

The Local Government Pensions Committee
Secretary: Terry Edwards

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. 224 - JANUARY 2009

COMMUNICATING THE NEW LOOK LGPS IN SCOTLAND

Purpose of this circular:

1. This Circular has been issued to provide administering authorities in Scotland with a Newsletter which they may wish to utilise to help communicate the New Look LGPS in Scotland to employees in the run up to April 2009. A copy is attached at Annex 1. The Newsletter applies to employees only and should not be issued to councillors who are members of the LGPS.
2. Employing Authorities should not issue the Newsletter to their employees without checking first with their Scottish administering authority, as the administering authority may already have provided employers with communication materials or may be in the process of preparing their own communication material for employers to use.
3. The Newsletter does not apply to employees in England and Wales.
4. We have also produced a DVD and CD-Rom on the new look LGPS. Master copies of the DVD and CD-Rom have now been sent to all LGPS Pension Fund administering authorities in Scotland. It will be for each administering authority to decide how best to use the DVD and CD-Rom as part of their communication strategy with scheme members and employers. A version for loading onto intranet / internet sites is also being sent to the administering authorities in Scotland. We are **not** sending copies of the DVD, CD-Rom or intranet / internet materials direct to Scottish local authorities (only to the Scottish Pension Fund administering authorities).
5. The DVD / CD-Rom presentation is in three parts:
 - why the scheme is changing

- an overview of the new scheme from 1 April 2009
- how existing scheme members are affected (Questions and Answers)

All three parts can be played straight through (play all) or each part can be played separately. Accessibility options are also available i.e. users can choose to have sub-titles displayed, and there is an option to hear the presentation as an audio version. A transcript of the presentation can also be printed from the DVD if run on a computer or from the CD-Rom version.

Clearly, existing employees who are members of the scheme will be interested in viewing all three parts of the presentation but new members from 1 April 2009 will only wish to see part 2 (an overview of the new scheme). The presentation does not cover councillor members of the LGPS.

6. The LGE/LGPC has also updated the Promotional Guide and the Brief Guide to the LGPS to cover the provisions of the Scheme for employees in Scotland from 1 April 2009. These are available on the Local Government Employers' website at: <http://www.lge.gov.uk/lge/core/page.do?pageld=119586>
7. Employing Authorities should not use the Promotional Guide or Brief Guide for their employees without checking first with their Scottish administering authority, as the administering authority may wish employers to use the administering authority's own communication material.
8. The Scheme Guides for employees and for councillors that the LGPC produces for use by Pension Funds are currently being updated as is the information on the national LGPS website for scheme members (www.lgps.org.uk). It is intended that these will be available by April 2009.

Actions for administering authorities

9. 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.
10. Administering authorities in Scotland may wish copy this Circular to employers in their Fund or bring the Circular to the attention of employers by directing them to the Circular on the LGE website.

Irene Wass
Communications Manager – Pensions
January 2009

Distribution sheet

Local authorities who have signed up for notification of Circulars
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Pension managers (outsourced) and administering authority client managers
Officer advisory group
Local Government Pensions Committee
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CLG
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Website

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

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A New Look Local Government Pension Scheme from 1 April 2009

As part of a general review of public sector pension schemes, Scottish ministers have introduced changes to the Local Government Pension Scheme (LGPS) for employees in Scotland from 1 April 2009.

More of us living longer and so receiving our pensions for longer, which means the cost of providing pensions has risen. Also, the nature of the workforce has changed, with more scheme members working part-time and looking to achieve a better work-life balance.

As a result, the LGPS has been updated to reflect the work patterns and needs of a modern workforce, and to ensure that the New Look LGPS is affordable whilst still providing an excellent level of pension benefits.

If you're already paying into the LGPS on 31 March 2009 and you continue to have a contract of employment on 1 April you are automatically transferred to the New Scheme.

Let's take a look at how the main changes affect you if you are an existing member being moved over to the New Look LGPS.

➤ **New Contribution Rates**

From April 2009, scheme members will no longer pay a flat contribution rate. Instead, a five tier contribution system is being introduced – with contributions based on how much of your pay falls into each tier. This has been designed to give more equality between the cost and benefits of scheme membership.

If you work part-time, your contribution rate is worked out on the whole-time pay rate for your job, although you will only pay contributions on the pay you actually earn.

Here are the tiers from April 2009:

Whole time pay	Contribution rate (%)
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

The pay ranges will be increased each April in line with the cost of living.

