

# Your Pension

Spring Newsletter for Contributor's 2008



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What you need to know about the new scheme from 1st April 2008 plus details of this year's fund members forum

# lgps

the local government pension scheme

In our Winter newsletter we gave you the latest information that we had on the New Look LGPS, based on the legislation that was available at the time. I am pleased to announce that the legislation has now been laid before Parliament and we are able to provide you with full details of the new provisions, with the exception of the ill-health benefits which remain under review.

Enclosed with this newsletter is a nomination form which will enable you to nominate a partner to receive benefits on your death. This is explained in greater detail in the following, but please be aware that a husband, wife or registered civil partner is automatically entitled to benefits on your death and therefore does not need to be nominated.

I hope you find this information helpful. If you have any further questions on the introduction of the new Scheme, please do not hesitate to contact me (see back cover).

## **A New Look Local Government Pension Scheme from 1<sup>st</sup> April 2008**

As part of a general review of public sector pension schemes, the Government has introduced changes to the Local Government Pension Scheme (LGPS) for employees in England and Wales from 1<sup>st</sup> April 2008.

More of us are living longer and so receiving our pensions for longer, which means that the cost of providing pensions has risen. Also, the nature of the workforce has changed, with more Scheme members working part-time and looking to achieve a better work-life balance.

As a result, the LGPS has been updated to reflect the work patterns and needs of a modern workforce, and to ensure that the New Look LGPS is affordable whilst still providing an excellent level of pension benefits.

If you're already paying into the LGPS on

31<sup>st</sup> March 2008 and you continue to have a contract of employment on 1<sup>st</sup> April you are automatically transferred to the New Scheme.

Let's take a look at how the main changes affect you if you are an existing member being moved over to the New Look LGPS.

### **New Contribution Rates**

In the new Scheme, instead of most people paying a standard contribution rate of 6%, there are different contribution rates for different pay bands. These new rates have been designed to give more equality between the cost and benefits of Scheme membership.

The new rates are between 5.5 and 7.5% of your pensionable pay. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole-time pay rate for your job,

although you will only pay contributions on the pay you actually earn.

Here are the pay bands from April 2008:

<b>If your Whole-time Equivalent pay rate is:</b>	<b>Your contribution rate will be:</b>
Up to £12,000	5.5%
More than £12,000 and up to £14,000	5.8%
More than £14,000 and up to £18,000	5.9%
More than £18,000 and up to £30,000	6.5%
More than £30,000 and up to £40,000	6.8%
More than £40,000 and up to £75,000	7.2%
More than £75,000	7.5%

The pay bands will be adjusted each April in line with the cost of living.

Let's take a look at someone who works full time at a pay rate of £20,000.

They'll pay 6.5% of their pay - that's around £108 a month - in contributions.

If they were working half time, they'd still pay the 6.5% rate. That's because the whole-time rate for their job is still £20,000, but their contributions would be based on their part-time earnings, so they'd have £54 deducted.

If you pay tax and National Insurance, you'll get tax relief on your contributions and pay a lower rate of National Insurance, so the actual cost to you is less.

If you're currently paying a protected rate of 5%, the rate you pay will be increased on a phased basis from 1<sup>st</sup> April 2008, bringing it into line with all other Scheme members by 1<sup>st</sup> April 2011.

#### **If you are currently paying a protected rate of 5%**

<b>From:</b>	<b>Your contribution rate will be:</b>
1 <sup>st</sup> April 2008	5.25%
1 <sup>st</sup> April 2009	5.5%
1 <sup>st</sup> April 2010	6.5% or (if lower) the relevant rate from the pay band table
1 <sup>st</sup> April 2011	the relevant rate from the pay band table

## How are my benefits worked out?

The New LGPS is still a final salary Scheme. This means that your benefits are normally based on your final year's pay and the number of years you have been a member of the Scheme.

How your benefits are worked out when you retire changes from 1<sup>st</sup> April 2008.

For each year you have built up in the Scheme to 31<sup>st</sup> March 2008, you will receive a pension of 1/80<sup>th</sup> of your final year's pay plus an automatic tax-free lump sum of 3 times your pension.

For each year you build up from April 2008 your pension will be at the increased rate of 1/60<sup>th</sup> of your final year's pay. There will be no automatic lump sum for membership built up after March 2008 but you do have the option to get a tax-free lump sum in exchange for some of your pension.

