

Local Government Pension Scheme Update

JUNE 2012

New Local Government Pension Scheme (LGPS) 2014 Proposal: Information in this newsletter on the Joint Statement by the Local Government Association and Trade Unions

You can find detailed information about all aspects of the proposals within this newsletter.



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Lord Hutton was appointed to chair the Independent Public Service Pensions Commission in order to look into how public service pensions could be made sustainable and affordable in the long term, while being fair to both the public service workforce and the taxpayer. Last year, the Commission's final report was published. It made a number of recommendations which were considered by all interested parties.

On 31 May 2012, the Local Government Association (LGA) and trade unions announced the outcome of their negotiations on proposals – based on the recommendations – for a new Local Government Pension Scheme (LGPS) for England and Wales. The new Scheme would take effect from 1 April 2014.

The Government has said that a favourable outcome of these consultations would allow them to move directly to a statutory consultation this autumn, so that "LGPS 2014" can be developed.

You can find detailed information about all aspects of the proposals within this newsletter and by following the appropriate links on the Pension Fund's website. A summary of the proposals can be found on the back of this newsletter.

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These proposals are now being communicated to scheme members, employers, funds, and other interested parties. Unions will consult their members over these proposals and the LGA will consult employers.

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The New Scheme Benefits



Important to note

The new scheme benefits will apply from April 2014. All benefits in payment or built up before 1 April 2014 are protected. If you are in receipt of a pension or have left with a deferred (frozen) pension, these changes will not affect those benefits.

The rate at which the pension builds up (the rate of accrual) has improved from 1/60th to 1/49th.

Proposed 2014 scheme compared with current 2008 scheme

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary (FS)
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Price Index (CPI)	Based on final salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age (<i>minimum 65</i>)	65
Lump Sum Option	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x pensionable pay	3 x pensionable pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - immediate payment with service enhanced to Normal Pension Age Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension age Tier 3 - temporary payment of pension for up to 3 years	Tier 1 - immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension age (65) Tier 3 - temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI	CPI (RPI for pre 2011 increases)
Qualifying Period for benefits	2 years	3 months

What type of scheme will it be?

A Career Average Pension

It is proposed that the LGPS 2014 will be a career average scheme, often referred to as a CARE scheme or, to give its full title, “Career Average Re-valued Earnings”.

Like the current scheme the proposed scheme remains a defined benefit pension scheme. Simply, this means that a member of the LGPS knows the level of benefit they are accruing each year and that the benefit has been based on a set formula.

In a final salary scheme it is the pensionable pay at the end of the period of membership that is used in the calculation of the benefit. What is proposed for LGPS 2014 is that the pensionable pay for each year is used to calculate the pension and that pension is then revalued (*increased*) each year by inflation (CPI).

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How would my Pension be worked out?

Each year the pension “purchased” will be calculated as follows:

$$\text{Pension} = \text{Membership} \times 1/49\text{th} \times \text{Pensionable Pay}$$

Each year’s revalued pension is then added together to arrive at the total pension. So the pension builds up as follows:

$$\begin{aligned} &\text{Pension for year 1} \times \text{inflation (revaluation)} + \\ &\text{Pension for year 2} \times \text{inflation} + \\ &\text{Pension for year 3} \times \text{inflation} + \\ &\text{and so on until membership ends} \end{aligned}$$

The basic calculation will work as follows for a part-time member (working 18½ hours per week) who has one year of membership and has earnings of £10,000:

EXAMPLE 01

$$\text{Pension} = 1 \text{ year} \times 1/49\text{th} \times £10,000 = £204.08 \text{ per annum}$$

(Membership \times 1/49th \times Pensionable Pay)

You would normally expect your pay to increase each year and for this example we have assumed an increase of £500 each year. Also we have already said that each year the pension “purchased” will be increased by inflation. Let us assume a rate of inflation of 3% per year. The example below shows the impact both of these have on the pension payable.

EXAMPLE 02:

Year	Pensionable Pay	Pension	Revalued pension to 2018
2014	£10,000	£204.08	£229.70
2015	£10,500	£214.29	£234.16
2016	£11,000	£224.49	£238.16
2017	£11,500	£234.69	£241.73
2018	£12,000	£244.90	£244.90
Total			£1,188.65 per year



How will the new scheme affect me?

Will I still receive a tax free lump sum?

You will still be able to exchange some of your pension to provide a tax free lump sum at retirement. For every £1 of pension given up you will get £12 cash. Up to 25% of the LGPS benefit (including *Additional Voluntary Contributions* but subject to some tax limits) can be traded in this way.

In example 2, a maximum of £5,094.12 could be taken as a lump sum leaving a reduced annual pension of £764.14 (from £1,188.00).

Do I have the flexibility to reduce my contributions?

The proposed scheme introduces an option that allows employees eligible for membership of the LGPS to contribute less and receive a smaller benefit in return instead of opting out of the LGPS altogether. The option is not designed to be an alternative scheme or to replace long term membership of the full scheme.

The 50/50 option will work very simply. You can pay half rate contributions and receive half the benefit. Therefore, in example 1 the pension awarded would be £102.04 per year.

The 50/50 option will allow you to still retain the full value of other benefits such as death in service lump sum.

When can I retire?

