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pay, pensions and
employment solutions

The Local Government Pensions Committee
Secretary: Mike Walker

CIRCULAR

Please pass on sufficient copies of this Circular to your Treasurer/Director of Finance and to your Personnel and Pensions Officer(s) as quickly as possible

No. 185 – MAY 2006

COMMUNICATING THE CHANGES TO THE LGPS IN ENGLAND AND WALES

Purpose of this Circular

1. This Circular has been issued to provide administering authorities with a Newsletter which they may wish to utilise to help inform Scheme members of the changes made to the LGPS in England and Wales by the Local Government Pension Scheme (Amendment) Regulations 2006 [SI 2006/966].

2. Employing Authorities should not issue the Newsletter "Changes to the Local Government Pension Scheme in England and Wales" to their employees without checking first with their administering authority as the administering authority may already have a plan in place for communicating the changes to the Scheme.

3. The Newsletter does not apply to employees in Scotland.

4. The LGPC has also prepared a leaflet "Your LGPS benefits and tax changes" for employees in England and Wales and a similar leaflet for employees in Scotland. This leaflet covers the changes to the tax rules that govern pension schemes and their impact on the LGPS with specific information for high earners. The leaflets on the tax changes are available on the Local Government Employers' website at http://www.lge.gov.uk/pensions/content/guides.html

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www.lge.gov.uk

Managing Director Jan Parkinson

5. Regulation 4 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 [SI 1996/1655] requires the pension fund administering authority to notify all scheme members and beneficiaries (except those deferred members and pension credit members for whom no current address is held) of any changes to the scheme rules which may materially affect them. This should be done either before the change takes effect or, in any event, not later than 3 months after the effective date of the change. The notification must be accompanied by a written statement that further information about the scheme is available, giving the address to which enquiries should be sent.

6. Administering authorities in England and Wales are asked to copy this Circular to employers in their Fund (other than to Local Authorities to whom this Circular has been sent direct), or bring the Circular to the attention of employers by directing them to the Circular on the LGPC website at http://www.lge.gov.uk/pensions/content/circulars.html or, in some other way, bring the main messages in this Circular to the attention of the employers in their Fund.

Irene Wass
Communications Manager – Pensions
May 2006

Distribution sheet

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Visit the EO's website at: www.lge.gov.uk/

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or email:irene.wass@lge.gov.uk
tel and fax 01246 414902

Information for members of the LGPS in England and Wales. Please check with your Pension Fund Administering Authority before using this document

Changes to the Local Government Pension Scheme in England and Wales

You may have seen information in the media recently or received information from a union about changes the Government recently made to the Local Government Pension Scheme (LGPS) and will naturally be concerned about how these changes to the Scheme may affect you.

This leaflet explains what the changes mean for you and the reasons for the changes.

Why have changes been made?

On average, people are living longer and receiving their pensions for longer. This is great news but it means that the cost of the LGPS has risen.

The Government has therefore made changes to ensure that the scheme can remain affordable whilst still providing a good level of pension benefits for current and future employees.

Also, the tax rules that govern pension schemes have changed from 6 April 2006, allowing the LGPS to relax many of the contribution and benefit limits that previously applied.

What are the changes?

➢ *Phasing out the 85 year rule*

The normal retirement age for scheme members is already age 65 but employees can voluntarily retire from age 60 onwards (or from age 50 and before age 60 with their employer's consent).

This is not changing but changes to what is known as the 85 year rule are being made.

What is the 85-year rule?
The 85-year rule decides if your benefits should be reduced or not **if you chose to retire early.** If you do not satisfy the 85-year rule, then your benefits are reduced if voluntarily drawn before age 65.

