

# Pension Update

NOV  
2011



**AUTO ENROLMENT**

**REDUCTIONS IN PAY**

**PROTECTING YOUR PENSION**

**TAX RELIEF**

**PENSION REFORM**

**INDUSTRIAL ACTION**



SHROPSHIRE COUNTY  
PENSION FUND

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Staffordshire  
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Local Government Pension Scheme



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In association with

## Annual Report 2010/11

A full copy of the Annual Report is available to view/download on our website.

## Joint Working

**Local Authority Pension Funds are facing greater challenges in meeting the needs of their members.**

As a result we are re-engineering services to meet these needs at a lower cost, drawing on experience of neighbouring authorities to achieve a high quality service.

This is the second of our 'Pension Update' newsletters we have issued that has been produced jointly with contributions from neighbouring Funds. This edition includes contributions from Staffordshire and Cheshire as well as our founding contributors.

We have included a number of very topical features which we hope you will find of interest.

Once again we welcome any suggestions you may have for future editions of Pension Update.

# Auto enrolment

The Government is introducing legislation in 2012 that all job holders aged between 22 and state pension age and earn above £7,475 per year have access to a qualifying pension scheme and are automatically enrolled into the qualifying scheme. For job holders aged between 16 and under 75 and have earnings above £5,035 per year may opt to join a qualifying pension scheme.

The legislation means that all employers have to make arrangements for all employees to automatically join a qualifying pension scheme that satisfies minimum requirements. Employers must also make appropriate contributions on behalf of those who choose to remain members of the qualifying scheme.

The Local Government Pension Scheme (LGPS) satisfies the criteria of a qualifying scheme as it is a UK tax registered defined benefit scheme that is contracted out on a salary related basis and meets the reference scheme test. This test prescribes minimum levels of benefit that a scheme must meet in order to be able to contract out of the state second pension.

The Government has established a national qualifying pension scheme, the National Employment Savings Trust (NEST). This scheme is effectively a statutory default auto enrolment scheme, intended for employers that do not want to use or establish their own scheme to fulfil their duties.

As members of the LGPS auto enrolment and NEST will not impact on you or your entitlement from the LGPS.

Each employer will have a staging date from which employers must comply with the new duties. Employers with at least 120,000 employees will have to comply from the earliest date of 1 October 2012. Employers with between 800 and 119,999 employees are required to comply by 1 October 2013. Employers with less than 800

employees will have staging dates from 1 November 2013 to 1 September 2016.

The new duties include enrolling all eligible job holders who are not already active members of a qualifying scheme into an auto enrolment scheme. For example, this means that for employees of the County Councils, District Councils, colleges and academies etc who are not members of the LGPS, will be auto enrolled into the LGPS from the relevant staging date. For employees of admitted bodies who no longer offer membership of the LGPS to all employees, they will have to offer membership of an alternative qualifying scheme, such as NEST. *(NB. For employers with a defined benefit scheme with an existing level of auto enrolment, the Government may allow an additional four year transition period to 30 September 2016, during which time, existing workers who are not currently scheme members, but who have been and continue to be eligible to join the scheme, would not need to be auto enrolled by the employer.)*

Although auto enrolment into a qualifying pension scheme is compulsory, an individual has a right to opt out within one month of membership. This option is valid for three years, following which the employer must re enrol the individual, who once again has the right to opt out within one month. This will continue every three years should the individual always choose to opt out.

### **How does this impact on you as a member of the LGPS?**

It is anticipated that the financial services sector will start to offer personal pension arrangements and members need to be aware that as a member of the LGPS they continue to be part of an excellent defined benefit pension scheme and as such they do not need to provide alternative pension provision.

# Reductions in pay and how they affect your pension

**Pay cuts can have an impact on your pension. Some of the general principles are outlined below.**

## **How Your Benefits are Worked Out**

As the Local Government Pension Scheme is currently a Final Salary scheme we use your pensionable service and pay to work out your benefits when you leave or retire.

We would normally use the pensionable pay that you have received in the last 12 months before leaving to work out your benefits. This is because, generally speaking, pay increases annually due to pay awards.

If your pay drops (*eg because of a pay evaluation exercise by your employer*) using your last year's pay may not be the best thing to do.

## **What will happen if I have a drop in pay?**

If your pay drops because you reduce your working hours we don't consider it as a reduction in pay. This is because we always use the notional full time pay, to work out pension benefits for part-time members.

Your pension benefits will be less because of a reduction in hours as your service is proportioned down for pension purposes. This means that the service we use to work out your pension benefits will be less than if your hours had not reduced.

