



# Pension Update

**SHROPSHIRE COUNTY  
PENSION FUND**

Administered by Shropshire Council

**April 2014**

**Dear Member**

## **Notification of transfer into the New LGPS from 1 April 2014**

As a member of The Local Government Pension Scheme (LGPS) you will have been made aware over the last year that the scheme is changing. This notification follows on from the 'Pension Update' sent in Summer 2013 and it covers the main changes and how they affect you.

If you were an active member of the scheme on the 31 March 2014 you will automatically transfer into the new scheme on the 1 April 2014. If you have left the scheme or received payment of your benefits before the 31 March 2014 then the changes do not affect you.

The change to the LGPS is part of the wider Public Service Pension Review. The Government has set out to ensure Public Service Pensions remain sustainable and affordable in the long term whilst still offering a high level of benefits to their members. Negotiations between trade unions, employers and the Government have been significant throughout the review and the new scheme should result in no increase in the cost of the scheme for the majority of its membership.

The change means the LGPS is now a Career Average Revalued Earnings (CARE) scheme and the benefits built up from 1 April 2014 will be calculated in a different way. A full scheme guide can be downloaded or viewed via our Fund website or you can visit [www.lgps2014.org.uk](http://www.lgps2014.org.uk) which is the national site for LGPS members.

## **View your pension account on-line using Member Self Service (MSS)**

Did you know you can securely view your Pension Account on-line? To do this you must first register by visiting the Fund website, and once registered you can see how your pension account builds up and update your personal details. You can also register your email address via MSS so we can inform you of the latest LGPS news electronically.

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**SCPF/2014**



**Shropshire County Pension Fund,**  
Guildhall, Frankwell Quay, Shrewsbury, Shropshire SY3 8HQ  
T: 01743 252130 E: [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)  
[www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

# Myth v Reality

## What is changing?

You might think that because the LGPS is changing it must mean *“I’m going to be worse off”*. This notification looks at the details of the new scheme, dispels the myths and gets to grip with the facts about the changes from April 2014 as well as looking at the protections you have if you were in the scheme before it changed.

### What is changing?

	New LGPS 2014	Current LGPS 2008
Scheme basis	Career Average Revalued Earnings	Final Salary
Proportion of pay each year which counts towards pension	1/49th	1/60th
Pay which counts towards pension	Actual pay including non-contractual overtime and additional hours	Full time equivalent pay for part time staff and excludes non-contractual overtime and non-pensionable additional hours
Contribution flexibility	You can pay 50% contributions for 50% of pension benefit	Only topping up benefits available
Normal Pension Age (age benefits can be paid unreduced)	Equal to the individual member's State Pension Age (minimum 65)	65
Qualifying period for entitlement of benefits	2 years	3 months
Earliest Retirement Age (the earliest age benefits can be paid without employer consent but with a reduction applied.)	55	60

### What's not changing?

#### The LGPS still offers:

- Guaranteed defined benefits - meaning benefits are based on a proportion of earnings not investment return
- Valuable life cover - 3 times actual pay which is paid in the event of your death
- Pension for dependents (spouse, children and civil partner in the event of death either before and after retirement)
- Ill-health cover
- Option to take tax free cash lump sum (within HMRC limits)
- Other types of retirement including redundancy/business efficiency and flexible retirement

### The Myths

- The new scheme will cost more
- The pension you get will be less
- You will have to work longer to get your pension

### The Reality

- Average cost of the scheme stays at 6.5%. For some part time members, the new scheme could cost less and for some full time higher paid members it could cost more
- You build up pension at a better rate, a 1/49th is better than 1/60th
- Greater flexibility for when you can draw your pension from age 55 to 75

## The LGPS is still an excellent scheme and don't forget your employer pays too!

# What will I pay from April 2014?

Under the new scheme there are 9 contribution bands ranging from 5.5% to 12.5%. The contribution band you are placed in is still linked to your pay however from 1 April 2014, any overtime or additional hours you work will also have contributions deducted from them. This means that you will build up extra pension benefits if you work overtime and/or additional hours.

The pay you receive is used to determine your contribution rate and your employer decides each April (or more often if your pay varies) what contribution rate you are placed in. The pay used to determine your contribution rate is called 'pensionable pay' and is also the same pay which is used to calculate your Pension Account (see page 5 for an explanation of a pension account). If you have more than one employment, each will be looked at individually for pension purposes.

