

The Local Government Pension Scheme in England and Wales

1 April 2008

Introduction - Why the Scheme is changing

PRESENTER:

Hello, & welcome to the New Look Local Government Pension Scheme.

I'm Sian Lloyd and I'm going to be taking you through the New Look Scheme for England and Wales...we'll cover why the scheme is changing... and what makes the LGPS one of the best pension schemes available.

PRESENTER:

As part of a general review of all public sector pension schemes, the Government has introduced changes to the way the LGPS works from 1st April 2008.

Here's Mike to tell us why...

V/O:

As people are living longer, and so receiving their pensions for longer, the cost of providing pensions has risen.

Also, the very nature of the workforce has changed, with many more scheme members working part-time and few people working for one employer their entire career.

So, as more of us are achieving the better work-life balance we want, and enjoying our retirement for longer - which is great news - the LGPS has been updated to reflect the work patterns and needs of a modern workforce... ensuring that the New Look Local Government Pension Scheme is affordable, whilst still providing excellent pension benefits.

PRESENTER:

"So, a New Look, affordable LGPS, providing an excellent level of benefits for current and future scheme members.

Let's take a look at a summary of key changes."

V/O:

From April 2008 there are new contribution rates for scheme members, with different rates for different pay bands. These have been designed to give more equality between the cost and benefits of scheme membership.

Simply, if you fall into a lower pay band, you pay a lower contribution rate than someone in a higher one. This means that all contribution rates change from 1st April 2008.

Your benefits continue to be based on final pay in the new scheme, and what's more, they build up at a better rate.

Also, if you are unable to work because of serious illness, the introduction of a tiered ill-health retirement package gives better targeted benefits.

And, as well as an increase in the death-in-service lump sum, co-habiting partners can now be nominated to receive a survivor's pension

PRESENTER

The LGPS is an extremely good scheme and is a valuable part of your employment package. Be sure to go through the Scheme Overview to learn just how you can benefit.

And if you joined the scheme before 1st April 2008 ... you should also take a look at the Question & Answer section to find out how the changes affect you. ”

Overview of the Local Government Pension Scheme in England and Wales
from 1 April 2008

PRESENTER:

Hello and welcome to an overview of the Local Government Pension Scheme for England and Wales.

I'm Sian Lloyd and today I'm going to take you through what makes the Local Government Pension Scheme one of the best pension schemes available.

PRESENTER:

We'll be covering the main benefits of the scheme that apply from 1st April 2008, what you pay in, and what you can expect in return.

And, if you joined the scheme before 1st April 2008 you need to go through the Question and Answer section to find out how the benefits you have before then are worked out.

PRESENTER:

Now's the time to be planning for your future, so you need to think about your pension.

Taking out a pension's a big decision. It's vital that your pension works for you, adapting and growing for your own situation. It must be flexible enough to meet your future needs while being secure.

It's never too early to plan for your retirement, and if you put off making a decision, it may be difficult to catch up later.

Let's go over to Mike and learn about this very popular and rewarding scheme....

V/O:

As your employer offers you membership of the LGPS, you can look forward to your retirement with confidence. So what makes the LGPS such a good scheme?

Well, firstly, it's secure. And it's a defined benefit scheme, ... which means that the benefits you get when you retire are based on your membership in the scheme and your final year's pay on leaving.

It also keeps pace with your pay. Contributions you pay during your career provide you with retirement benefits based on your pay in the year you leave. This means the pension you build up during your employment keeps pace with your pay rises.

And after retirement, your pension is guaranteed to increase with inflation, keeping pace with the cost of living.

And finally, the scheme is provided by your employerwho pays a large part of the cost ... so it's an extremely valuable part of your employment package.

PRESENTER:

The LGPS is one of the best ways you can plan for your retirement, with an excellent range of benefits. And it's a modern scheme that reflects the needs of a modern workforce, whether you work full or part-time.

Here are some of the key benefits

V/O:

Although the scheme's normal pension age is 65, you can choose to retire and draw your benefits from 60.

