



Summer 2009

Introduction

Welcome to the latest issue of the Pension Newsletter. I hope that you find it useful and informative. If there are any issues that you would like us to cover in future issues of the Newsletter please let us know and we will do our best to cover the topic. This is your publication and we want to cover matters which are of direct concern to LGPS members.

In this edition we will be covering:

- ▶ Cost sharing – proposals for future increases in pension costs to be shared between employers and employees
- ▶ Changes made to the to the Ill-health pension provisions within the LGPS.
- ▶ Death in service lump sum nominations; have you made one? Is it up to date?
- ▶ Arrangements which allow certain LGPS members to nominate a partner to receive a pension in the event of their death.
- ▶ Changes to the earnings bands used to determine the contribution rate you will pay.
- ▶ Services provided by the Pension Team.
- ▶ Revised transfer value and divorce calculations.
- ▶ Early retirement qualification age increasing from 50 to 55.
- ▶ The financial crisis – LGPS pensions are secure.
- ▶ The appointment of an employee representative to the Pension Panel.
- ▶ Would members like the range of investment funds offered by the AVC plan extended?
- ▶ Rule of 85 protections – where are we now?
- ▶ Annual Benefits Statements.

Cost Sharing

Work is underway at a national level to introduce a “cost sharing mechanism”. Such arrangements now apply in many public sector pension schemes.

We do not as yet have the full details of how this will work. The intention is however that going forward, pension scheme cost increases will be shared between employers and employees.

From what we understand the mechanism will only look at demographic cost pressures; it is not we understand proposed to bring market or investment risk into the assessment.

Going forward for example, if increases in longevity mean that the pension scheme’s costs rise any additional cost would be split between the employee and the employer. The increased employee cost could be paid in a number of ways e.g. the employee’s rate of contribution could be increased, the rate at which pensions accrue could change e.g. from say a 1/60th to a 1/65th, or normal retirement age could be increased from say 65 to 68. At this stage these examples are simply hypothetical. We will however be providing more information on this topic as the detail emerges.

It is perhaps worth clarifying that the cost sharing mechanism will apply to the LGPS membership nationally i.e. any changes will apply to every LGPS member in England and Wales. The mechanism will not reflect local conditions.



III-Health Pensions

We reported last year the changes which had been made to the scheme with the advent of the new LGPS on the 1st April 2008. At that time we reported that the scheme had a two tier ill-health pension arrangement, with the amount of pension effectively being determined by the state of the person's health. We did however draw attention to the possibility of the introduction of a 3 tier ill-health pension system. The statutory regulations governing the scheme have been amended and we now have 3 levels of ill-health benefits. The level of ill-health benefit awarded being determined on the basis of the impact which the permanent illness will have upon the person's ability to undertake "gainful employment" in the future.

To qualify for an ill-health pension the employer must terminate the person's employment on health grounds having obtained a certificate from the scheme's occupational health doctor confirming that:-

- ▶ the person is **permanently** incapable of discharging the duties of their employment as a result of ill-health, **and**
- ▶ the person could not immediately engage in "gainful employment" and has a reduced prospect of obtaining "gainful employment" before age 65.

Further to this, the employer needs to obtain a certification from the scheme's occupational health doctor confirming the impact which the illness will have upon the person's ability to undertake "gainful employment" in the future. Three levels of certification are possible

- ▶ If the doctor certifies that the person is permanently incapable of doing their local government job and could not immediately, on ceasing employment, undertake "gainful employment", but the likelihood is that they will be able to undertake "gainful employment" within 3 years of leaving, a 3rd tier pension is due. In such a case the person's accrued pension (without any added years) would be put into payment **on a temporary basis** for a maximum of 3 years. If during the 3 years the person enters "gainful employment" the pension must stop. The former employer must review the situation after the pension had been in payment for 18 months and if appropriate stop the pension. In any event a 3rd tier pension must stop being paid after 3 years.
- ▶ Where the doctor certifies that the person is permanently incapable of doing their local government job and the likelihood is that they will be unable to undertake "gainful employment" within 3 years of leaving, but could return to "gainful employment" before age 65, a second tier pension is awarded. In such a case the person's pension, based on actual pensionable service plus added years equal to 25% percent of the period from leaving to age 65. Such a pension is permanent and not subject to review. For example, if say a person is retired on a second tier pension at age 41 their pension would be based upon their actual pensionable service **plus** 6 added years i.e. 25% of the 24 years potential service between leaving and age 65. If you work part-time the added years would be adjusted to reflect this.
- ▶ If the doctor certifies that the person is permanently incapable of doing their local government job and the likelihood is that they will be unable to undertake "gainful employment" before age 65 a first tier pension is awarded. In such a case the person's pension is based on actual pensionable service plus added years equal to the period from leaving to age 65. Such a pension is permanent and not subject to review. For example, if say a person is retired on a first tier pension at age 50 their pension would be based upon their actual pensionable service **plus** 15 added years i.e. the period of the potential service between leaving and age 65. If you work part-time the added years would be adjusted to reflect this.