## What if I work part time?

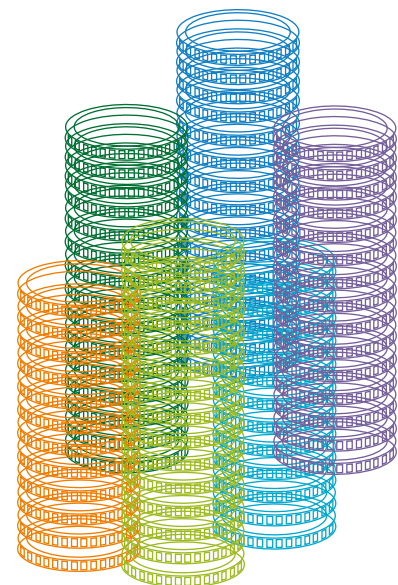
Prior to 1 April 2014, if you worked part-time, your contribution rate was assessed by rounding up your salary to what it would have been if you worked full time. In the new scheme your contribution rate is based on your actual salary so if you are part time the LGPS could cost you less.

**Here are the pay bands and the rates for 2014/15 that apply to all members contributing from 1 April 2014:**

Your Annual Pay	Your Contribution Rate
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
£150,001 or more	12.5%

## Remember from 1 April 2014

- Pension contributions are now taken from overtime and additional hours
- Actual pay is now used for all members to determine the contribution rate payable and in the calculation of benefits
- To check your April 2014 payslip to ensure you are paying the correct contribution band
- Your employer covers the majority of the cost for membership of the LGPS – the contribution your employer pays is assessed every 3 years after a Fund valuation



# ...Do I have any flexibility with the contributions I make?

The LGPS has always had the option for you to pay more into your pension through a variety of ways. In the new scheme you still have the option to pay more into your pension, if you wish.

If you want to make additional pension savings to increase your pension benefits there are two ways to do so.

- Additional Voluntary Contributions (AVCs)
- Additional Pension Contributions (APCs)

## What are AVCs?

AVCs allow you to pay more to build up extra savings for your retirement. The Group AVC offered is with the Prudential and you choose the type of fund your AVC is invested in. The rules around AVC contributions has changed from 1 April.

### Additional Voluntary Contributions (AVCs) :

AVC	Contracts before 31 March 2014	New Contract from April 2014
Contributions payable	Limit = 50% of pensionable pay (2008 definition)	No limit = up to 100% of pensionable pay (2014 definition)
Tax free cash option	Up to 100% of AVC as tax-free cash (depending on HMRC limits)	Up to 25% of AVC as tax-free cash

## What are APCs?

You can buy extra pension in the LGPS up to £6,500 by paying APCs regularly, over a period of time (minimum 1 year, maximum to your Normal Pension Age), or you can buy extra pension by paying a one-off lump sum.

The cost depends on how much extra pension you want to buy, the age you start paying and the length of time you wish to pay them for. In the new scheme you buy extra pension for yourself only, you cannot increase dependents benefits.

## New option to pay less - 50:50 Section

### 50:50 Section

In the new scheme, you can opt to pay half your normal contribution and in return build up half pension by choosing the 50:50 section. It is not designed to replace long term membership of the scheme but is a short-term option for when times are tough financially. In the 50:50 section you do still retain the full value of certain additional benefits such as the death in service lump sum. If you elect to take up the 50:50 option your contributions would be halved from your next pay period.

### For more information on the 50:50 Section see:

[www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)  
or contact the Pension Team on: 01743 252130.

# How does my pension build up from 1 April 2014?

From 1 April 2014 all membership will build up in the Career Average Revalued Earnings (CARE) scheme. In the CARE scheme a 1/49th of your pensionable pay will be added each year to your pension account.

The rate at which your pension has built up from 1 April 2008 to 31 March 2014 is 1/60th of your pensionable final pay for each year. By changing to a 1/49th it means that a larger chunk of your pay is put into your pension pot each scheme year. You may also have membership prior to 1 April 2008 and this membership is linked to 1/80th of your final pensionable pay. A scheme year runs from April to March and for each year of membership your pension is revalued by inflation to arrive at the total pension for that year known as your Pension Account.

