



# PensionChanges

An update on the new Local Government Pension Scheme

## How pension scheme changes affect you

**Improved benefits and new contribution rates (see table on the right) are now in place in the LGPS. The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 became law on 4 April 2007, which means that the new LGPS will be effective from 1 April next year.**

This issue of *PensionChanges* explains how the regulations will affect the LGPS and what you can look forward to from the new-look scheme.

The regulations are designed to ensure that the LGPS continues to be viable and equality-proofed, and that the scheme remains fair and affordable for everyone. The timetable on page 2 shows which regulations are already in place and which are still to be made law, and when they take effect.

### The new benefit package

The LGPS will remain a **final salary** scheme, with many new benefits. The new package has an **improved accrual rate** of 1/60ths, which means that for every year you are a member you will earn 1/60th of your final salary rather than the current rate of 1/80th. This means that your annual pension should be bigger.

Other improvements include being able to convert up to 25% of the capital value of your higher annual pension into a **tax-free lump sum**. **Flexible retirement** is being made easier than ever, allowing some or all of your pension to be paid while you continue to work. Members can also buy extra annual pension of up to £5,000.

**Ill-health benefits** will be assessed in a fairer way, based on two tiers and targeted at those most in need. Death benefits have been improved. The

**survivor benefits** have also been broadened, now applying to spouses, civil partners and cohabitantes, for life.

Full-time equivalent salary	Contribution rate per year
£0–£12,000	5.5%
£12,000.01–£14,000	5.8%
£14,000.01–£18,000	5.9%
£18,000.01–£30,000	6.5%
£30,000.01–£40,000	6.8%
£40,000.01–£75,000	7.2%
£75,000.01 or more	7.5%

### LGPS forum

Get involved in the interactive LGPS discussion forum at <http://forum.communities.gov.uk/lgps2>. Page 3 of this issue includes a number of frequently asked questions that have featured on the forum since it was launched last year.



Find out more

HOW ARE CONTRIBUTIONS CALCULATED IN THE NEW-LOOK SCHEME? See page 2.



## New contributions for a NEW-LOOK scheme

### From 1 April 2008, all existing and new members of the LGPS will pay new contribution rates.

In the new scheme, **all employees earning less than a full-time equivalent of £18,000 per year will pay less into their pension** than they do in the current scheme.

To maintain stability and affordability, those earning more than £18,000 will pay more. This also addresses inequalities that exist in the current scheme.

The new contribution rates are based on a system of bands, and the band you fall into will depend on your full-time equivalent salary, i.e. how much you would earn each year for doing your job full time. The table on page 1 shows how much you can expect to pay per year for your pension.

In the new scheme the bands reflect the different salary levels and introduce more equity between contributions and liabilities within the scheme. This differs from the present scheme where every member pays 6% on all their earnings, except for a small number of manual

workers. From 1 April 2008 members currently paying 5% will have their contributions increased on a stepped basis to bring their contributions in line with the pay bands within three years.

The contributions band is based on your starting salary and can be decided at the beginning of each year. So, at 1 April 2008, if your full-time equivalent salary is £13,500 your employer will place you in the 5.8% band. If your salary were to increase to £15,000 in September 2008, your employer could wait until 1 April 2009 before moving you into the 5.9% band.

### LGPS timetable

#### 4 April 2007

LGPS (Benefits, Membership and Contributions) Regulations 2007 became law and effective from 2008.

#### 24 May 2007

Amendment (No. 2) Regulations deal with the changes in tax regime and

came into force on 21 June 2007.

#### June 2007

Amendment (No. 3) Regulations became law in mid-June 2007. This relates to the governance of the scheme and guidance on pension fund reports.

#### June 2007

Administration Regulations provide guidance on how the scheme will be administered across local authorities.

#### Summer 2007

Introduction of Transitional Regulations closing the 1997 Regulations and setting out

the new regulations on how members with benefits accrued under both schemes will be treated.

**1 April 2008  
Benefit and  
Administration  
Regulations come fully  
into force – new LGPS  
operational**



Find out more

FIND THE ANSWERS TO YOUR FREQUENTLY ASKED QUESTIONS See page 3.

# Frequently asked questions

## How will my benefits be calculated in the new scheme?

All members' benefits will be worked out using the annual full-time equivalent salary you're earning in the year when you retire, or the best year of the previous two. For membership earned up to 31 March 2008, your pension will be calculated on 1/80ths of your final salary. All benefits accrued from 1 April 2008 will be worked out using 1/60ths, and the two amounts added together will give you your total pension.