Normal retirement age is when you can retire and receive an unreduced pension. Under the LGPS 2014, normal pension age will be linked to the age you can receive your state pension. This means that many members will see an increase in the age that they can take their pension without reduction.

Remember however, that the benefits you have accrued prior to April 2014 can still be taken at age 65 and there are further protections for members who satisfy the rule of 85 and an underpinning of benefits for members within ten years of retirement.

It is also possible to retire early and get an LGPS pension at any age on or after your 55th birthday but the pension will be reduced by a set amount depending on how many years before your normal pension age you wish to retire.



How much will I pay in the new scheme?

Contribution rates for the majority of scheme members will not increase under the new proposals.

The new contribution bands take tax relief and level of income into account so that those in the top bands will see their net contribution rates after tax relief progressively increase as shown in the new table.

There is however, an important change to the way the contribution rates are assessed for part time employees.

Under the current scheme the percentage of pension contributions that you pay is based on the pay that you would receive if you worked full time. If, for example, your actual pay is £12,000 per year and you work 18.5/37 hours per week, the pay used to determine the percentage that you

contribute to the pension scheme would be the full time pay for that job which would be £24,000 per year. The contribution rate in the table below shows this to be 6.5%.

This means that you would pay contributions of 6.5% of your actual pay of £12,000. However, as a tax payer, the actual contributions paid in to the fund from your pay after tax relief would be 5.2% of your actual pay.

The proposals for the LGPS 2014 Scheme mean that the contribution rate will be assessed by reference to your actual part time earnings so taking the example given, this would mean that the contribution rate would reduce to 5.5% of your actual pay of £12,000 which would be 4.4% after tax relief.

LGPS 2014 (New Scheme)		
Actual Pensionable Pay	Gross Contribution	Contribution after Tax Relief*
Up to £13,500	5.5%	4.40%
£13,501 to £21,000	5.8%	4.64%
£21,001 to £34,000	6.5%	5.20%
£34,001 to £43,000	6.8%	5.44%
£43,001 to £60,000	8.5%	5.10%
£60,001 to £85,000	9.9%	5.94%
£85,001 to £100,000	10.5%	6.30%
£100,001 to £150,000	11.4%	6.84%
More than £150,000	12.5%	6.88%

LGPS 2008 (Current Scheme)		
Full Time Equivalent Pensionable Pay	Gross Contribution	Contribution after Tax Relief*
Up to £13,500	5.5%	4.40%
£13,501 to £15,800	5.8%	4.64%
£15,801 to £20,400	5.9%	4.72%
£20,401 to £34,000	6.5%	5.20%
£34,001 to £45,000	6.8%	5.44%
£45,001 to £85,300	7.2%	4.32%
More than £85,300	7.5%	4.50% or 4.13%

*Please note that the net contribution rates stated are approximate and will depend on individual members' circumstances.

Pay under the current scheme does not include non contractual overtime or additional casual hours undertaken by part time employees. The new scheme will take these elements into account in the assessment of the contribution rate, and in the calculation of your pension benefits.

What are my protections in the new scheme?

Members with service in the current final salary scheme will retain the link to final salary for all service before 1 April 2014 and the normal retirement age of 65. Your benefits under LGPS 1997 and LGPS 2008 will be calculated separately when you retire and be added to your benefits in the LGPS 2014 scheme.

To ensure that no member within ten years of age 65 as at 1 April 2012 is worse off, there will be an "underpin". This means that those members who would see a change in their benefits in that period will get a pension at least equal to that which they would have received in the current scheme.

If you currently qualify for the rule of 85 protections, these will continue to apply. Remember transitional protection will start to taper in 2016 until phasing out in 2020.

What happens if my employment is compulsorily transferred?

It is proposed that provisions of the current scheme are extended to ensure that all staff whose employment is compulsorily transferred will still be able to retain membership of the LGPS when transferred.

Summary

What happens next?

Main benefit structure of the LGPS 2014

1. A Career Average Revalued Earnings (CARE) scheme, using CPI (the Consumer Prices Index) as the revaluation factor.
2. There will be no normal scheme pension age (currently age 65), instead your Normal Pension Age (NPA) your State Pension Age.
3. More flexibility when you can retire, at any age on or after your 55th birthday but with your benefits reduced by a set amount depending on how many years before your NPA.
4. The accrual rate has improved to 1/49th.
5. The introduction of a 50/50 scheme where you can elect to pay 50% of contributions to receive 50% of benefits.
6. Pensionable Pay will be actual pensionable pay to include non-contractual overtime and additional hours for part-time staff.
7. Death in Service lump sum will be 3 x pensionable pay.
8. Members will have to accrue two years pensionable service to receive a benefit.
9. Benefits accrued prior to 1 April 2014 are protected.

This newsletter sets out the current proposals.

Negotiations are continuing on ways of managing the future costs of the LGPS and ways to improve the wider governance of the Scheme. The plan is that the current proposals will form the basis of a set of draft regulations which are due out in the autumn. This will provide the opportunity for a formal consultation process prior to the regulations becoming law by April 2013.



The Pension Fund will be communicating further updates throughout the year. You can find more details of the LGPS 2014 on our fund website which contains a section dedicated to the development of the new Scheme.

You can contact the Pension Team on the details below.

IF YOU CAN READ THIS BUT KNOW SOMEBODY WHO CANNOT PLEASE CONTACT US.

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