



A New Look Local Government Pension Scheme from 1st April 2008

As part of a general review of public sector pension schemes, the Government has introduced changes to the Local Government Pension Scheme (LGPS) for employees in England and Wales from 1st April 2008. 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 31st March 2008 and you continue to have a contract of employment on 1st April you are automatically transferred to the New Scheme.

If you are not currently a member of the scheme, you may wish to join the scheme to secure your entitlement to the scheme's benefits. To be able to join the LGPS you need to have a contract of employment that's for at least 3 months and be under age 75. New employees who are eligible to join will automatically become a member of the scheme. If you are currently not a member or have previously opted-out and now wish to rejoin the scheme you need to complete a pension option form. The forms can be obtained on Ealing Council's intranet. There is now more flexibility within the scheme. If you have more than one post the regulations introduce the opportunity for the member to choose if they want to be pensionable in one post but not another.

You can leave the LGPS at any time by completing a pension opt-out form. If you have previously opted-out, you can opt back into the Scheme provided that at that time you have a contract of employment that's for at least three months and you are under age 75. It is recommended that you obtain independent financial advice before you make a decision to opt-out of the LGPS.

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

In the new scheme, instead of most people paying a standard contribution rate of 6%, there are different contribution rates for different pay bands. These new rates have been designed to give more equality between the cost and benefits of scheme membership.

What do I pay ?

Your contribution rate depends on how much you're paid. The new rates are between 5.5 and 7.5% of your whole time equivalent pensionable pay. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole time pay rate for your job, although you will only pay contributions on the pay you actually earn. For members working in schools where they are unable to work for 52 weeks per year, the rate will be based on the whole time equivalent pensionable pay relevant to the number of weeks worked per annum (e.g. 46 weeks rather than 52 weeks). For employees whose post could be 52 weeks per year, but who choose with agreement of the employer to work less than 52 weeks will not be treated as a term-time employee, but as a part time employee

Here are the pay bands from 1st April 2008:

Band	If your Whole Time Equivalent pay rate is :	Your contribution rate will be :
1	Up to £12,000	5.5%
2	More than £12,000 and up to £14,000	5.8%
3	More than £14,000 and up to £18,000	5.9%
4	More than £18,000 and up to £30,000	6.5%
5	More than £30,000 and up to £40,000	6.8%
6	More than £40,000 and up to £75,000	7.2%
7	More than £75,000	7.5%

The pay bands will be adjusted 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 £20,000.

They'll pay 6.5% of their pay - that's around £108 a month - in contributions.

If they were working half time, they'd still pay the 6.5% rate. That's because the whole-time rate for their job is still £20,000, but their contributions would be based on their part-time earnings, so they'd have £54 deducted.

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%, the rate you pay will be increased on a phased basis from 1st April 2008, bringing it into line with all other Scheme members by 1st April 2011.

If you are currently paying a protected rate of 5%	
From :	Your contribution rate will be :
1 st April 2008	5.25%
1 st April 2009	5.5%
1 st April 2010	6.5% or (if lower) the relevant rate from the pay band table
1 st April 2011	the relevant rate from the pay band table

Can I transfer pension benefits into the LGPS from a previous pension scheme ?

If you have pension rights retained within a previous pension scheme it may be possible to transfer these benefits into the LGPS. An option to transfer must normally be made within twelve months of joining unless extension of this time limit is agreed by your employer.

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. If you are part-time, your scheme membership will count at its part-time length when working out your pension and your final pay is increased to what you would have received had you been full-time.

How your benefits are worked out when you retire changes from 1st April 2008.

For each year of pensionable service you have built up in the scheme to 31st March 2008, 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 1st April 2008 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 2008 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 31st March 2008 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 31st March 2008 will be

Annual Pension:

$$8/80 \times £20,000 = £ 2,000$$

Plus an automatic tax free lump sum

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

Benefits based on their 24 years membership from 1st April 2008 will be

Annual Pension

$$24/60 \times £20,000 = £8,000$$

With no automatic lump sum

This gives total benefits of:

Annual Pension

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

Lump Sum = £6,000

But remember, it's possible to exchange some pension for extra tax-free cash. If you want to provide a bigger lump sum than shown in the previous example by giving up £2000 pension the effect on the benefits would be as follows

Pension Paid would be £10,000 - £2,000 = £8,000 per annum

Previous Lump Sum = £6,000 Plus lump sum £24,000 (derived from £2,000 x 12 cash commutation

Total lump sum payable : £6,000 + £24,000 = £30,000 (tax free)

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 1st April 2008 is still calculated at the **1/80th rate** with a lump sum of 3 times pension. Only pension built up from 1st April 2008 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 3 months or have transferred in other pension rights.