You can even take flexible retirement. From age 55, if you reduce your hours, or move to a less senior position, and provided your employer agrees, you can draw some or all of your benefits – helping you ease into your retirement.

However, if you choose to retire before 65, or take flexible retirement before then, your benefits would normally be reduced to account for them being paid for longer.

If you become unable to work because of serious illness, you could receive immediate ill-health benefits...

And, if you're made redundant or your employer retires you for business efficiency reasons, and you're 55 or over, your benefits are paid straight away.

Life cover starts from the moment you join, with a lump sum of 3 years' pay if you die in service.

And there's cover for your family too, with a pension for your husband, wife, civil partner or nominated co-habiting partner, and for eligible children should you die.

PRESENTER:

As you can see, becoming a member of the scheme gives you a variety of benefits to help you and your loved ones.

So who can join the scheme, and how much does it cost?

V/O:

To be able to join the scheme you need to have a contract of employment that's for at least 3 months and be under age 75.

How much it costs you depends on how much you're paid, but it will be between 5.5 and 7.5% of your 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.

Here are the 2008 pay bands....

- If your whole time pay rate is up to £12,000, then your contribution rate will be 5.5%.
- If it's more than 12 and up to £14,000, your rate will be 5.8%
- more than 14 and up to 18,000 you will pay 5.9%
- and over 18 and up to £30,000, 6.5%
- for a whole time pay rate of more than 30 and up to £40,000 contributions will be 6.8%
- and if it's more than £40,000 and up to £75,000 you will contribute 7.2%
- For more than £75,000 your contribution rate will be 7.5%

The pay band ranges will be adjusted each year in line with the cost of living.

Let's take a look at Vicki ...

Vicki works full time at a pay rate of £20,000.

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

As Vicki pays tax and National Insurance, she'll get tax relief on her contributions and pay a lower rate of National Insurance, **so the actual cost to her is less.**

If Vicki was to reduce her hours to half time, she'd still pay the 6.5% rate - that's because the whole-time rate for her job is still £20,000, but her contributions would be based on her part-time earnings, so instead she'd have £54 deducted.

PRESENTER:

One of the main attractions of the LGPS is that your employer pays a large part of the cost of providing the benefits. So you get great value benefits at a low cost to you.

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, in accordance with government guidance.

The scheme allows you to pay extra contributions to increase your benefits. This could be particularly useful if you have joined the scheme later in life.

And you can also ask to transfer previous pension benefits into the LGPS to increase your total membership of the scheme.

Usually, an option to transfer must be made within twelve months of joining.

So what can you look forward to when you retire?

V/O:

When you join the Local Government Pension Scheme, you're investing in a pension for life that's excellent value.

It's a final salary scheme. This means your benefits are normally based on your final year's pay, as well as the number of years you have been a member of the scheme.

How does this work?

Well, for each year in the scheme, you receive a pension of $1/60^{\text{th}}$ of your final year's pensionable pay...

So, if you have 30 years in the scheme, you would get $30/60^{\text{ths}}$ that's half your final year's pay.

Plus, you can exchange some of your pension for a one-off, tax free cash payment. You can take up to 25% of the overall value of your pension benefits as a cash lump sum.

You receive £12 lump sum for each £1 of pension given up.

Let's assume John is retiring at 65... he's always worked full time...been in the scheme for 20 years... and his final year's pensionable pay is £15,000.

20 60ths of £15,000 gives him an annual pension of £5,000.

If he decides to give up £1,000 of his annual pension for some tax-free cash

his pension would be reduced to £4,000

and he would receive a tax free lump sum of £12,000.

If you work part-time, the **full time pay** is still used in the calculation of your pension but your **membership** is reduced to reflect the hours you work.

Let's look at John again and instead of working full time, let's assume he's always worked half time.

This time, his pension is **10** 60ths of £15,000 that's because his 20 years membership is adjusted for half-time working....giving him a pension of £2,500.