Let's take a look at someone who works full-time at a pay rate of £22,000.

They'll pay 5.5% on their pay up to £18,000, and 7.25% on the next £4,000. That gives an overall contribution rate of 5.8% - around £106 a month in contributions.

If they were working half-time, they'd still pay the same contribution rate. That's because the whole-time rate for their job is still £22,000, but their contributions would be based on their part-time earnings, so instead they'd pay half - around £53 a month.

If you pay tax and National Insurance, you'll get tax relief on your contributions and pay a lower rate of National Insurance, so the actual cost to you is less.

If you're currently paying a protected rate of 5%, your rate will be changed in the same way as all other scheme members from 1 April 2009.

➤ **How are my benefits worked out?**

The New LGPS is still a final salary scheme. This means that your benefits are normally based on your final year's pay and the number of years you have been a member of the Scheme.

How your benefits are worked out when you retire changes from 1 April 2009.

For each year you have built up in the scheme to 31 March 2009, you will receive a **pension of 1/80th** of your final year's pay **plus an automatic tax-free lump sum** of 3 times your pension.

For each year you build up from April 2009 your **pension will be at the increased rate of 1/60th** of your final year's pay. There will be no automatic lump sum for membership built up after March 2009 but you do have the option to get a tax-free lump sum in exchange for some of your pension.

Let's look at someone who has 8 years membership up to 31 March 2009 and 24 years membership after then when they retire at age 65. Their final year's pensionable pay on retirement is £20,000.

Benefits based on their 8 years membership up to 31 March 2009 will be

Annual Pension:

$$8/80 \times £20,000 = \mathbf{£ 2,000}$$

Plus an automatic tax-free lump sum

$$3 \times 8/80 \times £20,000 = \mathbf{£ 6,000}$$

Benefits based on their 24 years membership from 1 April 2009 will be

Annual Pension

$$24/60 \times £20,000 = \mathbf{£8,000}$$

With no automatic lump sum

**This gives total benefits of:
Annual Pension**

$$£2,000 \text{ plus } £8,000 = \mathbf{£10,000}$$

Lump Sum = £6,000

But remember, it's possible to exchange some pension for extra tax-free cash. Up to 25% of the overall value of the pension benefits can be taken as a lump sum, with £12 lump sum for each £1 of annual pension given up.

To summarise, any pension built up before April 2009 is still calculated at the **1/80th rate** with a lump sum of 3 times pension. Only pension built up from 1 April 2009 is calculated at the **better 1/60th rate** and there is an option to take extra lump sum in exchange for some pension.

➤ **When can I retire?**

The scheme's normal pension age remains at 65. If you continue working beyond age 65, you can stay in the scheme but you must draw your benefits by age 75. Benefits drawn after 65 will be increased.

To be entitled to retirement benefits you must have been a member of the LGPS for at least 2 years or have transferred in other pension rights.

Early Retirement

You can still choose to retire and draw your benefits from age 60, without your employer's consent, although they may be reduced for early payment.

The earliest age you can ask for early retirement with your employer's consent increases from 50 to 55 from 1 April 2009 for new members, but this change won't apply until 1 April 2010 if you are paying into the LGPS on 31 March 2009.

Redundancy or Efficiency Retirement

If you're made redundant or are retired on business efficiency grounds, the earliest age immediate benefits are paid also increases from 50 to 55. Again, this change occurs from 1 April 2009 for new members but won't apply until 31 March 2010 if you are a member of the LGPS on 31 March 2009. However, if you were a member of the LGPS on 5 April 2006, and you are retired on redundancy or efficiency grounds, the earliest age immediate benefits are paid remains as age 50.

Flexible Retirement

Under the current scheme, if you reduce your hours or grade you can, if your employer agrees, draw **all** of the benefits you have built up at that point in time. You can still draw your pay on the reduced hours or grade, and even continue paying into the scheme, building up further benefits.

Under the new scheme, if you take flexible retirement, instead of having to draw **all** of the benefits you have built up prior to taking flexible retirement, you can draw **some or all** of your benefits. Also, you only need your employer's agreement to take benefits on flexible retirement if you are under 60.

If you take flexible retirement before 65 your benefits may be reduced for early payment.

The earliest age for flexible retirement increases from age 50 to 55 from 1 April 2009 for new members, but if you are a member of the LGPS on 31 March 2009 this change won't apply until 31 March 2010 provided you are in continuous employment with the same employer through to then.