## Example of how a Pension Account builds up:

Scheme Year	Example Actual Pay	Example Cost of living adjustment
1. 1 April 2014 to 31 March 2015	£24,500	3%
2. 1 April 2015 to 31 March 2016	£25,333	3.1%

Scheme Year	Opening balance	Pension build up in year	Total Account at year end including previous years	Cost of living adjustment	Updated total account
1	£0.00	£24,500 / 49 = £500	£500	3% = £15	£515
2	£515	£25,333 / 49 = £517	£1032	3.1% = £32	£1064

For some members their LGPS pension will be worked out in 3 parts:

### Final Salary Scheme

Pension benefits are calculated according to length of membership and salary at the end of that period.



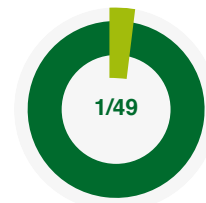
All membership until 31 March 2008 - 1/80 of Final Pay for each year of membership + 3/80 for Automatic Lump Sum



Membership between 1 April 2008 to 31 March 2014 - 1/60 of Final Pay for each year of membership

### CARE Scheme

For each year of membership 1/49 of pay is used to calculate a pension for that year. Each year's pension is then revalued by inflation.



Membership from 1 April 2014

## Checking your pension account

The pay used to calculate your benefits is supplied by your employer at the end of each scheme year or up to your date of leaving. The information received from your employer will be used to update your Pension Account. It is important that you check your Annual Benefit Statement and/or Member Self Service in the future. **N.B This means that payment of benefits upon retirement cannot be calculated until the final pay details have been received from your employer. Therefore pension benefits cannot be paid until your employer has provided the pensions team with these details.**

If you were in the scheme on the 31st March 2014 you will receive an Annual Benefit Statement later this year for all service up until that date. No CARE Scheme information can be provided in this year's statement. Benefit Statements from April 2015 will show past Final Salary benefits and CARE pension account information.

# When can I take my pension?

There is still a Normal Pension Age (NPA) in the LGPS and this is simply the age you can take your pension without receiving a reduction to benefits. The NPA for membership from 1 April 2014 is the same as your State Pension Age. To find out your State Pension Age you can visit [www.gov.uk](http://www.gov.uk) or contact the DWP on 0845 606 0265.

If you take your pension earlier than your NPA you no longer require your employers consent as you have flexibility as to when you can retire and take your pension in the LGPS. From 1 April 2014 you can choose to retire and draw your pension at any time between age 55 and 75. If you choose to take your pension benefits before your NPA it will normally be reduced, as it's being paid earlier.

If take your pension later than your NPA it will be increased because it's being paid later. The amount of any reduction or increase will be based on how many years earlier or later than your NPA you draw your benefits.

**The table below shows the current reduction applied to benefits being paid earlier:**

Years Early	Pension Male	Pension Female	Lump Sum (for membership to 31 March 2008)
1	6%	5%	3%
2	11%	11%	6%
3	16%	15%	8%
4	20%	20%	11%
5	25%	24%	14%
6	29%	27%	16%
7	32%	31%	19%
8	36%	34%	21%
9	39%	37%	23%
10	42%	40%	26%
11	45%	44%	N/A
12	48%	47%	N/A
13	52%	50%	N/A

**You can choose to retire and draw your pension at any time between age 55 and 75**

## Remember

Membership prior to 1 April 2014 will still be linked to the NPA of 65. This means that you can still take your benefits from this age however the service built up from 1 April 2014 will be linked to new NPA (i.e. your State Pension Age).

Therefore benefits build up pre and post April 2014 will have a different NPA therefore a different rate of reduction (or increase if being paid after NPA) for each period may be applied depending on when the benefits were built up.



# What protections are there?

Any pension you have built up before 1 April 2014 is protected under the old scheme regulations. This includes a protected Normal Pension Age of age 65 (except for a very small number of members with an earlier protected age of 60) for payment of those benefits.

The new scheme, for most, will provide a better accrual of benefits however there is some protection for members, particularly those nearing retirement.

## Protection for members within 10 years of retirement

The 'underpin' is protection for those members nearing retirement and who were intending to retire at age 65.