Let's look at someone who has 8 years membership up to 31<sup>st</sup> March 2008 and 24 years membership after then when they retire at age 65.

Their final year's pensionable pay on retirement is £20,000.

### Benefits based on their 8 years membership up to 31<sup>st</sup> March 2008 will be

#### Annual Pension:

$$8/80 \times £20,000 = \text{£ } 2,000$$

#### Plus an automatic tax-free lump sum

$$3 \times 8/80 \times £20,000 = \text{£ } 6,000$$

### Benefits based on their 24 years membership from 1<sup>st</sup> April 2008 will be

#### Annual Pension

$$24/60 \times £20,000 = \text{£ } 8,000$$

#### With no automatic lump sum

**This gives total benefits of:**  
**Annual Pension**  
£2,000 plus £8,000 =  
**£10,000**

**Lump Sum = £6,000**

Remember, it's possible to exchange some pension for extra tax-free cash.

Up to 25% of the overall value of the pension benefits can be taken as a lump sum, with £12 lump sum awarded for each £1 of annual pension given up.

To summarise, any pension built up before April 2008 is still calculated at the 1/80<sup>th</sup> rate with a lump sum of 3 times pension. Only pension built up from 1<sup>st</sup> April 2008 is calculated at the better 1/60<sup>th</sup> rate and there is an option to take extra lump sum in exchange for some pension.

## **When can I retire?**

The Scheme's normal pension age remains at 65. If you continue working beyond age 65, you can stay in the Scheme but your benefits must be paid by age 75. If you retire after age 65, all of your benefits will be increased.

To be entitled to retirement benefits you must have been a member of the LGPS for at least 3 months or have transferred in other pension rights.

## **Early Retirement**

You can still choose to retire and draw your benefits from age 60, although they may be reduced for early payment.

The earliest age you can apply for early retirement with your employer's consent increases from 50 to 55 from 1<sup>st</sup> April 2008 for new members, but this change won't apply until 1<sup>st</sup> April 2010 if you are an existing member being moved over to the new Scheme.

## **Redundancy or Efficiency Retirement**

If you're made redundant or are retired on business efficiency grounds, the earliest age immediate benefits are paid also increases from 50 to 55. Again, this change occurs from 1<sup>st</sup> April 2008 for new members but won't apply until 1<sup>st</sup> April 2010 if you are an existing member being moved over to the new Scheme.

## **Flexible Retirement**

Under the current Scheme, if you reduce your hours or grade and your employer agrees, you can draw all of the benefits you have built up at that point in time. You can still draw your pay on the reduced hours or grade, and even continue paying into the Scheme, building up further benefits.

Under the new Scheme, if you take flexible retirement, instead of having to draw all of the benefits you have built up prior to taking flexible retirement, you can, if your employer agrees, draw some or all of your benefits.

If you take flexible retirement before 65 your benefits may be reduced for early payment.

The earliest age for flexible retirement increases from age 50 to 55 from 1<sup>st</sup> April 2008 for new members, and from 1<sup>st</sup> April 2010 if you are an existing member being moved over to the new Scheme.

## **Ill health retirement**

The new Scheme introduces better targeted benefits if you are unable to work because of serious illness.

If you have to leave work at any age due to permanent ill-health the new Scheme provides a tiered ill-health retirement package. This gives graded levels of benefit based on how likely you are to be capable of gainful employment after you leave.

If you have at least 2 years in the pension Scheme and you have no reasonable prospect of being capable of gainful employment (defined as any job of at least 30 hours per week, lasting for at least 12 months) before age 65, ill health benefits in the new Scheme are based on your membership built up to date of leaving plus all your prospective membership from leaving to age 65. In other words, your pension will be based on the membership you would have had if you had stayed in the Scheme until age 65.

If you have at least 2 years in the pension Scheme and you are unlikely to be capable of gainful employment within a reasonable period of leaving, but you may be capable of obtaining gainful employment before age 65, ill health benefits in the new Scheme are based on your membership built up to leaving plus 25% of your prospective membership from leaving to age 65.

There are protections for existing Scheme members who will be aged 45 or over on 31<sup>st</sup> March 2008, to ensure they receive no less than they would have done under the current Scheme.

The Government is currently consulting on the nature of the ill-health benefit payable if you leave because you are permanently unable to do your LGPS job and have less than 2 years membership in the Scheme or if you leave because you are permanently unable to do your LGPS job but could immediately or within a reasonable period undertake other gainful employment.

