

The Local Government Pension Scheme is changing – An update on the new benefit package

On average people are living longer, receiving their pensions for longer and this means the cost of the LGPS has risen. So, to ensure the scheme can remain affordable, the Government has made changes that come into effect from 1 April 2008. There are still a few areas that need to be finalised by the Government and therefore the information we share with you below could change, however the following table briefly compares the benefits and features of the current scheme with those of the new scheme.

Benefit/Feature	Current scheme until 31 March 2008	New scheme from 1 April 2008																
Scheme Type	Scheme Type Final salary (see "Pensionable Pay used in calculation of retirement benefits" below).	Scheme Type Final salary (see "Pensionable Pay used in calculation of retirement benefits" below).																
Eligibility	Automatic membership with the ability to opt out for all employees except casuals who must opt in.	Automatic membership with the ability to opt out for all employees with contracts of 3 months or more, including casuals.																
Pension Accrual Rate	1/80 th of final pay for each year of pensionable service.	Increased to 1/60th of final pay for each year of pensionable service AFTER 31 March 2008.																
Lump Sum	Automatic 3/80 th lump sum for each year of service plus the option to exchange up to 25% of the pension pot at a rate of £12 extra lump sum for every £1 of pension given up.	No automatic lump sum but members can choose to exchange up to 25% of the overall value of their benefits for a lump sum. This is at a rate of £12 cash lump sum for every £1 of pension given up.																
Normal Pension Age (transitional protections apply to some 85 year rule qualifiers)	Age 65 or Rule of 85 (age + service = 85) if 60 before April 2016. Members can retire at any time from age 60 and draw their pension (reduced due to early payment).	Age 65 for payment of unreduced benefits. Members retain the right to retire at any time from age 60 and draw their pension (reduced due to early payment).																
Pensionable pay used in calculation of retirement benefits	Average of final year's pay OR the best of the last 3 years pay, whichever is higher.	Average of final year's pay OR average of the best 3 consecutive years pay during member's last 10 years of service, whichever is higher.																
Death in service lump sum	2 times actual salary.	Increased to 3 times actual salary.																
Employees contributions	6% of pensionable pay (5% for protected manual workers)	<table border="0"> <thead> <tr> <th>Pensionable Pay (p.a.)*</th> <th>Contribution rate</th> </tr> </thead> <tbody> <tr> <td>£0 - £12,000</td> <td>5.5%</td> </tr> <tr> <td>More than £12,000 up to £14,000</td> <td>5.8%</td> </tr> <tr> <td>More than £14,000 up to £18,000</td> <td>5.9%</td> </tr> <tr> <td>More than £18,000 up to £30,000</td> <td>6.5%</td> </tr> <tr> <td>More than £30,000 up to £40,000</td> <td>6.8%</td> </tr> <tr> <td>More than £40,000 up to £75,000</td> <td>7.2%</td> </tr> <tr> <td>More than £75,000</td> <td>7.5%</td> </tr> </tbody> </table> <p>*Band ranges will increase each April from April 2009. 5% protection phased out over 3 years from 2008.</p>	Pensionable Pay (p.a.)*	Contribution rate	£0 - £12,000	5.5%	More than £12,000 up to £14,000	5.8%	More than £14,000 up to £18,000	5.9%	More than £18,000 up to £30,000	6.5%	More than £30,000 up to £40,000	6.8%	More than £40,000 up to £75,000	7.2%	More than £75,000	7.5%
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Survivor benefits	Widows, widowers and civil partners pensions are payable*. Short term pension of 100% for 3 months (6 months if children's pension also) followed by long term 50% of pension payable for life (*based only on post 5 April 1988 membership).	Widows, widowers, civil partners* and "nominated" dependent partner's pensions payable. No short term pension. Benefits calculated based on 1/160 th accrual rate. (*based only on post 5 April 1988 membership).																
Children's pensions	Pension is payable to eligible children. Rate depends on number of children and whether or not a survivor's pension is also payable.	Pension is payable to eligible children. Rate depends on number of children and whether or not a survivor's pension is also payable.																
Increasing your retirement benefits	Option to buy added years LGPS membership and/or pay Additional Voluntary Contributions.	Option to buy £5000 additional annual pension and/or pay Additional Voluntary Contributions.																
Redundancy/Efficiency	Unreduced benefits from age 55 (50 for current members to 2010).	No change																
Ill-Health Retirement	Benefits paid immediately for those members certified as permanently incapable of continuing their own or comparable local government employment until age 65. Accrued membership plus enhancement. Payable any age	3 tier ill health retirement package depending on the severity of the member's illness. Tier 1 – Permanently incapable of any "gainful employment" before age 65 they will get a full pension, based on their membership if they had worked up to age 65. Tier 2 – If a member is unable to obtain gainful employment for a reasonable time, but likely to do so before age 65, they will get any pension built up to date of leaving, plus 25% of membership up to age 65. Tier 3 – If a member is permanently incapable of undertaking the duties of their own employment but capable of obtaining "gainful employment" within a reasonable period, they will receive any pension built up to the date of leaving. Payable any age																



Local Government Pension Scheme (LGPS) 2008 – Frequently Asked Questions about the new scheme

Will I be better off in the new LGPS?

