

## **A year of progress** Mike Taylor Chief Executive

Since I took over in September 2006, the LPFA has undergone a major transformation and as I write, I am conscious of the fact that there is still so much more that needs to be done. We have started a process of moving the Authority from being a "good" organisation, to one that is "excellent."

We already enjoyed a reputation for being professional and highly skilled at what we do and this is to the credit of all our staff and managers, but now the challenge is to improve on that and become even better.

The Authority is reviewing all that we do in terms of policies and procedures and we have set ambitious targets to improve efficiency and administration. Such a change affects all LPFA staff and I am delighted to say that they have engaged in this process and are working very well to achieve our targets.

We have a full Board consisting of talented

individuals. We have an experienced senior team and we have a very capable and committed workforce. Our priority is to harness these factors and to make the LPFA become what I feel it can be, a model organisation that is one of the leading pension bodies in the country.

We are working better with our 200+ employers and agencies. We are communicating better with our fund members. The level of complaints have decreased and the number of praise reports have increased. Our finances are in a strong position and our investment strategies are performing well.

A few weeks ago, the LPFA was successful in its tender of the LFEPA contract and we are delighted by this. Other contracts are coming up for



retender over the next year or so and we shall be submitting our best possible bids for those.

2008 will be a year of further change for the organisation as we are shaping up for the new challenges that lie ahead. We shall keep in touch with our fund members and let you all know what is happening via our newsletters, the fund member Panel and of course through the annual Forum.

### **Fund Member News**

If you would like to find out the latest news and information from the LPFA, you can sign up for our free electronic newsletter. The purpose of the newsletter is to let fund members know about any urgent or important news that may affect them. It also has articles about LPFA events, initiatives and major appointments.

To register for the newsletter, all you need to do is email to [communications@lpfa.org.uk](mailto:communications@lpfa.org.uk) and you shall be added to the database.

### **Fund Member Forum**

The 2007 Annual Fund Members Forum has been described as “a great success” by the overwhelming majority of fund members who attended.



Held for the first time at the Church House Conference Centre in Westminster, the Forum attracted a total of 560 fund members and reversed the decline in numbers over the last few years. Last year 392 fund members attended. A major attraction was Sir Henry Cooper, the much loved former champion boxer who once famously knocked down Muhammad Ali with his famous left hook, popularly known as “Henry’s Hammer.”

Sir Henry spoke about his life and career and entertained the audience with his stories and jokes. He also answered questions from the audience, posed for photographs and signed autographs.



The event began with Neil Newton, LPFA's Chairman welcoming a packed Church House to the Forum and he went on to highlight a number of Board level decisions that have been made and listed a number of initiatives that the LPFA has undertaken during the last 12 months.

Mike Taylor then delivered a highly effective

PowerPoint presentation on the work and progress of the Authority during his first year as Chief Executive.

Having reviewed the year and listed the LPFA's major achievements during that period, Mike went on to describe what lay ahead for the organisation.

Following on from Mike Taylor, Lord Herman Ouseley, the former head of the Commission for Racial Equality, addressed the audience and took them on a journey which started two years ago and demonstrated how far the Authority has come in terms of its equality, diversity and inclusion agenda.

Then, the Guest of Honour, Sir Henry Cooper, took to the podium and captivated the audience with his special brand of wit and story telling. The Question and Answer session was lively and interesting with a range of issues covered. A finger buffet was then enjoyed by all and the exhibition was reopened for business.

## **Credit Markets, Northern Rock and LPFA Investment Strategy** Vanessa James Investment Director

Markets never move in straight lines, well not for long anyway!

This summer and autumn has seen the markets have a turbulent time, kicked off by events in the credit markets. It is a ramification of the globalisation of markets that events in the US mortgage market can eventually result in queues forming on streets in the UK of savers anxious to remove their money from Northern Rock!

Why did this happen and what effect has it had on your pension fund?

### **Why did it happen?**

The difference between the most recent credit crunch caused by defaults in the low quality end of the US mortgage market and previous credit crunches is the repackaging of those loans into mortgage backed securities (MBS) and their redistribution around the globe. No-one knows for sure even six months after the start of this credit crunch that everyone who

owns a part this 'bad' debt has been identified and as a result a problem may be lurking somewhere as yet undisclosed. There has been a continuing list of big names declaring losses UBS, Merrill Lynch and Barclays to name but a few. As a bank, if you have to worry about what is happening on your own balance sheet you certainly have less money to lend to each other and the price banks had to pay to borrow money from each other went up quickly and steeply.