## **Improved death benefits**

Provided you pay into the LGPS on or after 1<sup>st</sup> April 2008, there are improvements to the Scheme's benefits if you die.

The death in-service tax-free lump sum, known as a "death grant", increases from 2 to 3 times your annual pensionable pay. If you're part-time, the benefit is three times your annual part-time pay.

If you leave with deferred benefits and die before receiving them the death grant increases from 3 to 5 times your deferred annual pension; and for the death of a pensioner, it increases from 5 to 10 times the annual pension being paid, less the amount of pension already paid out.

Remember, you can say to whom you would like any death grant paid by completing a form available from the LPFA. It's important you keep this form up to date but, whilst taking your wishes into account, we will make the final decision on to whom the death grant is paid.

## Survivors' Pensions

The LGPS already provides a pension for your husband, wife, or registered civil partner and for eligible children on your death and under the new Scheme you can now nominate a same or opposite sex co-habiting partner to receive a survivor's pension.

To nominate a co-habiting partner your relationship has to meet certain conditions laid down by the LGPS. If you wish to make a nomination, please complete and return the enclosed form.

The survivor's pension for a Scheme member's husband or wife will be based, as now, on 1/160th of the Scheme member's final year's pay for each year of membership. Survivor pensions for widowers, civil partners and nominated co-habiting partners will be calculated on the same basis but on the Scheme member's post 5th April 1988 membership only. If you die in service, the membership used in the calculation of all survivor benefits will be the membership you have in the Scheme, as described above,

plus the prospective membership between the date of death and age 65. However, no further short-term pensions will be paid in respect of individuals who were active members on 1<sup>st</sup> April 2008.

The amount of pension to be paid to eligible children depends on the number of eligible children and whether or not a widow, widowers, civil partner's or nominated co-habiting partner's pension is payable.

## Increasing your benefits

Under the New Scheme you can pay more in contributions to buy up to £5,000 of extra annual pension in multiples of £250. You can provide extra pension for yourself and, if you wish, for extra survivor's pension on your death. You can also purchase additional pension by paying a one-off lump sum to the fund, but this will purchase pension for the member only, and not increase survivor's benefits.

If you're already paying more to buy extra years, you'll continue to pay for them and

receive extra benefits on the same basis that you had agreed to buy them.

You can still pay additional voluntary contributions – AVCs – to increase your benefits.

In the new Scheme, your employer can also augment your membership by up to 10 years; grant you extra annual pension of up to £5,000; and contribute, along with yourself, to a Shared Cost AVC. These are all discretions that the employer can make use of if they wish.

## **Reductions in pay**

Your benefits in the new Scheme will normally be calculated on your final year's pensionable pay, or on one of the two previous years' pay if better. If you downgrade in your last 10 years or your pay is restricted in that period you have the option to have your benefits based on the average of any 3 consecutive years in the last 10 years (ending on a 31<sup>st</sup> March).

## **And finally....**

One of the main attractions of the LGPS is that your employer pays a large part of the cost of providing the benefits.

It is, however, important that overall the Scheme remains affordable, so increases or decreases in the cost of providing the Scheme may, in future, need to be shared between members and employers. This will be in accordance with government guidance.

This newsletter provides a brief guide on the changes to the LGPS in England and Wales from 1<sup>st</sup> April 2008. It is for general use only and does not cover every personal circumstance. It does not cover councillor members of the LGPS. In the event of any dispute as to eligibility for membership of, or benefits due under, the LGPS the appropriate legislation will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only.

## **DVD and Online Video**

In addition to this newsletter with details of the new 2008 LGPS, we are also pleased to inform you that a small supply of DVD's have been sent to your employer to be made available for your viewing.

Alternatively, there is also an online version of the DVD, which can be viewed via our website at <http://www.lpfa.org.uk/members/2008video.aspx>

## **Fund Members Forum 2008**

The Annual Fund Members Forum\* will be held on Wednesday 3rd September at the Church House Conference Centre in Westminster, starting at 11am. Spaces are limited this year and reservations are being made on a first come first served basis.

To book your place, you need to complete a Registration Form and return it to Ewan Denny as soon as possible. A Registration Form is enclosed with this newsletter.

\* The Forum is for LPFA fund members and their guests only

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