Early Retirement

You can still choose to retire and draw your benefits from age 60, 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 1st April 2008 for new members, but this change won't apply until 1st April 2010 if you are an existing member being moved over to the new scheme.

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 1st April 2008 for new members but won't apply until 1st April 2010 if you are an existing member being moved over to the new scheme.

Flexible Retirement

Under the current scheme, if you reduce your hours or grade and your employer agrees, you can 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, if your employer agrees, draw **some or all** of your benefits.

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 1st April 2008 for new members, and from 1st April 2010 if you are an existing member being moved over to the new scheme.

Ill health retirement

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

If you have to leave work at any age due to permanent ill-health the new scheme provides a tiered ill-health retirement package. This gives graded levels of benefit based on how likely you are to be capable of gainful employment after you leave.

If you have at least 2 years in the pension scheme and 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 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 at least 2 years in the pension scheme and you are unlikely to be capable of gainful employment within a reasonable period of leaving, but you may be capable of gainful employment at some date in the future 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.

There are protections for existing Scheme members who will be aged 45 or over on 31st March 2008, to ensure they receive no less than they would have done under the current Scheme.

The Government is currently consulting on the nature of the ill-health benefit payable if you leave because you are permanently unable to do your LGPS job and have less than 2 years membership in the Scheme or if you leave because you are permanently unable to do your LGPS job but could immediately or within a reasonable period undertake other gainful employment.

Will my pension increase?

The LGPS provides statutory pension increases. This means that if you retire on or after age 55, your pension will be increased each year in line with the Retail Price Index. If you retire before age 55, the accumulated effect of inflation since you retired will be added to your pension when you reach age 55. Ill health pensions are increased each year in line with the Retail Prices Index regardless of age.

Improved death benefits

Provided you pay into the LGPS on or after 1st April 2008, there are improvements to the Scheme's benefits if you die.

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

If you leave 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. No death grant is payable where the death occurs after age 75.

Remember, you can say who you would like any death grant paid to by completing a Death Grant Nomination form available from Liberata. 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. To qualify for a benefit all of the following conditions must have applied for a continuous period of at least 2 years on the date both the scheme member and their nominated cohabiting partner sign the nomination form :

- Both the scheme member and their nominated co-habiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, and
- The scheme member and their nominated co-habiting partner have been living together as if they were husband and wife, or civil partners, and
- Neither the scheme member or their nominated co-habiting partner have been living with someone else as if they were husband and wife or civil partners, and
- Either the nominated co-habiting partner is financially dependent on the scheme member or they are financially interdependent on each other.

On the scheme member's death, a survivor's pension would be paid to the nominated co-habiting partner if:

- The criteria relating to the nomination are still valid, and
- The nominated cohabiting partner satisfies the administering authority that the above conditions had also been met for a continuous period of at least 2 years immediately prior to the scheme member's death.

If you wish to make a nomination, a copy of the nomination form will be available after the 1st April 2008 via Ealing Council's intranet or from Liberata.

The survivor's pension for a Scheme member's husband or wife will be based, as now, 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 5th 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, for 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 1st April 2008. Further information on this can be obtained from Liberata. 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.

Reductions in pay

Your benefits in the new scheme will normally be calculated on your final year's pensionable pay, or on one of the two previous years' pay if better. If you downgrade in your last 10 years or your pay is restricted in that period you have the option to have your benefits based on the average of any 3 consecutive years in the last 10 years (ending on a 31st March).

Leavers without an immediate entitlement to benefits

Refunds of Contributions

If you leave with less than three months total membership, have not brought a transfer into the LGPS and have no other LGPS pension rights in England and Wales, you may take a refund of your contributions, less any deductions for tax and the cost of buying back into the State Second Pension Scheme.

Deferred Benefits

If you leave before age 65 and your total membership is three months or more or you have transferred other pension rights into the LGPS, you will be entitled to deferred benefits within the LGPS. Your deferred LGPS benefits will be calculated as described previously in the section "How are my benefits worked out" using the length of your total membership up to the date that you left the scheme.

Unless you decided to transfer your deferred benefits to another pension scheme, they will normally be paid at age 65 (unless you elect to defer drawing them till later), but they may be put into payment earlier, and in full, in the event of permanent ill health if you are unlikely to be capable of gainful employment within a reasonable time. Benefits can be paid from age 60 onwards but may be reduced to take account of their early payment.