Ill health retirement

The new scheme introduces better targeted benefits if you are unable to work because of serious illness.

If you have at least 2 years in the pension scheme or have transferred in other pension rights and you have to leave work at any age due to illness you may qualify for the immediate payment of your benefits if your employer, based on an opinion from an independent specially qualified doctor, is satisfied that you are permanently unable to do your own job.

There are graded levels of benefit based on how likely you are to be capable of gainful employment after you leave.

If you have no reasonable prospect of being capable of gainful employment before age 65, ill health benefits in the new scheme are based on your membership built up to the date of leaving **plus all** your prospective membership from leaving to age 65. In other words, your pension will be based on the membership you would have had if you had stayed in the Scheme until age 65.

If you have a reasonable prospect of being capable of gainful employment before age 65, ill health benefits in the new scheme are based on your membership built up to leaving **plus 25%** of your prospective membership from leaving to age 65.

If you are part-time, any extra membership awarded due to ill health retirement will be reduced to reflect your part-time hours at leaving.

Existing Scheme members are protected to ensure that the extra membership they receive is no less than under the current Scheme.

If you have to leave work because of ill health but you do not qualify for ill health retirement benefits because you are not permanently incapable of carrying out your job, then it is proposed that your employer will be given powers so that they may make a one-off lump sum payment to you.

➤ Improved death benefits

Provided you pay into the LGPS on or after 1 April 2009, there are improvements to the Scheme's benefits if you die.

The death in service tax-free lump sum, known as a "death grant", increases from 2 to 3 times your annual pensionable pay. If you're part-time, the benefit is three times your actual part-time pensionable pay.

If you leave on or after 1 April 2009 with deferred benefits and die before receiving them, the death grant increases from 3 to 5 times your deferred annual pension; and for the death of a pensioner, it increases from 5 to 10 times the annual pension being paid, less the amount of pension already paid out.

Remember, you can say who you would like any death grant paid to by completing a form available from your Pension Fund. It's important you keep this form up to date but, whilst taking your wishes into account, your Fund will make the final decision on whom the death grant is paid to.

Survivors' Pensions

The LGPS already provides a pension for your husband, wife, or registered civil partner and for eligible children on your death and under the new scheme you can now nominate a same or opposite sex co-habiting partner to receive a survivor's pension.

To nominate a co-habiting partner your relationship has to meet certain conditions laid down by the LGPS. **If you wish to make a nomination [please complete and return the attached form] or [you can obtain a form from]**

The survivor's pension for a Scheme member's husband or wife will be based on 1/160th of the Scheme member's final year's pay for each year of membership. Survivor pensions for civil partners and nominated co-habiting partners will be calculated on the same basis but on the Scheme member's post 5 April 1988 membership only. If you die in service, the membership used in the calculation of all survivor benefits will be the membership you have in the Scheme, as described above, plus the prospective membership between the date of death and age 65.

The amount of pension to be paid to eligible children depends on the number of eligible children and whether or not a spouse's, civil partner's or nominated co-habiting partner's pension is payable.

➤ **Increasing your benefits**

Under the New Scheme you can pay more in contributions to buy up to £5,000 of extra annual pension in multiples of £250. You can provide extra pension for yourself and, if you wish, extra survivor's pension on your death.

Buying extra years of membership will no longer be available in the new scheme, so if you want to buy extra years of membership you will need to make an election to do so to your Pension Fund administering authority before 1 April 2009. **[Further information on this can be obtained from]** If you're already paying more to buy extra years, you'll continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them.

You can still pay additional voluntary contributions – AVCs – to increase your benefits.

In the new scheme, your employer can also augment your membership by up to 10 years; grant you extra annual pension of up to £5,000; and contribute, along with yourself, to a Shared Cost AVC. These are all discretions that the employer can make use of if they wish.

➤ **And finally....**

One of the main attractions of the LGPS is that your employer pays a large part of the cost of providing the benefits.

It is however important that overall the scheme remains affordable, so increases or decreases in the cost of providing the scheme may, in future, need to be shared between members and employers. This will be in accordance with guidance from Scottish Ministers.

➤ **More information**

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

This leaflet is a brief guide on the changes to the LGPS for employees in Scotland from 1 April 2009. It is for general use only and does not cover every personal circumstance. It does not cover councillor members of the LGPS. In the event of any dispute as to eligibility for membership of, or benefits due under, the LGPS the appropriate legislation will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only.