All members of the new look LGPS will receive an improved benefit package when they retire. 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 everyone will benefit from a higher accrual rate, flexible lump sum options, improved ill-health retirement provisions and better flexible retirement options, among other new benefits.

How much will I pay?

At the moment you pay 6% of the pay you receive on your contractual hours into the LGPS, unless you have a protected right to pay 5%. From 1 April 2008, all existing and new members of the LGPS will pay new contribution rates based on a system of bands. 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. See "Employees Contributions" in table above to see how much you can expect to pay per year for your pension.

What if I have protected rights to pay 5%?

If you have a protected right to pay 5% it is proposed that this protection will be phased out over three years from 2008, bringing your contribution rate in line with all other scheme members' from 1 April 2011.

What if I work part time?

If you work part time, use your full-time equivalent pay to work out which band you will be in, rather than your actual pay.

When can I retire?

The normal retirement age will remain age 65 but members still have the option to retire from age 60, although their benefits may be reduced due to being put into payment early.

What if I retire due to ill-health?

If you leave on ill-health grounds and have at least three months scheme membership, you will be entitled to receive an ill-health pension, payable from any age. If you have at least 2 years scheme membership you will also qualify for an enhancement.

How will you calculate my pension?

Your pension will be based on your final salary and your years of membership in the scheme.

What is my 'final salary'?

As in the current scheme, 'final salary' is either an average of the pay you earned in the last 12 months before retirement, or the best year in the last three. For part time staff, the whole time equivalent pay will be used. In the new scheme, members who downgrade (other than as a result of flexible retirement) can choose to have their benefits calculated on the average of the best three consecutive years in their last ten years of service.

What calculation will be used?

Benefits on any membership up to 31 March 2008 will be calculated as they are now:

$$\text{Pension} = \frac{\text{Years Membership} \times \text{Final Salary}}{80}$$
$$\text{Lump Sum} = 3 \times \text{Pension}$$

Benefits on membership after 1 April 2008 will be calculated like this:

$$\text{Pension} = \frac{\text{Years Membership} \times \text{Final Salary}}{60}$$

You will be building up a pension at a higher rate of 1/60th of your final pay, however, membership in the new look scheme will not provide you with an automatic tax free lump sum.

Do I have the option to take a lump sum?

On membership after the 1 April 2008, you will have the flexible option to take a lump sum by giving up some of your pension. For each £1 of pension given up, a lump sum of £12 will be paid, up to the point where your total lump sum is equal to 25% of the capital value of all your pension benefits. These options will be presented to you by the Pensions Section at retirement.

How can I increase my benefits?

From 1 April 2008, if you want to increase your benefits you can choose to buy up to £5,000 per annum of extra pension in steps of £250. This is not the same as buying added years and you will not be able to elect to start buying added years after 31 March 2008. You will still be able to pay Additional Voluntary Contributions (AVCs).

Will my existing added years contract still be valid?

All added years contracts already entered into, or contracted to start on your next birthday after 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. Your decision to purchase added years must reach the Pensions Section by 31 March 2008 to be valid.

What if I die in service?

The new look LGPS provides a death in service lump sum of three times your annual pay. This has increased from the current payment of twice your annual pay.

What if I die in retirement?

In the new scheme your pension is guaranteed to be paid for ten years, increasing from five years in the current scheme. So, we will pay ten years of pension (on death up to age 75), less the payments you have already received, as a lump sum death grant.

What provisions are there for my loved ones when I die?

As now, pensions will be payable to spouses and civil partners. The new scheme also provides benefits for nominated unmarried partners. These benefits will build up at a rate of 1/160th of your final salary. Civil partners and nominated unmarried partners pensions will be based on post 5 April 1988 service only. Short term pensions will no longer be payable. Children's pensions are also payable, with the rate varying depending on the number of children and whether or not a pension is payable to a spouse, civil partner or nominated unmarried partner.

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

Nothing; everyone will be automatically transferred into the new scheme. Your employer will notify you of your new contribution band in due course.

Please note: At the moment we are unable to provide quotes for retirements after 31 March 2008, as our pensions administration software has not yet been updated with the new scheme regulations. Please contact us after February 2008 for retirements after 31 March 2008.