How do I know if I will satisfy the 85-year rule?
If you decide to retire before age 65 and your age plus membership (each in whole years) at the time you start drawing your pension add up to at least 85 years there would be no early retirement reduction applied to your benefits. *If you work part time, your membership counts towards the 85-year rule at its full calendar length.*

Why has the 85-year rule been changed?
The Government's legal advice is that the '85 year rule' will be in breach of Age Discrimination legislation which comes into force 1 October 2006. For this reason **the 85-year rule has been removed, but only in respect of benefits you build up in the future. The pension rights you have banked up to 30 September 2006 (or up to 31 March 2013 if you will be aged 60 or over by then)** will not be affected and will continue to be calculated in the same way as if the changes had not been made.

What does this mean to me?
If you retire before age 65 the benefits you build up in the Scheme after 30th September 2006, or after 31st March 2013 if you will be aged 60 or over by then, may be paid at a reduced rate to reflect the fact that you will be drawing them early.

The change to the 85 year rule will not affect you if you draw your pension at age 65, if you are retired on the grounds of permanent ill health at any age, or if you are retired on or after age 50 on the grounds of redundancy or efficiency of the service. Pension benefits in these circumstances continue to be paid at an unreduced rate. The benefits of pensioners and deferred pensioners who left before 1st October 2006 will also not be affected.

As you can see, you may not be affected by the change but if you are you have full protection for the benefits you have built up in the Scheme to 30th September 2006 (or 31st March 2013 if you will be 60 or over by then).

Only employees joining the Scheme after 30th September 2006 will be wholly affected by the change.

The flowchart at the back of this leaflet should help you to understand how the changes affect you.

Here is an example of the effect of the change to the 85-year rule

A man aged 46 on 1 October 2006 with continuous membership from age 20 retires at age 60 in 2020, having satisfied the 85-year rule.
His final years' pay is £18000.

He would have:
- 26 years' membership (1980 to 2006) protected
- 14 years' membership (2006 to 2020) subject to reduction

Annual Pension:

26/80 x £18000	= £ 5850
14/80 x £18000	= £ 3150
Less 33% of £3150	= £ 1040
Total	= **£ 7960**

Lump Sum

3 x 26/80 x £18000	= £17550
3 x 14/80 x £18000	= £ 9450
Less 11% of £9450	= £ 1040
Total	= **£25960**

If, rather than retiring at age 60, he carries on working to age 65 he will build up 5 more years of membership (total of 45 years) and his benefits will not be reduced for early payment.

His benefits would then be:

Annual pension:

45/80 x £18000	= **£ 10125**

Lump Sum

3 x 45/80 x £18000	= **£ 30375**

➢ *Tax Simplification Changes*

These changes take effect from 6 April 2006. They result from a simplification of the tax rules that govern pension schemes and introduce greater flexibility and choice for scheme members:

- **Flexible retirement for employees from age 50** - rather than continuing in your job to 65 you can, with your employer's consent, reduce your hours or move to a lower grade and draw your pension benefits whilst continuing in employment and building up further benefits in the Scheme – enabling you to ease into retirement. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction; this is an employer discretion.

- **Exchanging part of your pension for extra lump sum** – if you draw your benefits after 6 April 2006 you can take up to 25% of the capital value of your pension benefits as a lump sum[1]. The current lump sum automatically paid on retirement roughly equates to 15% of the capital value. Any amount you take above the current lump sum would be achieved by exchanging part of your annual pension for a one off tax-free cash payment at a rate of £12 lump sum for each £1 of pension given up.

- **Taking AVCs as cash** - if you pay additional voluntary contributions (AVCs) via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax free lump sum provided you draw it at the same time as your LGPS pension benefits and, when added to the LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund)[1].

- **Removal of limit on employee contributions -** the 15% limit on a scheme member's contributions has been removed so you can pay more into the Scheme or into the Scheme's additional voluntary contribution arrangement to get bigger benefits from the Scheme[2].

