

The Pension that comes with your job

Pensions Update

**Spring
2006**

Changes to the Local Government Pension Scheme (LGPS) from 6 April 2006

- you can join the scheme and remain in the Scheme up to two days before your 75th birthday.
- if you defer drawing your pension beyond age 65, your pension benefits will be actuarially increased.
- the ability to give up part of your pension to provide a dependant's benefit over and above the standard spouse's, civil partner's or child's pension has been removed.
- children's pensions coming into payment after 5th April 2006 for non-incapacitated children who are continuing in full time education or training will have to cease by age 23.
- the extra years of membership you are able to purchase in the Scheme by paying additional pension contributions is limited to 6 2/3rd years.
- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension is removed.
- the maximum service limit of 40 years (or, for those who joined the Scheme before 1 June 1989, the maximum of 40 years at age 60 and 45 years at age 65) has been removed.
- employers can no longer reduce or waive the contributions of scheme members who have been in pensionable local government for at least 40 years and so, from 6 April 2006, if you have had your contributions waived you will have to start paying full contributions again. Your service in excess of 40 years will now count towards your pension benefits and your employer can, at their discretion, recoup the contributions you would otherwise have paid.
- the normal retirement age for councillors who are members of the Scheme has been reduced from 70 to 65.

Tax Simplification Changes

These changes take effect from 6 April 2006. They result from a simplification of the tax rules that govern pension schemes and introduce greater flexibility and choice for scheme members:

- **Flexible retirement for employees from age 50** - rather than continuing in your job to 65 you can, with your employer's consent, reduce your hours or move to a lower grade and draw your pension benefits whilst continuing in employment and building up further benefits in the Scheme – enabling you to ease into retirement. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction; this is an employer discretion.
- **Exchanging part of your pension for extra lump sum** – if you draw your benefits after 6 April 2006 you can take up to 25% of the capital value of your pension benefits as a lump sum¹. The current lump sum automatically paid on retirement roughly equates to 15% of the capital value. Any amount you take above the current lump sum would be achieved by exchanging part of your annual pension for a one off tax-free cash payment at a rate of £12 lump sum for each £1 of pension given up.
- **Taking AVCs as cash** - if you pay additional voluntary contributions (AVCs) via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax free lump sum provided you draw it at the same time as your LGPS pension benefits and, when added to the LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund)¹.
- **Removal of limit on employee contributions** - the 15% limit on a scheme member's contributions has been removed so you can now pay up to 100% of your pay (after normal deductions) into the Scheme or into the Scheme's additional voluntary contribution arrangement to increase your benefits from the Scheme².
- **There are also changes to the scheme that affect high earners** – information about these is in the leaflet “Your LGPS benefits and tax changes” which is available at <http://www.lge.gov.uk/pensions/content/guides.html>

¹or, if lower, 25% of the Lifetime Allowance (LTA in 2006/07 is £1.5 million) less an adjustment for the value of any other pension benefits you may be drawing

² Councillors who are members of the Scheme cannot purchase extra scheme membership but can pay extra into the Scheme's AVC arrangement.

Phasing out the 85 year rule from October 2006

The normal retirement age for scheme members is already age 65 but employees can voluntarily retire from age 60 onwards (or from age 50 and before age 60 with their employer's consent).

This is not changing but changes to what is known as the 85 year rule are being made.

What is the 85-year rule?

The 85-year rule decides if your benefits should be reduced or not **if you chose to retire early**. If you do not satisfy the 85-year rule, then your benefits are reduced if voluntarily drawn before age 65.

How do I know if I will satisfy the 85-year rule?

If you decide to retire before age 65 and your age plus membership (each in whole years) at the time you start drawing your pension add up to at least 85 years there would be no early retirement reduction applied to your benefits. *If you work part time, your membership counts towards the 85-year rule at its full calendar length.*

Why has the 85-year rule been changed?

The Government's legal advice is that the '85 year rule' will be in breach of Age Discrimination legislation which comes into force 1 October 2006. For this reason **the 85-year rule has been removed, but only in respect of benefits you build up in the future. The pension rights you have banked up to 30 September 2006 (or up to 31 March 2013 if you will be aged 60 or over by then)** will not be affected and will continue to be calculated in the same way as if the changes had not been made.

What does this mean to me?

If you retire before age 65 the benefits you build up in the Scheme after 30th September 2006, or after 31st March 2013 if you will be aged 60 or over by then, may be paid at a reduced rate to reflect the fact that you will be drawing them early.

The change to the 85 year rule will not affect you if you draw your pension at age 65, if you are retired on the grounds of permanent ill health at any age, or if you are retired on or after age 50 on the grounds of redundancy or efficiency of the service. Pension benefits in these circumstances continue to be paid at an unreduced rate. The benefits of pensioners and deferred pensioners who left before 1st October 2006 will also not be affected.

As you can see, you may not be affected by the change but if you are you have full protection for the benefits you have built up in the Scheme to 30th September 2006 (or 31st March 2013 if you will be 60 or over by then).

Only employees joining the Scheme after 30th September 2006 will be wholly affected by the change.

A flowchart is available on our Intranet site to help you to understand how the changes affect you. <http://wightnet2000.iow.gov.uk/directorates/finance/pensions/default.asp>

It's changing – but is it still a good Scheme?

Don't forget that the LGPS is still an extremely good Scheme compared to most schemes in the private sector and is a valuable part of your pay and reward package.

The LGPS is a good quality pension arrangement and has many features:

- **Employer subsidised** - Your employer, on average, pays over twice as much into the LGPS as you do.
- **A secure pension** - The Scheme provides you with a secure future income, independent of share prices and stock market fluctuations. Your pension will also receive regular cost of living increases when in payment.
- **A lump sum on retirement.**
- **Early retirement** - You can choose to retire from age 60 (or earlier with the employer's consent) and receive your benefits immediately, although they may be reduced for early payment. Unreduced benefits are payable immediately if you are made redundant or retired in the interests of efficiency when aged 50 or over.
- **Flexible retirement for employees** – You can choose to draw benefits early if your employer agrees to you reducing your hours or grade. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction.
- **Ill-health retirement** – at any age. If you ever become permanently unable to do your job, you could receive immediate ill-health benefits.
- **Death benefits** – Lump sum life cover of two years pay from the moment you join and widow's / widower's / civil partner's / children's pensions in the event of your death.

On the Horizon - alongside all of the above, discussions are continuing between the Government, unions and employers on the phasing out of the 85 year rule and a new-look local government pension scheme for 2008.

This leaflet has been prepared by the Pensions Office for employees who are members of the Local Government Pension Scheme.

This leaflet is for the attention of:

If you have any queries about the Scheme, please contact the Pensions Office - telephone number 823626/7 and 823781/7. The Office is located in Room 208 on Floor Two of County Hall directly above the Customer Service Centre.

Pensions websites –
<http://wightnet2000.iow.gov.uk/directorates/finance/pensions/default.asp>
<http://www.iwight.com/council/pensions>