This is where Northern Rock became involved, they have a very small saver base and so are more reliant on borrowing in the interbank market for their liquidity. Their cost of borrowing from this market went up dramatically and the more their savers withdrew money, the more they were reliant on the interbank market, hence another increase in their costs, a vicious spiral indeed! In the end, the Bank of England intervened underwriting Northern Rock savers and the queues evaporated. However, the collapse in the availability of cheap interbank finance has forced Northern Rock into seeking a stronger owner.

# Special Insert - The New Look Local Government Pension Scheme (LGPS) 2008

## Why is it changing?

The government's stated aims in designing the new-look LGPS have been to make it simple, affordable and sustainable. The current Scheme has retained the same basic benefit structure since 1972. The changes reflect differing membership patterns within the Scheme (eg more part time members, more women members) and increases to average life expectancy, although the cost issues resulting from the latter were mainly addressed by the removal of the "85 year rule".

The changes have to be made to enable the pension Scheme to continue to pay a high level of pension benefits to its members.

## What is changing?

Nearly every aspect of the Scheme will have some alterations to it; some big, some small. The ones that have the biggest effect are the changes to the employee contribution rates, and the way in which pensions will be calculated.

## How much is the new Scheme going to cost me?

From 01.04.2008, everyone will see the changes to the employees' contribution rates as no one will remain on the same rate as they are currently paying. What you will pay is dependant on the

amount of your pay: the more you earn, the higher your contribution rate will be. For part-time members, the rate will be dependant on your full-time equivalent pay.

The contribution rates are:

Pay Range	Contribution Rate
£0-12,000	5.5%
>£12,000 - £14,000	5.8%
>£14,000 - £18,000	5.9%
>£18,000 - £30,000	6.5%
>£30,000 - £40,000	6.8%
>£40,000 - £75,000	7.2%
>£75,000	7.5%

## EXAMPLE

*A full-time employee who earns £17,000 per annum (p.a.) will pay contributions on their pay of 5.9%*

*A full-time employee who earns £17,000 p.a. with a pensionable bonus of £5,000 p.a. will pay contributions of 6.5% on all of their pay, as their total pensionable pay is £22,000*

*A part-time employee who earns £8,500 p.a. and works 50% (eg two and a half days per week) will pay contributions of 5.9% as their full-time equivalent pay is £17,000*

### **What benefits will I receive on retirement?**

The way that your pension is calculated is changing to provide increased benefits. Currently all pensions are calculated by multiplying the length of your membership in years by your final pay and dividing the result by 80. In addition, you receive a lump sum retirement grant of three times this.

From 1<sup>st</sup> April 2008, the membership and pay will be divided by 60, with no automatic lump sum being generated. (Please note that this calculation is only in respect of membership from 01.04.2008, all membership before that date continues to attract an 80ths pension and a lump sum of three times pension.)

You do still retain an option to take some of your benefits in the form of a lump sum. By permanently giving up (commuting) part of your pension you can create a lump sum at the rate of £12 of lump sum for every £1 of annual pension that you commute.

### **EXAMPLE**

*On retirement at age 65, a Scheme member has 30 years total membership (all pre 01.04.2008) and has a final pay of £20,000. Their benefits would be as follows:*

*Annual pension:  
 $30 \times 1/80 \times £20,000 = £7,500$*

*Automatic lump sum:  
 $30 \times 3/80 \times £20,000 = £22,500$*

*If, however, a Scheme member retires at 65 with 30 years membership which is all post 31.03.2008, and has a final pay of £20,000 then their benefits would be:*

*Annual pension:  
 $30 \times 1/60 \times £20,000 = £10,000$*

*If the member wished to receive the same amount of lump sum that would have been available under the old Scheme, they would need to commute £1,875 annual pension which would result in an annual pension of £8,125 and a lump sum of £22,500.*

### **Has the employer rate changed?**

All employers who are paying into the LGPS have a different contribution rate. Every three years an independent review is undertaken to calculate how much your employer should contribute to the Scheme to pay the balance of the cost of providing your benefits in the LGPS.

### **Will I automatically be made a member of the new Scheme?**

Everyone who is an active member (i.e. they are paying contributions into the Scheme) on 31.03.2008 will automatically become a member of the Scheme on 01.04.2008. Those who have opted out of the Scheme under the old regulations will need to make a written request to join the new Scheme if they wish to do so.