Transferring your benefits

If you leave the scheme at least one year before age 65 and are entitled to deferred benefits you may transfer

the cash equivalent of your pension benefits into a new employer's scheme (if they are willing and able to accept it), into a personal pension or stakeholder pension scheme, or into a "buy-out" insurance policy. The method of valuing the cash equivalent of your pension rights complies with the requirements of the Pension Schemes Act 1993 and the value quoted is guaranteed for three months.

Alternatively, if you return to employment with an employer participating in the LGPS, then you may elect for the pension rights that you have built up to be added to your new period of membership in the scheme. Such an election must be made within twelve months of re-joining the scheme or such longer period as allowed by your employer.

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 government guidance.

More information

We hope you find this information helpful. Further clarification on certain aspects of the regulations is still awaited. Further information is available on the following web sites www.lgps.org.uk & www.communities.gov.uk/lgps

This leaflet is a brief guide on the changes to the LGPS in England and Wales from 1st April 2008. 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.

Examples of Contribution banding and Pension Benefit Calculations

Example 1 – Worked full time for the duration of their employment

Mary is retiring on 31st March 2010 she has always worked full time and her scale pay as at 1st April 2009 is £30,000.

Her pension contribution rate would be Band 4 = 6.5%

She is 65 years and has 28 years membership in the pension scheme.

1.4.1982 – 31.3.2008 = 26 years

1.4.2008 – 31.3.2010 = 2 years
28 years

Pensionable pay for the period 1st April 2009 to 31st March 2010 = £30,000

Her standard retirement benefits would be as follows but she also has the option of giving up some of her pension to increase her tax free lump sum

Pension

$$\frac{26 \times \text{£}30,000}{80} = \text{£} 9,750.00$$

$$\frac{2 \times \text{£}30,000}{60} = \text{£} 1,000.00$$

Total Pension = £10,750.00

Lump Sum Retirement Grant

$$\frac{3 \times 26 \times \text{£}30,000}{80} = \text{£}29,250.00$$

Total Lump Sum Retirement Grant = £29,250.00

Example 2 – Worked part time for the duration of their employment

Mary is retiring on 31st March 2010 she has always worked part time 17.50 hours per week. The whole time equivalent hours for the job are 35 per week.

Her actual part time pensionable pay at 1st April 2009 is £15,000.
The whole time equivalent pay for the post is £30,000

Her pension contribution rate would be Band 4 = 6.5%

She is 65 years and has been a member of the pension scheme for 28 years.

1.4.1982 – 31.3.2008 (17.50 / 35.00) = Pensionable membership = 13 years
1.4.2008 – 31.3.2010 (17.50 / 35.00) = Pensionable membership = 1 year
14 years

Whole time equivalent pensionable pay for the period 1st April 2009 to 31st March 2010
= £30,000

Her standard retirement benefits would be as follows but she also has the option of giving up some of her pension to increase her tax free lump sum

Pension

$$\frac{13 \times \text{£}30,000}{80} = \text{£} 4875.00$$

$$\frac{1 \times \text{£}30,000}{60} = \text{£} 500.00$$

Total Pension = £5375.00

Lump Sum Retirement Grant

$$\frac{3 \times 13 \times \text{£}30,000}{80} = \text{£}14,625.00$$

Total Lump Sum Retirement Grant = £14,625.00

Example 3 – Worked term time for the duration of their employment

Mary is retiring on 31st March 2010 she has always worked term time 17.50 hours per week for 46 weeks per year. The whole time equivalent hours for the job are 35 per week.

Her actual term time pensionable pay at 1st April 2009 = £13,269.23.

Whole time equivalent term time pay at 1st April 2009 = £26,538.46

The whole time equivalent pay for the post is £30,000

Her pension contribution rate would be Band 4 = 6.5%

She is 65 years and has been a member of the pension scheme for 28 years.

1.4.1982–31.3.2008 $\frac{(17.50 \times 46)}{(35.00 \times 52)} = \frac{805}{1820}$ Pensionable service 11 years 183 days

1.4.2008–31.3.2010 $\frac{(17.50 \times 46)}{(35.00 \times 52)} = \frac{805}{1820}$ Pensionable service 0 years 323 days
12years 141 days

Whole time equivalent pensionable pay for the period 1st April 2009 to 31st March 2010
= £30,000

Her standard retirement benefits would be as follows but she also has the option of giving up some of her pension to increase her tax free lump sum

Pension

$$\frac{11.501369 \times \text{£}30,000}{80} = \text{£} 4313.01$$

$$\frac{0.8849315 \times \text{£}30,000}{60} = \text{£} 442.47$$

Total Pension = £4755.48

Lump Sum Retirement Grant

$$\frac{3 \times 11.501369 \times \text{£}30,000}{80} = \text{£}12,939.04$$

Total Lump Sum Retirement Grant = £12,939.04