

Dear Member

January 2008

Local Government Pension Scheme April 2008

Over the last year, you will have seen various communications about your new-look Local Government Pension Scheme (LGPS), which will replace the current scheme from April 2008.

Even though it is changing, your scheme remains extremely good compared to most in the private sector, providing you with a secure future income, independent of share prices and stock market fluctuations. It is a valuable part of your pay and reward package with employers paying significantly more into the scheme than employees.

This Newsletter, designed for Bexley by the London Pensions Fund Authority, provides you with answers to some of the most common questions asked about the new-look scheme.

From April 2008 all active members will find that their contribution rate will change. There are more details later on in this newsletter but please remember to check your April payslip for final confirmation of your new pension contribution rate.

Should you require any further information please contact the Bexley Pensions Team at the LPFA:

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Disclaimer:

The information contained in this newsletter is our understanding of published and draft regulations and no decisions should be made based upon it.



The New Look Local Government Pension Scheme (LGPS) 2008

Frequently Asked Questions (FAQs)

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. 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 permanent allowance 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 1st 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 of their 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 (except casual employees) 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 Bexley's Human Resources Department will be writing to all affected employees before April 2008.

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 £5,000 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:

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

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

$$\text{Total} = £5,833.33$$

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

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 65th birthday.

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

The tables opposite and on the overleaf show a summary of main changes between the current and the new scheme

	Current Scheme	2008 Scheme
Accrual rate for benefits	<p>Pension of 1/80th 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>	<p>1/60th of salary for each year of membership from 1 April 2008. Membership to 31/3/2008 to be calculated as before.</p> <p>Lump sum by commutation at the rate of £1 annual pension for £12 lump sum, up to HMRC limit of 25% of capital value.</p>
Employee contribution rate	<p>6% for the majority of members, although a small number currently retain a protected 5% rate.</p>	<p>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.</p> <p>The introduction of a cost sharing mechanism if overall scheme costs increase.</p> <p>Protected 5% contribution rate to be phased out over 3 years.</p>
Normal Retirement Age	<p>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.</p>	<p>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 31st March 2020 for future membership.</p> <p>Voluntary retirement from age 60 but subject to actuarial reduction in respect of membership which is not protected.</p>
Early retirement	<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>	<p>Immediate payment of benefits on efficiency/redundancy grounds from age 55.</p> <p>Voluntary retirement with employer consent and flexible retirement from age 55.</p> <p>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.</p>

	Current Scheme	2008 Scheme
Ill health	<p>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>	<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>
Lump Sum payment on death	<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>
	<p>The ability to award up to 10 years additional scheme membership.</p>	<p>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.</p>