The purpose of making these changes is to ensure that those who leave employment in the worst state of health receive the highest awards. This does however present a problem in that until the doctor certifies the tier of ill-health pension to be awarded it is not possible to provide an accurate estimate of the pension due to a person who may find their employment terminated on health grounds.

"Gainful Employment" means employment for a period of not less than 12 months, working not less than 30 hours per week.

Pensions and lumps sums payable upon the death of an LGPS member

- ▶ A death in service tax free lump sum of 3 times annual pensionable pay is due - more or less 3 times annual contractual salary.
- ▶ If you die on pension **within ten years of retirement** a lump sum of 10 times the annual pension, **less** the actual pension paid, is due. In other words the LGPS provides a "10 years pension guarantee".
- ▶ A pension would be payable for life, to the surviving spouse of an LGPS member.
- ▶ A survivor pension is payable for life, to the surviving civil registered (same sex) partner of an LGPS member. This pension is however based upon LGPS membership accrued after 31st March 1988.
- ▶ A survivor pension may now be payable to a surviving "nominated" dependent (unmarried or unregistered) partner of an LGPS member. This pension is however based upon LGPS membership accrued after 31st March 1988.
- ▶ Survivor pensions may also be payable in respect of the dependent children of an LGPS member (children being persons who have not attained age 17 or who have remained continuously in full-time education, subject to a maximum age of 23).

For information regarding the LGPS, including survivor pensions and accrual rates please go to www.lgps.org.uk.

How do the nomination arrangements work for unmarried and unregistered partners?

The starting point is that to qualify for payment of a partners pension their **must** be a formal nomination in place confirming that the couple have, for a period of at least 2 years:-

- ▶ lived together as if they were husband and wife or civil registered (same sex) partners,
- ▶ been free to marry or enter into a civil registered partnership with each other, and
- ▶ been financially interdependent.

Partner Pension Nomination Forms

A form to enable you to nominate a partner for a pension is available from the Pension Section, see the contact details at the end of this leaflet. A pension cannot be paid to your partner unless you put a formal nomination in place.

Remember – no nomination no pension. It's your responsibility to make sure a nomination is in place!

Lump Sum Death Benefit Nominations

If you have not already done so please also consider making a lump sum death benefit nomination. If you have made a lump sum death benefit nomination in the past please consider if it still reflects your wishes i.e. have your circumstances changed? Forms are available from the Pension Section.

Note – Death benefit nomination forms can be completed by all scheme members. They allow you to say who you would wish to receive any lump sum due in the event of your death. For the avoidance of doubt married scheme members should also consider making a nomination. Any lump sum paid under nomination would be excluded from the assessment of inheritance tax and where there is a nomination this often speeds up payment.

Partner pension nominations only apply to those who live with an unmarried or unregistered partner. They are not the same as lump sum nomination.

A person eligible to complete a partners pension nomination should also complete a lump sum nomination if they wish their partner to receive any lump sum due in the event of their death – your unmarried partner is not automatically covered for the lump sum simply because you nominate him/her for a pension. If you want your partner to qualify for a pension and lump sum in the event of your death you must complete **TWO** forms 1) The partners pension nomination form and 2) the lump sum death benefit nomination form.