## **Best of the last three years' pay**

All members are allowed to have their pension benefits worked out on the best year of the last 3 before you leave/retire. So if you take a drop in pay close to when you are retiring this may protect you.

You do not need to do anything as your employer will automatically check if one of the previous year's pay is higher when you leave.

They will tell the Fund so that we can use the higher pay to work out your benefits.

## **Choosing a 3 year average in the last 10 years**

If you take a pay cut in the last 10 years (*that is covered in Regulation 10*) then before you leave you can choose to have your benefits worked out using an average pay from a three year period within that 10 years.

The 3 year period must end within the last 10 years since the pay drop and end on the 31 March.

We will use the average pay from the period to work out your benefits and then add inflation

## **Splitting Your Pension Benefits (Only if Allowed by Your Employer)**

If your pay drops because you have previously been acting up in another position which is ending and you are returning to your permanent post, you cannot use a 3 year average in the last 10 year period.

Your employer can choose to split your pension benefits at the date of the pay drop (*they do not have to*). This would mean that the benefits you have built up before the pay drop are protected as they are worked out on the higher pay. They will also be increased in line with inflation each year.

You would then start to build up a new set of benefits based on the lower pay and your pensionable service from the date of the pay drop. So your future benefits are not protected.

## **Unsure if any of this applies to you?**

We hope that this information is helpful in explaining some of the issues that affect your pension benefits. The information outlined above is only very general and will not cover individual situations fully.



If you would like more general information about these issues please get in touch with the Fund



# Transferring your job & protecting your pension



Your employment rights for pay, holidays etc, are protected by a law called the Transfer of Undertakings and Protection of Employment Regulations 2006 (or *TUPE for short*). However, although pensions are excluded from TUPE, they are covered by other Government measures.

The Government measures on pensions sit alongside TUPE and are designed to ensure that your pension is protected when your job is transferred to another public sector employer or private contractor. The measures are complex, and you may be offered different pension benefits.

## How will you be affected?

How the changes affect you depends on who you currently work for.

**Are you a local authority employee?** Your new employer is required by law to either:

- Continue to offer you access to the LGPS via an “*admission agreement*”; or
- Give you access to a “*broadly comparable scheme*” with similar benefits to the LGPS.

Employers have been legally required to offer you these options since 2007. You will continue to be entitled to similar options if your job is transferred or outsourced again in the future.

## Are you working for another LGPS employer?

Your new employer will not be legally required to continue to give you access to the LGPS via an admission agreement or to provide you with access to a broadly comparable pension scheme. Previous guidance from the Government, known as Fair Deal, encourages your new employer to offer you one of these options, but they are not required to. However, they are required to provide objective justification as to why they would not adhere to the Fair Deal principles.

## The options explained

**Admission agreements** allow scheme members whose jobs are transferred to an external provider to remain in the LGPS as long as they are employed in connection with delivering the service that has been outsourced.

**A broadly comparable scheme** is one that should offer you a similar level of benefits to the LGPS. A qualified actuary will look at the scheme to ensure that employees will not suffer a fall in benefits if they move into this scheme.

Government guidance also says that the pension rights you have built up in the LGPS will be protected if you transfer them to your new employer's pension scheme. This is not covered

by legislation, but is instead covered under Fair Deal guidance.

## What is the legal requirement?

A statutory “*Direction Order*” was issued in October 2007 requiring a contractor for authority services to provide for security of pension provision for each transferring employee and that pension protection is enforceable by the transferring employee.

## What is Fair Deal guidance?

Fair Deal is a statement of practice issued by Government that sets out the framework the Government expects all public sector organisations to work with.

## Some commonly asked questions that you may have about your benefits.

### What happens to the pension benefits I have already earned in the LGPS?

Your pension benefits are safe while they remain in the LGPS. They are protected under the rules of the LGPS. The same protection would not continue if you transfer your LGPS benefits to a non-public sector scheme.

### Can I join the new arrangement?

**Yes** - if an Admission Agreement has been set up, this will usually be automatic, but you have the right to opt out of the scheme if you wish. With a broadly comparable scheme,

# Reduced tax relief on pension savings

yes you can if you want to. Details will be supplied to you and you would have the option to opt out of the scheme if you wish.

## Can I transfer the pension I have already built up?

**Yes** - this will be automatic, if an Admission Agreement is in place.

With a broadly comparable scheme you can choose to transfer the pension rights you have already built up in the LGPS to the new scheme.

## How much will I pay in contributions?

If an Admission Agreement has been set up it will be the same as it is now. With the broadly comparable scheme it will be the amount set out in the new scheme. This is likely to be the same as you pay now (*as the new scheme is 'broadly comparable'*). Your new employer would confirm the actual contribution rate to you.