### Who is protected by the 'Underpin'?

The 'underpin' applies to you if you were:

- an active member on 31 March 2012, and
- you were within 10 years of your Normal Pension Age on 1 April 2012, and
- you haven't had a disqualifying break in service of more than 5 years (*after 31/03/2012*), and
- you've not drawn any benefits in the LGPS before Normal Pension Age and
- you leave with an immediate entitlement to benefits.

The underpin will not apply if you elect to opt out of the scheme before your protected Normal Pension Age.

If you are protected by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your Normal Pension Age if later, to check that the pension you have built up is at least equal to that which you would have received had the scheme not changed on 1 April 2014. If it isn't the difference will be added into your pension account.

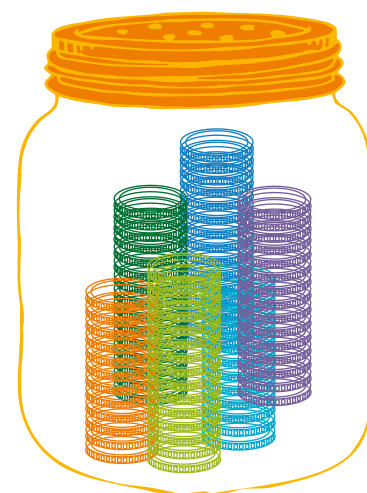
The Pension Fund will carry out this underpin check if you meet the criteria above.

## 85 year rule protection for members within 10 years of retirement

### What is it?

- Age plus membership in whole years = 85
- Who has protection? Members in before 1 October 2006
- This protection continues from April 2014\* (*\*except under the new option of drawing your pension from age 55-60, see page 8*)

Any Rule of 85 protections, which some members have, will continue to apply in the new Scheme. However, it depends on the individual membership how the protections work and when the benefits are taken. 85 year protections (continued on page 8...)



# ...rule of 85 continued...

## Governance & the new scheme

**As already mentioned from April 2014 there is a new option in the LGPS where you can choose to voluntarily draw your pension on or after age 55 and before age 60 without the need for your employer's permission.**

The rule of 85 however **will not** automatically be applied if you decide to draw your benefits under this new option but your employer can exercise their discretion to apply it. If they do, then the 85 year rule will apply in exactly the same way as under the 2008 Scheme. However, if they do not, then there will be a reduction applied to your benefits for drawing them earlier than age 60.

From April 2014 you will be able to ask your employer what their policy is on exercising the discretion to apply the rule of 85 to benefits drawn before age 60. Working out how you are affected by the rule of 85 can be quite complex. For a more detailed understanding of your own position you should contact the pension team directly.

### **Protection if you leave and re-join the LGPS in the future**

If you leave and have a break of 5 years or less (in LGPS or any Public Service Pension Scheme) then any pre 1 April 2014 benefits you have will retain a final salary link if you elect under the regulations to combine your membership. You can elect to keep your benefits separate but if you wanted to also have the final salary link you would need to notify your Pension Fund of this within 12 months of rejoining the scheme.

## **Where can I get further information?**

**Visit the Fund website:** [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)  
View or download a full scheme guide and the latest newsletters and keep up to date with the latest pension events.

**Sign up to receive email alerts:** Make sure we have the most up to date email address by registering to view your Pension Account online. **Don't have internet access?** Don't worry you can contact the pensions team by telephone, in person or by writing to us and we can provide you with the latest scheme information.  
**Write:** Pension Services, Shropshire Council, Guildhall, Frankwell, Shrewsbury, SY3 8HQ **Email:** [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)  
**Tel:** 01743 252130 **Fax:** 01743 281040

The new scheme will continue to be governed by the pensions committee which the fund reports to regularly. There will be increased national governance in the new scheme in the creation of a National Scheme Advisory Board as well as Local Scrutiny Boards and additional codes of practice from the Pensions Regulator mean the scheme is well placed to manage future challenges.

The new scheme has the same Internal Dispute Resolution Procedure as in the old scheme if you have any disputes about your membership or benefits. It is also still continues to be HMRC Tax Registered and a Statutory scheme (meaning it's backed by Government).

You can also be assured that as a member of the LGPS you can contact any of the following organisations if you have any issues or problems about your pension.

- Pension Advisory Service
- The Pensions Regulator
- The Pensions Ombudsman

### **Office hours:**

**Mon - Thu:** 8.45am - 5.00pm  
**Fri:** 8.45am - 4.00pm