Revised Earnings bands Tiered Contributions

Employee rates of pension contribution are determined by the amount of their annual pensionable pay. The earnings bands are to be reviewed annually and increased in line with RPI. The revised rates of contribution to apply from 1st April 2009 are:-

Band	Earnings Range	Contribution Rate
1	£0-£12,600	5.5%
2	More than £12,600 up to £14,700	5.8%
3	More than £14,700 up to £18,900	5.9%
4	More than £18,900 up to £31,500	6.5%
5	More than £31,500 up to £42,000	6.8%
6	More than £42,000 up to £78,700	7.2%
7	More than £78,700	7.5%

An LGPS member must be allocated to a band and pay the contribution rate specified e.g. an employee earning £25,000 a year would pay a contribution of 6.5% on all pensionable earnings; an employee earning £50,000 a year would pay a contribution of 7.2% on **all** pensionable earnings.



Part-Time Employees

The contribution percentage of a part-time employee is determined on the basis of what the person would have earned had they been a whole-time employee.

Manual Workers Who Previously Paid The Protected 5% Rate

Such employees will pay contributions at a rate of 5.5% during the year ended 31st March 2010.

Services We Provide

Basically Pensions provide the following services:-

- ▶ We calculate and pay pension entitlements and provide estimates of pensions on request.
- ▶ We calculate and pay severance and redundancy payments and provide estimates on request.
- ▶ We send people an annual benefits statement.
- ▶ We calculate and pay transfer values where a person wants to transfer their pension rights out of the LGPS e.g. to a new employers pension scheme and we provide estimated transfer values on request.
- ▶ We calculate and pay death and dependants benefits and provide estimates on request.
- ▶ We calculate Cash Equivalent Values needed by the Courts to process pension sharing on divorce. Again we can provide estimates upon request (a fee is however charged where a person asks for more than one estimate in a 12 month period i.e. we provide one free estimate in a 12 month period).
- ▶ We provide information with regard to paying additional contributions to purchase additional pension.
- ▶ We hold a series of meetings once a year as part of our road show for staff, where we give information on the scheme, in particular scheme changes. Staff can raise pensions issues with us at those meetings.
- ▶ We provide newsletters to keep staff informed about the LGPS.
- ▶ Our staff are available to discuss pension issues with scheme members.

Basically Pensions provide the following services:-Is there anything else you would like us to do? Let us know and we'll do our best to provide it. Clearly we are a small team and so resources are limited, given that we provide pension services to the 20,000 scheme members covered by 45 organisations. We will however do our best to respond to requests for service enhancement.

Transfer Value Calculations

Where, possibly as a result of a change of employer, a person changes pension scheme, they can ask for the value of their pension rights to be transferred to their new arrangement. Such payments are referred to as a Cash Equivalent Transfer Value.

We also use these cash equivalent values for other purposes e.g. in divorce cases the courts will ask for the Cash Equivalent Value of a person's pension rights. A proportion of the value of the pension rights may then be awarded to the spouse on divorce. This is often referred to as pension sharing on divorce.

Such cash equivalent values are calculated on the basis of factors supplied by the Government Actuary. The sum assessed is then adjusted to reflect the current state of the financial markets.

The factors produced by the Government Actuary are reviewed periodically and adjusted to reflect demographic changes, such as people living longer. People living longer increases pension costs and therefore the cash equivalent values need to rise.

The cash equivalent factors have been increased and this will generally mean that transfer value payments for people changing pension scheme and cash equivalent values for divorce will be higher in the future.

Transferring Earlier Pension Rights

If you want to transfer pension rights to count in your current employment, including pension rights previously accrued in the LGPS, you must make a formal written election to transfer within 12 months of starting your current job.

However where a person transferred to Northumberland CC from one of the district councils, as a result of local government re-organisation, your district service, which is eligible to be transferred, will automatically be linked to count with your County Council job and an election to transfer is not needed.



Qualifying early retirement age – increasing to 55

From 1st April 2010 the earliest age from which early retirement in the LGPS can be granted will increase from 50 to 55.

The most common form of early retirement is linked to redundancy. Currently, if you are an LGPS member aged 50 or over, you automatically qualify for the immediate payment of your pension if you are made redundant. From 1st April 2010 to qualify for early retirement the person would need to be aged 55 or over i.e. a person age 54 would not qualify for their pension if made redundant on or after 1st April 2010.