## What happens when the contract comes to an end and I get transferred to another employer or back to my current scheme employer?

The process starts again and your future pension must be protected under a broadly comparable scheme or further membership of the LGPS. You will then again have choices with the pension built up.

## What happens if I leave my new employer before the contract end date?

With an Admission Agreement your pension built up in the LGPS will be deferred for payment at your normal retirement date or you may decide to transfer it to a new arrangement with a new employer.

If you have been placed in a broadly comparable scheme, your pension built up in your new employer's scheme will be deferred for payment at your normal retirement date or you may decide to transfer it to a new arrangement with a new employer.

**With effect from April 2011, the annual allowance for tax relief on pension savings reduced from £255,000 to £50,000. This change applies to active members of any registered pension scheme, and therefore includes members of the Local Government Pension Scheme within its scope and could result in additional tax liabilities for individuals.**

Calculation of the pension savings amount is based upon the build up of pension (*not the level of member or employer contributions*) over what is termed the Pension Input Period (PIP). The PIP for LGPS members is likely to be the period 1st April to 31st March the following year.

To calculate the value of the pension build up during the input period, the opening value of the member's benefits at the beginning of the PIP is deducted from the closing value at the end of the PIP. An example follows of how this works, based on someone with 15 years membership, a pension accrual rate of 1/60 of a final salary and a pay figure that has risen from £50,000 to £51,000 within the PIP (*to keep this simple, the illustration is based solely on post April 2008 LGPS membership*).

1. The opening value of the member's pension would be £12,500 ( $15/60 \times £50,000$ ), which is then multiplied by the HMRC factor of 16, equalling £200,000\*. The total of £200,000 is then increased by the percentage of CPI falling within the tax year for which the calculation is being performed. Let's assume this is 2.5%, thus bringing the opening value to £205,000.
2. The closing value of the member's benefits would be £13,600 ( $16/60 \times £51,000$ ) x 16 equalling £217,600\*
3. The difference between the opening and closing value is £12,600, which is below the £50,000 threshold and therefore no pension tax is payable.

To put this more simply, liability to pay tax will apply to someone whose pension entitlement increases by more than £3,125 pa (*i.e. £50,000/16*) within any Pension Input Period. If a separate lump sum is payable for any pre April 2008 membership, the value would also need to be taken into account when determining the increase in overall benefits by dividing the value of the lump sum by 16 and including the result in the pension comparison.

The rules allow any unused tax free allowance to be carried forward for three years.

It is likely that this change to the rules will mainly affect members who are high earners with long periods of LGPS membership. However, any member may be at risk of incurring a charge if they have a significant increase in their pensionable pay during a Pension Input Period.

Depending upon the level of tax charge, there will be various options for payment, but these are still under consideration and have yet to be finalised. They include payment by the member through their self assessment tax return, or possibly offsetting the tax charge against pension scheme benefits.

There are other considerations to be taken into account when calculating the opening and closing values, which are too detailed to cover in this short article. Further guidance and information on the subject can be obtained from the HMRC web site via the following link: <http://www.hmrc.gov.uk/pensionschemes/annual-allowance/reduced.htm>

**Please note:** We are not able to offer financial advice and recommend that members speak to an independent financial advisor.

\*Had the illustration included pre April 2008 LGPS membership, any separate lump sum entitlement would need to be added to this figure.

# Reform of Public Sector Pensions

You may be aware that, following recommendations made by the Public Service Pension Commission, headed by Lord Hutton, the Government is looking to reform the Local Government Pension Scheme (LGPS), along with other public service schemes.

In the short term, in the period up to 2015, the Government is proposing that, as we are living longer, public service workers, including those in the LGPS, should pay more towards their pensions. It is consulting on a number of options and the Local Government Association has put its own proposals to the Government which, unlike the Government's proposals, would offer employees choice *i.e. the choice to pay a bit more now or have a change to the level at which the pension in the scheme builds up in the future.*

## The Government's Draft Proposals, effective from 1 April 2012.

### Background

At the 2010 Spending Review, the Chancellor confirmed that employee contributions in the unfunded public service pension schemes would be increased by 3.2 percentage points. The increase was to be phased in from April 2012 with the aim of achieving £2.8bn a year in savings by 2014-15. In July 2011 the Chief Secretary to the Treasury confirmed that in recognition of the LGPS's funded status, the equivalent level of saving could be made through other means. The level of saving required from the LGPS is £900m per year by 2014-15.