If he decides to take a tax free lump sum by giving up £500 of his annual pension, then his pension would be reduced to £2,000 ... and his lump sum would be £6,000,12 times the amount of pension given up.

Regardless of the hours you work, your pension will always be based on your full time pay at retirement, so even if you decide to change your working hours, your benefits built up before the change won't be affected.

It's important to note that to receive a pension you must have been in the scheme for at least 3 months, or have transferred in other pension rights.

PRESENTER:

So when can you expect to receive your pension?

Well, the LGPS is flexible enough to accommodate many situations.

Normally your pension will be paid at age 65, but if you carry on working beyond age 65 you can stay in the scheme. However, you must draw your pension by age 75.

If you remain in the scheme after age 65 your benefits will be increased.

You can even retire early....

V/O:

You can choose to retire from age 60 or, if your employer agrees, from as early as 55, although your benefits would normally be reduced to account for them being paid for longer. How much they are reduced by depends on how early you retire. The closer you are to 65 the less the reduction.

You can even take flexible retirement. From age 55, if you reduce your hours or move to a less senior position and your employer agrees, you can draw some or all of your benefits – helping you ease into your retirement.

You can still draw your pay on the reduced hours or grade, and even continue paying into the scheme, building up further benefits.

If you take flexible retirement before 65 your benefits will normally be reduced as they are being paid early.

PRESENTER:

It's comforting to know that your pension scheme covers you for other eventualities...

V/O:

If you're made redundant or your employer retires you in the interests of business efficiency, and you're 55 or over, your benefits are paid straight away and are not reduced for early payment.

Also, if you have to leave work at any age due to permanent ill health, the scheme provides a tiered ill-health retirement package. This could give you increased benefits, paid straight away, if you are unlikely to be capable of gainful employment within a reasonable time after you leave.

PRESENTER:

Making sure your loved ones are taken care of financially in the event of your death is obviously a very important issue when it comes to choosing the right pension for you. So let's run through how the LGPS provides a financial safety net in the event of your death.

V/O:

If you die in service, the scheme pays a lump sum of three years' pay.
If you're part-time, it is three times your actual part-time pay.

Let's look at someone who dies in service with a final year's pensionable pay of £20,000.
3 times £20,000 would give a death grant of £60,000.

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 Pension Fund will make the final decision on who the death grant is paid to.

On your death, there's also a pension for your husband, wife, civil partner or nominated co-habiting partner. This pension increases every year in line with the cost of living and is payable for the rest of their life.

A civil partner is a same sex partner where you have registered as civil partners.

And a nominated co-habiting partner is a same or opposite-sex partner you have nominated where your relationship meets certain conditions laid down by the scheme.

And there are childrens' pensions for your **eligible** children – these also increase every year in line with the cost of living.

PRESENTER:

If you leave before retirement, as long as you have 3 months membership, or you have transferred in other pension rights, you'll have built up valuable LGPS benefits for your retirement.

So what happens to them?

V/O:

On leaving before retirement you can choose to keep your benefits in the scheme until they're due to be paid. These are known as deferred benefits. They increase every year in line with the cost of living and are normally paid at 65.

Alternatively, before then, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave with deferred benefits, remember to keep in touch – if you move address let your Pension Fund know.

PRESENTER:

So, now you know about the great benefits available to you as a Local Government Pension Scheme member.

If you want to join you need to have a contract of employment for at least 3 months and be under age 75.

If you are eligible, you will automatically be brought into the scheme, although if you work for certain employers you may need to apply.

So if you want to invest in your future, don't pass up this opportunity to be a member of this valuable and rewarding pension scheme.

Check your payslip to make sure contributions are being collected. Remember, it's never too early to plan for your retirement, and if you put off making a decision, it may be difficult to catch up later.

V/O:

For more detailed information on how you can benefit from the Local Government Pension Scheme, contact your Pension Fund or visit the national website at **www.lgps.org.uk**

Questions & Answers for existing members

PRESENTER:

Hello, I'm Sian Lloyd.