There are new rules governing the admittance of casual (variable-time) employees into the scheme, and all casual employees who are currently members of the scheme should contact their Human Resources Department to check their continued eligibility for membership.

If a member leaves, or has left, the Scheme on or before 31.03.2008 then they do not become a member of the new Scheme and instead remain subject to the regulations that were in force on the day that they ceased paying contributions.

### **Has my retirement date changed?**

On 01.10.2006 the normal retirement date (i.e. the date that you can retire and receive unreduced benefits) for every member of the Scheme was changed to age 65 (special protections to benefits exist for those who satisfy the "85-year" rule and are aged over 60 on or before 31.03.2020). This will not change when the new regulations come into force.

However, what is changing is the earliest possible date that a member can receive benefits on all grounds except for ill-health; this is being raised to age 55, although if you are made redundant on or before 31.03.2010 and are aged over 50, then you will still be entitled to immediate payment of your benefits. Please note that if you wish to retire before age 60 but are not leaving on ill-health or redundancy grounds, you will still need your employer's permission to receive your pension.

### **Am I still able to increase my benefits?**

Additional Voluntary Contributions (AVCs) paid into an outside pension provider have not changed and can continue to be paid. However, the facility to purchase additional years of membership in the Scheme by regular contributions will be removed. Contracts started on or before 31.03.2008 will

continue and will still provide the same benefits as quoted when you began the contract.

As from 01.04.2008 you will be able to purchase, through regular contributions in addition to your normal Scheme contributions, additional pension in multiples of £250 per annum, up to a maximum of £5000 per annum.

### **What will happen to my membership before 01.04.2008?**

All membership accrued before 01.04.2008 will be treated differently to that accrued on or after 01.04.2008 as it will still accrue a pension based on 80ths, and a lump sum of three times the pension. The effect of this is that a person who joined the Scheme before 01.04.2008 and leaves on or after 01.04.2008 will have benefits based on two separate calculations.

#### **EXAMPLE**

*A Scheme member joins the LGPS on 01.04.1998 and leaves on 31.03.2018, with a final pay of £20,000. Their benefits would be as follows:*

*Pension:*

$$10 \times £20,000 \times 1/80 = £2,500$$

$$10 \times £20,000 \times 1/60 = £3,333.33$$

$$\text{Total} = £5833.33$$

$$\text{Lump sum: } 10 \times £20,000 \times 3/80 = £7,500$$

### **What benefits are payable to my dependants when I die?**

Death grants have been increased under the new Scheme. If you were to die whilst still an active member of the Scheme, death grants have increased from twice to three times annual pay (actual pay for part time employees). For those that die after having left the Scheme but before receiving any benefits, the death grant is increased from three to five times preserved annual pension. Furthermore, pensions in payment are now guaranteed for ten years, rather than for five as present, meaning that the death grant payable in respect of a deceased pensioner is now ten times the annual pension, minus the amount of pension already paid.

The way in which a dependant's long term pension is calculated will not be changing (which does mean that it will not be increased to reflect the larger "one sixtieth" pension payable to a pensioner member); however dependants will no longer receive a larger short term pension for the first three months (six months in some circumstances) following the death of a member.

In addition the new Scheme will introduce the provision for a dependant's pension to be paid to a nominated, co-habiting partner.

Such a pension would be based on your membership after 05.04.1988 and would be payable to anyone that you nominated.

To create a nomination, a written declaration signed by both the nominator and the nominee must be sent to the Administering Authority which states that for a period of at least two years, the following criteria have been met:

- There is financial dependence by the nominee on the nominator, or interdependence between both parties
- Both parties have been free to marry or enter into a civil partnership with each other
- They have been co-habiting as husband and wife, or as civil partners

### **What happens if I'm retired due to ill-health?**

If you have at least two years total membership in the Scheme you may receive your pension immediately.

Your employer must be satisfied that, because of ill health, you have become permanently incapable of doing your current job.

The amount by which your total membership used in the calculation of your pension will be enhanced will depend on your level of ill-health.

If your employer is satisfied that there is very little prospect of you recovering enough to obtain "gainful" employment (i.e. a position for at least 30 hours per week, and lasting for at least 12 months), then you will be entitled to receive an enhancement to your membership of 100% of the period between your last day of membership and your 65<sup>th</sup> birthday.

However, if your employer believes, on the advice of an independent medical practitioner, that you will, at some point before your 65<sup>th</sup> birthday, be able to obtain gainful employment then your enhancement will be 25% of the period between your last day of membership and your 65<sup>th</sup> birthday.