For the avoidance of doubt, persons aged **less than 55** can still qualify for an **ill-health** pension where they meet all of the criteria set out in the scheme.

The Financial Crisis – what will be the impact of the Credit Crunch?

As you will be aware, there is considerable turmoil within the World's financial markets and this has had a significant impact upon the value of the Northumberland Pension Fund's invested assets. We would however assure you that your pension is not in anyway at risk from the financial crisis. Your LGPS pension is a legal right which must by law be paid to you.

Local government pensions are very different from pension schemes in the private sector. Within the private sector, pensions are directly linked to the value of pension fund and a fall in the value of the fund will impact upon the scheme members. In the LGPS, whilst we do have an invested pension fund, the fund is there only to assist the employer in meeting its pension obligations. Your accrued LGPS pension is a statutory right which must be paid to you by law. Your accrued LGPS pension is therefore secure.

Additional Voluntary Contributions – AVC

Employees can pay additional contributions to increase their pension benefits. They can either pay those additional contributions directly to us and purchase additional pension in the main scheme or they can pay into an AVC scheme that we have arranged via the Prudential. The AVC scheme is however part of the LGPS. The current tax treatment of AVC's within the LGPS means that the AVC option may be particularly suitable for those who wish to increase their tax free lump sum at retirement.

We offer a range of investment funds via the Prudential, ranging from a cash fund with minimal risk, to funds which directly invest in the world stock markets and other financial instruments; such funds clearly carry greater risk levels.

The Prudential are able to offer up to sixty different investment funds to AVC investors. The Northumberland Pension Fund has selected 15 funds which are available to our members. We limited fund options for a number of reasons. We wanted to give people a choice of a range of funds with different risk profiles whilst at the same time not making the choice overwhelming. Also, we get an independent expert to periodically review our AVC provider. Whilst we use Prudential currently, we could change that in the same way that we can change the companies who managed the investments of the main fund's assets. Limiting the number of funds means that these reviews can be more focussed and cost effective.

We usually carry out a full review once every 3 years and we have recently had a review carried out by the actuarial firm Hewitts. They have recommended that we retain the Prudential as our AVC provider. They did however make a number of suggestions, one of which was to increase the number of funds that we offer by adding 3 new funds via the Prudential product, namely:-

- a) AXA Rosenberg Global Equity Alpha – a global equity fund.
- b) Invesco Perpetual Income – a UK equity fund.
- c) Schroders Diversified Growth – a multi asset fund.

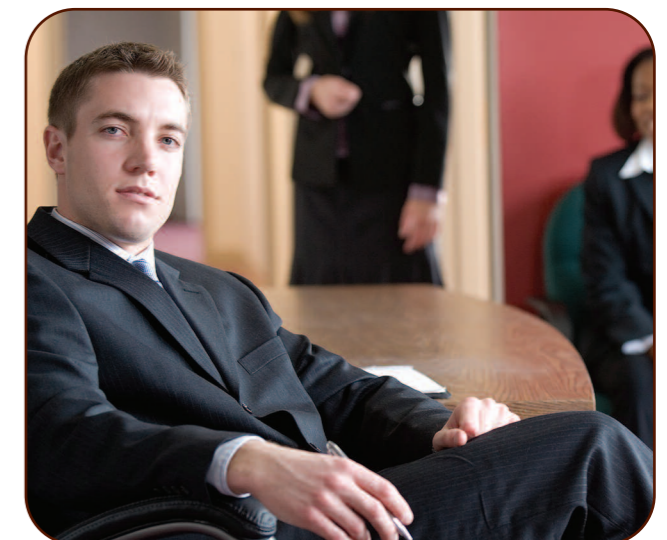
These funds are higher risk funds than are currently available, but with higher expected returns, and higher expenses.

The Northumberland Pension Panel has requested that we consult with scheme members and ask:-

- a) Do scheme members want the range of funds extended to include these additional choices?
- b) Generally, would scheme members like to have a greater range of investment funds available via the AVC scheme?

If you have views on this please let us know (see contact details on the back page).