### Parameters

The Government has set out certain requirements that any proposals must meet:

- There should be no increase in employee contributions for those earning less than £15,000 (*full time equivalent*)
- There should be no more than a 1.5 percentage point increase in pension contributions by 2014-15 for those earning between £15,000 and £21,000 (*full time equivalent*)
- High earners should pay progressively more than lower earners but no more than 6 percentage points in additional contributions.

## Proposals

DCLG is inviting views on the following potential solutions

### Option 1

a) Phased increase in employee contributions to make savings of £450 million.

Tariff Band (% of membership)	Current Employee Contribution Rate	2012/13 Proposed Increase	2013/14 Proposed Increase	2014/15 Proposed Increase
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

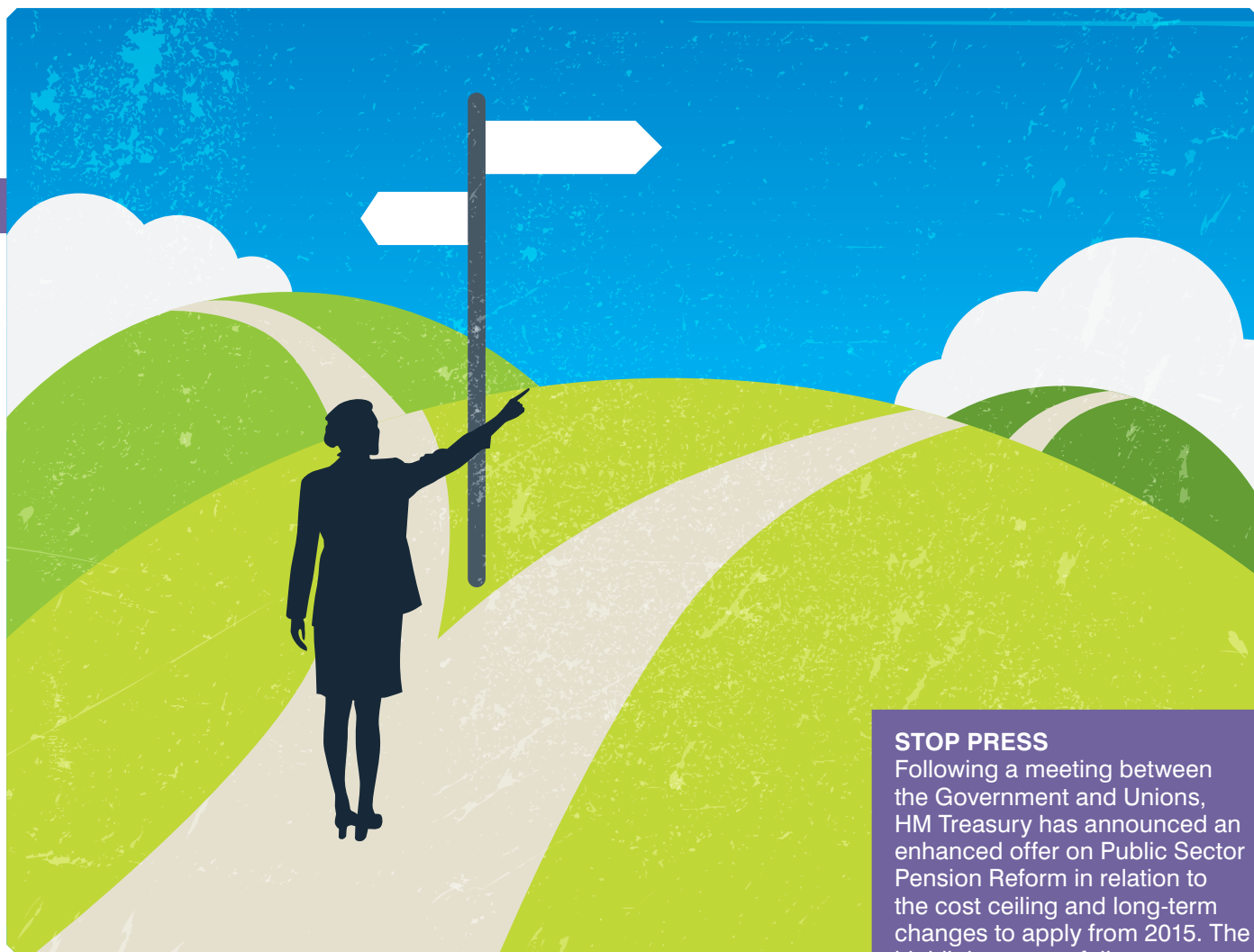
b) A further £450 million in savings to be achieved by a phased change in accrual rate from the current rate of 1/60ths to 1/64ths from April 2013 and 1/65ths from April 2014.