Protections exist for those who are in the Scheme on, and aged 45 or more on 31.03.2008, resulting in them receiving the enhancements available under either the current Scheme or the new Scheme, whichever is the greater.

Proposals still under discussion suggest that if you are likely to be able to return to work in the near

future (possibly within one year) you will be paid an immediate pension with no enhancements, but that the pension will be suspended upon your return to gainful employment.

It is also proposed that the two year qualification period referred to above, be reduced to three months.

If you have any questions or concerns in respect of the new look LGPS, please do not hesitate to contact me.

**Jacqui Lawrence**  
Technical Officer

*The tables to the right and overleaf show a summary of main changes between the current and the new scheme*

	<b>Current Scheme</b>
<b>Accrual rate for benefits</b>	<p>Pension of 1/80<sup>th</sup> of salary for each year of membership.</p> <p>Lump sum of 3 x pension with the option of additional commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.</p>
<b>Employee</b>	6% for the majority of members, although a small number currently retain a protected 5% rate.
<b>Normal Retirement Age</b>	Normal retirement age of 65 but voluntary retirement possible from age 60 onwards. Benefits subject to reduction where the 85 year rule (membership plus age) is not met.
<b>Early</b>	<p>Immediate payment of benefits on efficiency/redundancy grounds from age 50.</p> <p>Voluntary retirement with employer consent and flexible retirement from age 50.</p>

## 2008 Scheme

1/60<sup>th</sup> of salary for each year of membership from 1 April 2008. Membership to 31/3/2008 to be calculated as before.

Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.

Banded employee contributions determined on an annual basis ranging from 5.5% if earnings less than £12,000 to 7.5% if earnings in excess of £75,000. Bands increased by RPI.

The introduction of a cost sharing mechanism if overall scheme costs increase.

Protected 5% contribution rate to be phased out over 3 years.

65 for all members, although current protections under the rule of 85 will apply to all service up to 31/3/2008. Some protection for older members who reach 60 prior to 31<sup>st</sup> March 2020 for future membership.

Voluntary retirement from age 60 but subject to actuarial reduction in respect of membership which is not protected.

Immediate payment of benefits on efficiency/redundancy grounds from age 55.

Voluntary retirement with employer consent and flexible retirement from age 55.

A protected age of 50 for the above for those who reach 50 by 31/3/2010 and were in the Scheme prior to 01/04/2008.

	<b>Current Scheme</b>	<b>2008 Scheme</b>
<b>Ill health</b>	Immediate payment of benefits where the member is certified as being permanently unfit (to at least age 65) of carrying out their duties. Service to be enhanced by up to 10 years dependent on age and service.	<p>A two tier ill health arrangement to be introduced.</p> <p>A higher tier, with service enhanced up to the age of 65 where it is certified the member is highly unlikely to return to gainful employment.</p> <p>A second tier with an enhancement of 25% of service to age 65 where there is a reasonable prospect of the member returning to gainful employment before age 65.</p>
	<p>Short and long term pension benefits payable to the member's spouse or civil partner.</p> <p>Short and long term children's pensions.</p>	<p>Long term pension benefits payable to the member's spouse, civil partner or nominated cohabiting partner.</p> <p>Long term children's pensions.</p> <p>Removal of short-term dependants benefits, previously payable for 3 to 6 months at an enhanced rate.</p>
<b>Lump Sum</b>	<p>Death in service lump sum of 2 times salary.</p> <p>Death on pension lump of 5 x pension less pension paid.</p>	<p>Death in service lump sum of 3 times salary.</p> <p>Death on pension lump of 10 x pension less pension paid.</p>
	The ability to award up to 10 years additional scheme membership.	A new facility to allow for the award of up to £5,000 of additional pension in addition to the existing ability to award up to 10 years additional scheme membership.

## **What does this mean for your pension fund?**

Well the obvious worries were unfounded! We held no cash deposits with Northern Rock, no shares in Northern Rock and no US mortgage backed securities. So far so good! However, we do hold an investment grade portfolio of European credits via one of our cashflow managers and the value of those holdings have gone down substantially as credit yields have risen globally. Similarly, the value of our equity holdings have been very volatile as equity markets react to the continuing stream of bad news.

Our target return managers results fulfilled our expectations of them over this volatile period by not going down as much as equity or credit markets. In fact one of them has performed very strongly over the entire period, as has one of our global equity managers who has been underweight in US and UK banks!