- **There are also changes to the scheme that affect high earners –** information about these is in the leaflet "Your LGPS benefits and tax changes" which is available at http://www.lge.gov.uk/pensions/content/guides.html

➢ *Other changes to the LGPS that come into effect from 6th April 2006*

- you can join the scheme and remain in the Scheme up to two days before your 75th birthday.
- if you defer drawing your pension beyond age 65, your pension benefits will be actuarially increased.
- the ability to give up part of your pension to provide a dependant's benefit over and above the standard spouse's, civil partner's or child's pension has been removed.
- children's pensions coming into payment after 5th April 2006 for non-incapacitated children who are continuing in full time education or training will have to cease by age 23.
- the extra years of membership you are able to purchase in the Scheme by paying additional pension contributions is limited to 6 2/3rd years[2].

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[1] or, if lower, 25% of the Lifetime Allowance (LTA in 2006/07 is £1.5 million) less an adjustment for the value of any other pension benefits you may be drawing

[2] Councillors who are members of the Scheme cannot purchase extra scheme membership but can pay extra into the Scheme's AVC arrangement.

- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension is removed.
- the maximum service limit of 40 years (or, for those who joined the Scheme before 1 June 1989, the maximum of 40 years at age 60 and 45 years at age 65) has been removed.
- employers can no longer reduce or waive the contributions of scheme members who have been in pensionable local government for at least 40 years and so, from 6 April 2006, if you have had your contributions waived you will have to start paying full contributions again. Your service in excess of 40 years will now count towards your pension benefits and your employer can, at their discretion, recoup the contributions you would otherwise have paid.
- the normal retirement age for councillors who are members of the Scheme has been reduced from 70 to 65.

It's changing – but is it still a good Scheme?

Don't forget that the LGPS is still an extremely good Scheme compared to most schemes in the private sector and is a valuable part of your pay and reward package.

The LGPS is a good quality pension arrangement and has many features:

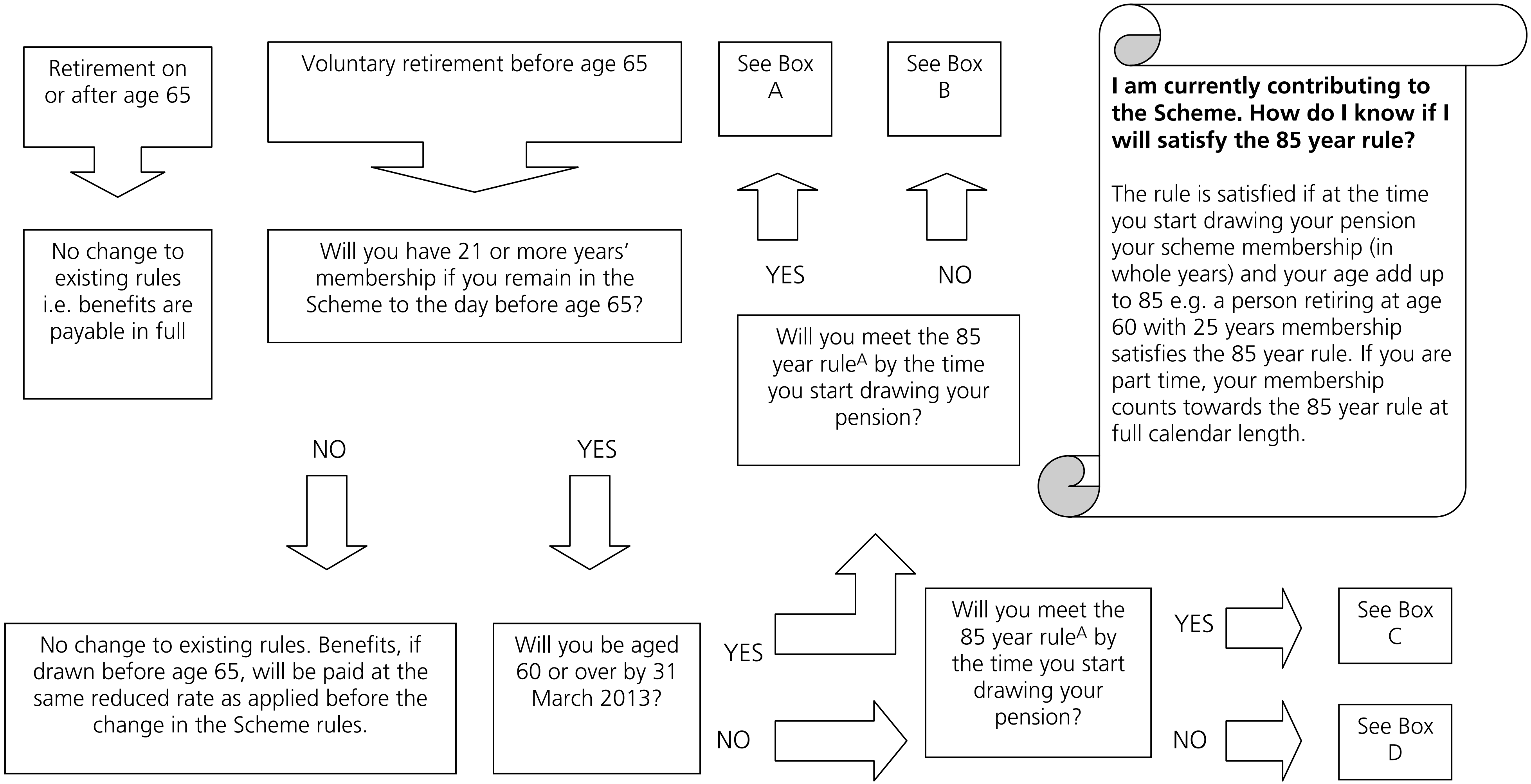
- **Employer subsidised** - Your employer, on average, pays over twice as much into the LGPS as you do.
- **A secure pension** - The Scheme provides you with a secure future income, independent of share prices and stock market fluctuations. Your pension will also receive regular cost of living increases when in payment.
- **A lump sum on retirement.**
- **Early retirement** - You can choose to retire from age 60 (or earlier with the employer's consent) and receive your benefits immediately, although they may be reduced for early payment. Unreduced benefits are payable immediately if you are made redundant or retired in the interests of efficiency when aged 50 or over.
- **Flexible retirement for employees** – You can choose to draw benefits early if your employer agrees to you reducing your hours or grade. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction.
- **Ill-health retirement** – at any age. If you ever become permanently unable to do your job, you could receive immediate ill-health benefits.
- **Death benefits** – Lump sum life cover of two years pay from the moment you join and widow's / widower's / civil partner's / children's pensions in the event of your death.

On the Horizon - alongside all of the above, discussions are beginning between the Government, unions and employers on a new-look local government pension scheme for 2008. Formal consultation on what the new scheme may contain is expected to begin in November 2006, with the new scheme coming into force in April 2008.

We hope you find this information helpful. Further information is available from <*insert contact details of pension fund administrator*> and on www.lgps.org.uk

How will the changes to the LGPS being made on 1 October 2006 affect me?

By following the flowcharts below you will be able to see how the changes to the Scheme being made on 1 October 2006 affect you if you voluntarily retire on or after age 60, or if you voluntarily retire on or after 50 and before age 60 with your employer's consent.



A. or meet an earlier Normal Retirement Date which some members who joined the Scheme before 1 April 1998 have under previous regulations

Box A	Box B	Box C	Box D
None of the benefits you accrue up to 31 March 2013 will be reduced. However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.	**The benefits you have accrued up to 31 March 2013 will be reduced but the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year rule[B]).** The benefits you accrue after 31 March 2013 will be reduced but the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.	**None of the benefits you accrue up to 30 September 2006 will be reduced.** However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.	**The benefits you have accrued up to 30 September 2006 will be reduced but the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year rule[B]).** The benefits you accrue after 30 September 2006 will be reduced but the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.

Please note that no reduction will be applied to any of your benefits if you draw them on or after age 65.

B. or the shortfall to any earlier Normal Retirement Date which some members who joined the Scheme before 1 April 1998 may have had under previous regulations