You should have already been through the Overview Section on the Local Government Pension Scheme, finding out about its costs and benefits from 1st April 2008.

PRESENTER:

If you're already paying into the LGPS on 31st March 2008 you are automatically transferred to the new scheme on 1st April. As a member of the scheme you already know that the LGPS is a valuable part of your employment package. The changes that apply from April 2008 have been designed to keep the scheme's benefits attractive and affordable.

So, let's look at how the key changes affect you if you are an existing member moving over to the new scheme.

What will the new scheme cost me?

V/O:

In the new scheme, instead of most people paying a standard contribution rate of 6%, there are different contribution rates for different pay bands.

The new rates are between 5.5 and 7.5% of your pensionable pay.

The rate you pay depends on which pay band you fall into.

If you work part-time, the rate you pay will be based on the whole time pay rate for your job, although you will only pay contributions on the pay you actually earn.

Here are the 2008 pay bands....

- If your whole time pay rate is up to £12,000, then your contribution rate will be 5.5%.
- If it's more than 12 and up to £14,000, your rate will be 5.8%
- more than 14 and up to 18,000 you will pay 5.9%
- and over 18 and up to £30,000, 6.5%
- for a whole time pay rate of more than 30 and up to £40,000 contributions will be 6.8%
- and if it's more than £40,000 and up to £75,000 you will contribute 7.2%
- For more than £75,000 your contribution rate will be 7.5%

Remember, pay band ranges will increase each year in line with the cost of living...

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.

How will my benefits be calculated?

V/O:

The new LGPS is still a final salary scheme. 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 1st April 2008.

For each year 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 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, but you do have the **option** to get a tax free lump sum in exchange for some of your pension.

Let's assume Liz will retire at 65..... she has 8 years membership to 31st March 2008, and 24 years membership after then Her final year's pensionable pay on retirement is £20,000.

Benefits based on her 8 years membership up to 31st March 2008 would be

8 80^{ths} of her final year's pay of £20,000, to give her an annual pension of £2,000.

She would also receive an **automatic** tax-free lump sum of three times her pension, giving her a lump sum of £6,000.

Now, let's calculate Liz's benefits on her 24 years membership from 1st April 2008.

24 60^{ths} of £20,000 gives her an annual pension of £8,000

There's no automatic lump sum for her membership from 1st April 2008.

This gives her a **total annual pension** of £10,000. That is, £2,000 for the pre-April 2008 membership, plus £8,000 for the post-April 2008 membership. AND she'd receive a tax-free lump sum of £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.

So, to summarise, any pension built up before 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.

What benefits will I receive if I have to leave work because I'm ill?

V/O:

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.

Does the new scheme change when I can retire?

V/O:

The only change to when you can retire is to the earliest age benefits can be paid if you're made redundant, are retired on efficiency grounds, take flexible retirement or early retirement with your employer's consent. In these circumstances, the earliest age benefits can be paid increases from 50 to 55. 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.

Can I increase my benefits by paying more into the scheme?

V/O:

Under the new scheme you can pay more in contributions to buy up to £5,000 of extra annual pension.

And, you can still pay additional voluntary contributions – called AVCs – to increase your benefits.

These are both a tax-efficient way of topping up your income when you retire.

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.

Will my family benefit from the LGPS if I die?

V/O:

From 1st April 2008, there are improvements to the scheme's benefits if you die.

To ensure your loved ones are looked after, the death in-service tax-free lump sum increases from 2 to 3 times pay... if you're part-time, the benefit is three times your actual part-time pay.

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 who the death grant is paid to.

There is also a pension for your husband, wife, or civil partner and 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.

The scheme also provides children's pensions for your eligible children.

PRESENTER:

I hope we've answered some of your questions on the key changes to the LGPS.

If you have not already been through the Scheme Overview Section, why not take the opportunity to do so now?

If you would like to know more you can contact your Pension Fund or visit the LGPS website at www.lgps.org.uk