What is the effect on our investment strategy?  
None. The whole point of setting a long term

strategy which is diversified across asset classes and managers is that you can go through periods of volatility without being forced to change. Unfortunately, these volatile periods are to be expected and a good strategy takes this into account. A change in investment strategy would be brought about only if the lack of available finance became such a problem that long term economic growth expectations were downgraded. This is certainly not true at the moment.

### **New Look LGPS Keith Garlick**

From 1<sup>st</sup> April 2008, the Local Government Pension Scheme will be undergoing large reforms to enable it to remain an affordable yet generous scheme. There will be changes made to the way in which pensions are calculated, to the contributions rates members pay into the pension scheme, to the calculation of ill-health retirement benefits and to the payments made to dependants following the death of a scheme member.

***If you are already in receipt of a pension these changes will not affect your current pension in any way.*** However, if you were to become re-employed in local government on or after 01.04.2008 your future benefits will

come under the new scheme rules.

***If you are a deferred beneficiary you will not generally be affected by these changes*** unless you re-enter local government employment at some stage in the future. If you rejoin the pension scheme on or after 01.04.2008, then you will become a member under the new scheme rules.

If you wish to aggregate your deferred benefits with your new employment you will still be able to do so, and we understand that your previously deferred membership will still retain all rights and benefits accrued under the pre-01.04.2008 Regulations. However the legislation to clarify this is not yet in place, and I will write to you again on this in the new year.

***If you are a current contributor to the Scheme, and are likely to remain so after March 2008, then you will be affected by these changes.*** You will find a special insert to this newsletter to enable you to understand how the changes are going to affect you. It

includes a comparison chart that clearly states the main differences between the scheme as it currently stands, and how it will look on 01.04.2008. We have also created a question and answer sheet which explains the changes in more detail, including examples of how the new Regulations will work.

Further details will be sent to you once the Regulations have been finalised and laid before Parliament. Of course if you have any other questions or concerns about the new scheme or indeed the current scheme, feel free to contact either Jacqui Lawrence or myself.

### **Holiday Office Closures**

LPFA's offices will be closed from Christmas Eve and re-open on Thursday 27<sup>th</sup>. Again the following week, we are closed from Monday 31<sup>st</sup> and will reopen as normal from Wednesday 2<sup>nd</sup>.

### **Architect's Dept Re-union**

After several false starts this has been arranged for Wednesday, 7th May 2008 at the Royal Festival Hall. Full details will be given in the March Newsletter but book the date now.

## Please Remember

- ~ To have your NI number, Pension Number to hand when you contact us – This allows us to find your record quickly - we have many thousands of records and your unique reference with us is either your National Insurance number or your pension number.
- ~ To notify us of any change to your bank details – as any monies returned by your bank will result in your pension being suspended
- ~ To let us know if you change your address – as any post returned to our offices will result in your pension being suspended
- ~ To check your payslip to ensure we have a record of your NI number – If your NI number begins with the letters TN we do not hold your National Insurance number, please ensure you notify us of your NI number - Please note: We recently changed our pensioners payslip to hash out most of the NI number this was to safeguard personal information, however you can still see the first two letters which will allow you to identify if we hold a Temporary Number (TN) for you.
- ~ To sign any written communication – we must have your signed authority to change

any of your details. You would be surprised just how many people write to us without signing the communication.

- ~ To always quote your National Insurance number or Pension number on any correspondence with us.
- ~ We can not accept any change of details i.e. change of address or bank over the phone or via e-mail – at present we only accept changes which are written and signed by the pensioner or the known representative (provided we have previously received the official documentation).
- ~ To send us the original Court of Protection or Power of Attorney documentation if you act on behalf of one of our pensioners.

Please notify us should you take up further employment whilst in receipt of pension to prevent any possible overpayment of pension.

Also remember that pension pay day in December will be early. It will be Thursday 20<sup>th</sup> December.

A large Christmas tree made of lights in front of a classical building at night. The tree is the central focus, composed of many small, warm-white lights that form a conical shape. In the background, a grand building with a dome and classical columns is illuminated. To the right, a fountain with multiple tiers and water jets is visible. The overall scene is festive and celebratory.

## Contacting us

By mail: LPFA, Dexter House, 2 Royal Mint Court, London EC3N 4LP

By phone: Pensioners 0845 3030335, contributors and deferred members 020 7369 6118, customers with textphones should use 020 7369 6119

By email: [enquiries@lpfa.org.uk](mailto:enquiries@lpfa.org.uk)

Website: [www.lpfa.org.uk](http://www.lpfa.org.uk)