Whilst the recent tax changes which in many cases allow a scheme member to increase their tax free lump sum via the AVC plan, has resulted in a sharp increase in the number of people paying AVC's, most of those people are choosing to invest in funds with minimal or low risk. This may well be very suitable for those members who are close to retirement and simply wish to benefit from the tax breaks now available via the AVC plan. Such a strategy could however be less suitable for those who are a way off retirement age. We are not however advocating any particular approach and we cannot give financial advice to individuals. Clearly each person needs to take a view as to their appetite for risk.



LGPS Update

Following changes to the LGPS two presentations are available for you to view at the internet addresses below.

One presentation is an overview of the pension scheme and the other is a questions and answers session. They have audio and also subtitles.

These do not cover the position of councillor members who are contributing to the LGPS.

<http://www.northumberlandcouncil.gov.uk/videos/play.asp?id=12>

<http://www.northumberlandcouncil.gov.uk/videos/play.asp?id=13>

The Northumberland Pension Panel

Decisions about the Pension Fund's investments are made by a Panel of six elected County Councillors. This is a statutory committee of the County Council. There are also two union representatives and one employer representative (there are more than 40 employers who participate in the Northumberland LGPS Pension Fund) who sit on the Panel. Whilst the employer and union representatives sit on the Panel and take part in the meetings they do not have voting rights.

The Panel have decided that they would also like to appoint a non-voting employee representative onto the Panel. If you would like to be considered for this role please contact the Pension Section and let them know (see contact details on the back page). Depending upon the response that we get we will need to have some form of selection process to identify the most suitable candidate. We are not however necessarily looking for a financial expert and appropriate investment training will be given to the person selected.

The person appointed will be expected to serve for a minimum period of 3 years. There are 4 scheduled Panel meetings a year and when required ad hoc meetings are called to deal with specific issues. The November Panel meeting is usually held over two days in London. Appropriate expenses will be paid.

If you are considering putting yourself forward for this position please discuss the matter with your line manager. Clearly your manager must be agreeable to your taking up this role and be happy that it would not result in a detriment to the service.

Rule of 85 – where are we now?

As you may know from earlier newsletters, the rule of 85 has been withdrawn from the LGPS. There are however a number of protections in place for people who were scheme members on the 31st March 2008 and who joined the scheme prior to 1st October 2006. These protections can be summarised as follows:-

1. Those born before 1st April 1956 – people in this group if they meet the rule of 85 at retirement and retire before age 65 they will have protection for service up to 31st March 2016. Pension rights accrued after 31st March 2016 may be reduced if taken before age 65.
2. Those born after 31st March 1956, but before 1st April 1960 – people in this group, if they meet the rule of 85 at retirement and retire before age 65, would have the rights they accrued before 1st April 2008 paid in full without reduction, rights accrued after 31st March 2008 and before April 2020 would be reduced if taken before age 65 but the level of those reduction would be less than the full reductions which would apply to those in class 3 below. Rights accrued after 31st March 2020 would be subject to full reductions if taken before age 65.
3. Those born after 31st March 1960 - people in this group, if they meet the rule of 85 at retirement and retire before age 65 would have the rights they accrued before 1st April 2008 paid in full without reduction, rights accrued after 31st March 2008 would be reduced at the full rate if taken before age 65.

The unions nationally have requested that those who fall into paragraph 2 above should have full protection much like those in paragraph one. This would bring the English LGPS into line with the scheme in Scotland. An actuarial study of this request has been conducted at a national level; however the results have not been announced yet. We will however keep you informed of any developments in the area. As things stand, the above three paragraphs set out the rule of 85 protection regime as it applies in England and Wales.

Please remember that you always require your employer's consent to retire before age 60 and that the rule of 85 protections only apply to persons who were both LGPS members on the 30th September 2006 and 31st March 2008.

Annual benefits statements

We normally get these issued in March but with Local Government Review and the changes coming out of the new LGPS we are running behind schedule. We will however be getting these issued later in the year.

Contacting The Pensions Team

The Pensions Team are there to help you with any matter relating to your pension entitlement. You can contact them by phone, letter and online. Contact details are as follows: -

Mr Alan Whittle

Head of Pensions Administration, Finance Department, Northumberland County Council,
County Hall, Morpeth, Northumberland. NE61 2EF

Phone 01670 533377

Email: pensions@northumberland.gov.uk

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