will start.

For more information, please also see 'What risks should I be aware of?' on pages 9 to 11.

What else should I consider before taking this option?

If you take this option, you'll receive a higher Scheme pension until you reach your State pension age. However, don't forget that once you reach your State pension age, the pension payable to you from the Scheme will reduce for the rest of your life.

This option is designed to allow you to structure your pension – to receive extra income for a limited period – so helping you to meet your income requirements before you receive your State pension. It aims to help you smooth your total income before and after your State pension age.

Before taking this option, consider your likely income needs before and after your State pension age. Think about your income requirements in the early years of retirement compared with what you'll need later on in life. For example, you may wish to take this option to give you a higher income in the early years of your retirement so you can fund some major expenditure, such as a big holiday or a house move.

But remember to also think about possible future financial commitments you might have later in your retirement, such as providing for your care if your health worsens.

When will I reach State pension age?

Date of birth	State pension age
6 October 1954 – 5 April 1960	66
6 April 1960 – 5 March 1961	Between 66 and 67
6 March 1961 – 5 April 1977	67
6 April 1977 – 5 April 1978	Between 67 and 68
On or after 6 April 1978	68

You can check you State pension age at
www.gov.uk/state-pension-age

What if I choose the bridge-the-gap option and then the government announces an increase to my State pension age?

The government has said that it will carry out a review of State pension ages every five years, which could lead to further increases. If this does happen and you've taken the bridge-the-gap option, the reduction to your Scheme pension when you reach your State pension age will be more than was originally quoted to you. This is in order to reflect the extra period of time that the temporarily increased pension will have been paid. The adjustment will be calculated by the Scheme actuary.

If you take up this option, you'll be deemed to have agreed to such an adjustment, should the circumstances arise.

What risks should I be aware of?

There are a number of risks associated with this option.

Income tax

Your personal tax position could be affected. Increasing your Scheme pension under this option until you reach State pension age might mean you're subject to a higher rate of income tax.

Variation in total income

- This option can help you to bridge an income gap before your State pension starts, but you should not necessarily expect your overall income to be the same just before and just after State pension age. Your income would only be the same if the reduction to your Scheme pension exactly matched your State pension.

- The amount of State pension you receive depends on your National Insurance contribution record.

- You should note that Scheme and State pensions increase at different rates.

- Your State pension age may increase after you've taken this option due to government reviews, which are expected to occur every five years. This would mean that the reduction applied at your later State pension age would need to be greater than was quoted to you at your retirement, as the reduction needs to reflect that the additional pension paid under this option will have been paid for longer than was originally expected.

- The State allows you to choose to defer receiving your State pension to a later date than your State pension age.

You could give up more than you gain

- The additional pension is paid to you for a fixed period, up to your State pension age, whereas the reduction from your State pension age will continue for the rest of your life. This means it's possible (depending on how long you live) to end up 'paying back' more Scheme pension in total via the reduction than you gain through receiving the additional pension.
- The calculation of the reduction to apply after your State pension age is based on actuarial assumptions about life expectancy, and on your age at retirement, your gender and other relevant factors. Put simply, if you live longer than the actuarial assumption, you're likely to end up 'paying back' more pension in total than you gain.
- Once you decide to take this option, you can't change your mind later.

Annual Allowance (AA)

- The temporary increase in Scheme pension counts as extra pension for the AA limit.

  The AA is a tax relief limit on pension savings and takes into account how much extra pension you build up and how much you pay in pension contributions during a 'pension input period', before becoming liable for tax. The AA for the pension input period from 6 April 2023 to 5 April 2024 is £60,000.

If you haven't used up all your AA in a pension input period, you can carry forward the unused allowance (for up to three years) to offset any amount by which you exceed it in the current pension input period.*

- To calculate the amount that counts towards the AA as a result of taking this option, the temporary increase to your Scheme pension needs to be multiplied by a factor of 16.

- In Jason's example, he took an additional temporary annual pension of £6,546 to bridge his income using this option; so multiplying this by 16 means that a value of £104,736 counts towards his AA. As a result, Jason will exceed the AA of £60,000 in the 2023/24 pension input period.

  However, Jason has only used £10,000 of his AA in the three previous pension input periods so he has plenty of 'carry-forward' allowance to offset in 2023/24. This means he won't exceed the AA in 2023/24 and therefore won't incur an AA tax charge by taking this option.

- If you exceed your AA in any pension input period, and you don't have sufficient carry-forward allowance to offset this, you'll have to pay tax on the excess amount.

  If you think you might exceed the AA by taking this option, you should get in touch with the Scheme administrator and consider talking to an independent financial adviser.

*The information about the AA pension input period doesn't apply if you left service on or before 5 April 2006.

Get in touch

If you have any queries about the information provided, please contact Barnett Waddingham, the Scheme administrator.

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Scheme website:
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More information
For more details on the Annual Allowance, please visit the Scheme website at: **www.ngtpensions.nationalgas.com** or use the HMRC Annual Allowance calculator at: **www.hmrc.gov.uk/tools/pension-allowance**

You can find out about State benefits at **www.gov.uk/browse/benefits**

Your State pension age depends on your date of birth. You can check when you'll reach State pension age at **www.gov.uk/state-pension-age**

Every effort has been made to ensure the accuracy of this leaflet. It cannot, however, override the Trust Deed and Rules of the Scheme, or any legal requirements in force from time to time.