## How will the new lump sum work?

Rather than automatically receiving a lump sum payment of three times your annual pension when you retire, you can now opt to receive a much larger tax-free lump sum. By commuting, or swapping, £1 of your annual pension for £12 of lump sum, you can receive up to 25% of the capital value of your pension pot when you retire. Your administering authority will be able to offer you advice on how you can opt for a lump sum.

## Will I be better off in the new LGPS?

All members of the new-look scheme will receive an improved benefit package when they retire. It is not a case of winners and losers. If you are earning less than a full-time equivalent salary of £18,000 you will pay less in the new scheme. If you are earning more you will pay more but will still benefit from a higher rate of accrual, bigger-lump sum options, improved ill-health retirement provisions and better flexible retirement options, among many other new benefits.

## How will my cohabiting partner benefit from 1 April 2008?

Cohabiting partners of members of the new LGPS will be eligible for the same benefits as spouses and civil partners included in the 1997 Regulations. Benefits will be backdated for existing scheme membership to 1988 where applicable.

## Will my added years contract still be valid in the new-look scheme?

All added years contracts entered into on or before 31 March 2008 will be valid and honoured. It doesn't matter when your contract is due to be completed: your right to the benefit will not be lost, even though the new scheme does not allow for new added years contracts.

## How can I buy extra pension?

Instead of buying added years, you will be able to enter a contract to buy specific amounts of pension, from £250 up to £5,000 a year.

## What do the other regulations cover?

The LGPS Benefit Regulations cover the legislation of the scheme's benefits, membership and contributions. Details of the benefit package were published first so that members knew what they would be getting and administrators could change their systems as necessary. A number of areas of the LGPS are covered by several other statutory instruments. Amendment 2 and Amendment 3 Regulations deal with the changes in tax regime, the governance of the scheme and guidance on pension fund reports. These amending regulations are intended to improve the communication, administration and governance of the LGPS.

The Administration Regulations set out how the LGPS is to be run and administered and who has to do what from 1 April 2008. The Transitional Regulations finalise the closure of the 1997 scheme and establish how pre- and post-1 April 2008 membership will be handled.

## What do I have to do to be included in the new scheme?

Nothing: you will be automatically transferred into the new scheme. Your employer will notify you of your new contribution band.

## Tom



**Tom** is a **benefits officer in his 30s** who works full time. He's married and has a salary of £16,200. He joined the LGPS three years ago. Tom's pension, accrued from when he joined until 31 March 2008, will be fully protected. Any benefits accrued from 1 April 2008 will be actuarially reduced if he retires before he turns 65.

Tom's annual contributions will decrease in the new scheme – he will pay 5.9% instead of 6%, and he will be able to take advantage of a better accrual rate, a larger lump-sum option and an improved benefit package.

## Vinoda



**Vinoda** is a **35-year-old nursery officer** working part time and earning a salary of £6,500 per year. She lives with her long-term partner, has three children and has been a member of the scheme for 18 months.

Due to her short membership to date, her protected benefits are small. She will accrue new benefits after 1 April 2008 in the new LGPS, although these will be actuarially reduced if she decides to retire before she reaches 65.

However, under the new scheme, Vinoda will pay contributions of 5.8% instead of 6% per year while enjoying better benefits, such as survivor benefits for her partner.

## See how it works

**These case studies show how four typical LGPS members will be affected from 1 April 2008. To find out how your own pension will be affected, it's best to talk to your local authority.**

## Mary



**Mary** is a **46-year-old senior social worker** earning £31,000 per year. She has been an LGPS member for 20 years and hopes to retire when she's 60, if her employer will let her. Although the benefits she accrued before 1 April 2008 will not be reduced, those gained after this date will be actuarially reduced as she is not covered by the full 'Rule of 85' protection until 2016 or tapered protection to 2020.

From 1 April 2008, Mary's contributions will increase by less than £17 per month, for the guarantee of a final salary pension scheme with a better rate of accrual. And if Mary becomes ill and she finds herself unable to continue in her work full time, she may be able to benefit from the improved ill-health package from next year.

## Jack



**Jack** is a **55-year-old team manager** earning £44,000 per year. Jack joined the LGPS 20 years ago and will retire when he's 60 in 2012, with 26 years' membership. Jack's pension benefits are covered by transitional protections until 2016, as his age and service at the point of retirement will meet the 'Rule of 85' criteria within the fully protected period, which runs until 2016.

Jack's pension contributions will increase in the new scheme, rising from 6% to 7.2%, or just over £26 per month after tax relief. However, like the other case studies, Jack will benefit from a substantially improved system of benefits, as well as still being able to retire at 60 with a full pension.

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