### Option 2

a) Phased increase in employee contributions to make savings of £300 million.

Tariff Band (% of membership)	Current Employee Contribution Rate	2012/13 Proposed Increase	2013/14 Proposed Increase	2014/15 Proposed Increase
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

b) A further £600 million in savings to be achieved by changing the accrual rate from the current rate of 1/60ths to 1/67ths from April 2014.



### Normal Retirement Age

One method of making savings would be to link normal retirement age to State Pension Age for future accrual. According to the Government Actuary's Department this would make savings in the region of £330m per year.

The balance of £570m would need to be found through an increase in contributions, a reduction in accrual or some combination of the two.

### Consultation responses

Consultees are asked to consider the above proposals and provide their views particularly with reference to;

- Whether they will provide the required saving
- Any unintended consequences of the proposals
- Any measures that might minimise opt outs from the Scheme
- Any groups who may be disproportionately affected by the proposals

- How respondents view the prospect of linking LGPS retirement ages to SPA

In addition, views are sought on how the effect of increased employee contributions might be reflected in the contributions payable by employers.

Closing date: 6 January 2012.

### STOP PRESS

Following a meeting between the Government and Unions, HM Treasury has announced an enhanced offer on Public Sector Pension Reform in relation to the cost ceiling and long-term changes to apply from 2015. The highlights are as follows:

An improved accrual rate of 1/60th rather than the 1/65th previously offered for the 2015 scheme. The Government has allowed an increase in the overall cost of the scheme for employers of 1.6% to cover this improvement.

Protection for anyone within 10 years of their pension age on 1 April 2012, meaning *"they will see no change in when they can retire, nor any decrease in the pension they will receive at their normal pension age."* The cost of this protection falls outside of the cost ceiling.

Others very close to being 10 years from retirement age may also see some additional protection. Details subject to further discussions.

The above proposal is conditional upon agreement being reached in the ongoing scheme by scheme talks.



# Industrial Action Implications on your Pension

In accordance with the pension scheme regulations this absence from work is classed as an “*unauthorised*” absence and will not count as service towards the calculation of your retirement benefits. You may however, under the provisions of the regulations, elect to pay contributions to avoid this break in service. Your employer will notify you of the amount payable. You will have 30 days from the date of receiving this notification to decide, and the cost will be 16% of the pay you would have received.

You will have one opportunity to pay the contribution due and cannot, at a later date, change your election.

Please note, any scheme member involved in the industrial dispute who is paying additional contributions to the pension scheme must continue to pay this contribution as if they had received pay for the day(s) of absence.

## What effect will the break in service have on my retirement benefits?

For each day of absence your retirement benefits will be reduced as follows:

Annual Pension	$1/365 \times 1/60 \times \text{pensionable pay}$
Contingent Spouses pension	$1/365 \times 1/160 \times \text{pensionable pay}$

For example, if you are currently earning £20,000 a year the reductions will be:

Annual Pension	$1/365 \times 1/60 \times \text{£ } 20,000$	= 0.91
Contingent Spouses pension	$1/365 \times 1/160 \times \text{£ } 20,000$	= 0.34

*NB: if you leave within 12 months of the end of the strike period, the pensionable pay used to work out your scheme benefits could be slightly less than would otherwise have been the case.*

## Should I pay the 16% contribution due?

This is a personal decision and the Pensions Team are not permitted to advise members of what may be best in their circumstances. If you have any doubts you may wish to seek the advice of an independent financial advisor.

You can buy the days of membership you have lost through taking strike action, but you must buy all of the strike break and not just part of it.

The days break in your pensionable service will extend by one day the date when a member attains 3 months membership in the Pension Scheme. This is the period of membership you need in the Scheme to be entitled to a benefit under the current regulations. Of course, this will be of no relevance if you already have more membership than this.

Each days break in your pensionable service will extend by one day the date when a member attains 5 years membership in the Scheme, being the period of membership necessary to be entitled to an enhanced ill health pension under the current regulations. This is, of course, of no relevance if you already have more membership than this.

## Why is the contribution 16% and not the usual contribution rate you pay?

The 16% contribution is specified in the pension scheme regulations and is higher than the usual rate because you have to pay towards the contribution your employer normally pays.

## How do I pay back the contributions I owe?

You will need to complete and return a form issued by your employer please check their website for further details. Contributions will be deducted from your pay and will attract tax relief.

## Contact Us

### Pension Services

Shropshire Council, Shirehall,  
Abbey Foregate, Shrewsbury,  
SY2 6ND

**Pensions helpline:** (01743) 252130

**Email:** [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

**Web:** [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)