

The Pension that comes with your job

Pensions

Update

**Spring
2005**

Changes to the Local Government Pension Scheme (LGPS)

Many of you will be aware of the Government's review of the LGPS (the stocktake) that is currently taking place, together with the wider review of public sector pension schemes.

Some 80 years ago when the LGPS was set up the average life expectancy for a male on retirement was 11 years, whereas for a man retiring at age 65 it is now 16 years and for a woman it is 19 years. As people are living longer, our pensions are being paid out for longer, which costs more money. Also, the number of pensioners relative to the number of people in work is increasing. Currently, there are around 4 workers for every pensioner but this is expected to fall to 2 workers for every pensioner by 2050. We therefore need to retain experienced people in the workforce for longer. And so, like most pension schemes, the LGPS needs to change to meet these challenges.

New rules from 1 April 2005

- *The earliest retirement age is increasing from 50 to 55, except for those retiring on ill-health and those of you who are protected from the change.*
- Although the LGPS already has a retirement age of 65, current rules allow some employees to retire before then with unreduced benefits. By removing the 85-year rule, **if you choose to retire before age 65 your benefits will be reduced to take account of early payment**, unless your employer waives the reduction on compassionate grounds or you are protected from the change.

Remember, the LGPS is a good quality pension scheme that provides you with a whole range of benefits. You can continue to retire early (before age 65) and receive your benefits

- on ill-health retirement, at any age
- if your employer makes you redundant or retires you in the interests of efficiency, from age 55 (or from age 50 if you are protected)
- if your employer consents to your request for early retirement from age 55 (or from age 50 if you are protected) although your benefits may be reduced
- from age 60, although your benefits may be reduced.

If you were contributing to the Scheme on 31 March 2005 are you protected from the changes?

- **If you are age 50 or over by 31 March 2005, your earliest possible retirement date continues to be age 50**, but if you are retired because of permanent ill health your benefits can be paid from any age.
- **If you will be age 60 by 31 March 2013, choose to retire before age 65 and satisfy the 85-year rule when you start to draw your pension**, you will have some protection from the removal of the 85 year rule. Your benefits built up before April 2013 will not be reduced.
- **If you will be age 60 by 31 March 2013, choose to retire before age 65, do not satisfy the 85 year rule when you start to draw your pension, but would have satisfied the rule if you had remained in employment until age 65**, you will have some protection from the removal of the 85 year rule. All the benefits you have built up in the Scheme before 1 April 2013 will continue to be calculated in the same way as if the changes had not been made. But any benefits you build up under the new rules (from April 2013) will be subject to a larger reduction than before.
- **If you choose to draw your benefits before age 65 and would not have met the 85 year rule if you had remained in employment until age 65, or if you do not draw your pension until age 65**, the removal of the 85 year rule will have no impact on you. You will receive the same benefits as before.

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

The rule is satisfied if at the time you start drawing your pension your membership and age (each in whole years) adds up to 85. *If you work part time, your membership counts towards the 85-year rule at its full calendar length.*

Remember: *The 85-year rule is a rule to see if your benefits should be reduced or not if you choose to retire early. If you do not satisfy the 85-year rule, then your benefits are reduced if voluntarily drawn before age 65, unless your employer chooses to waive the reduction on compassionate grounds.*

Everyone else who chooses to retire before age 65 will receive reduced retirement benefits.

Even if you don't qualify for the protections described in the box above you can still rest assured that all the benefits you have built up in the Scheme before 1st April 2005 will continue to be calculated in the same way as if the changes had not been made. But any benefits you build up under the new rules (from April 2005) will be subject to reduction, if you choose to receive them before age 65 – Further information and examples of how the changes may affect you can be found at www.lgps.org.uk

New rates of employer contribution

Following the actuarial valuation of the Isle of Wight Council Pension Fund as at 31 March 2004, the Fund actuary has certified a new rate of contributions for each of the employers participating in the Fund. During the period 1 April 2005 to 31 March 2008 each employer must pay the following rate expressed as a percentage of pensionable payroll costs –

	Contribution rate for the year ending		
	31 March 2006	31 March 2007	31 March 2008
Isle of Wight Council	16%	18%	20%
Isle of Wight College	14.5%	16.5%	18.5%
Yarmouth Harbour Commissioners	17%	19%	21%
Cowes Harbour Commissioners	17%	19%	21%
St Catherine's School Ltd	17%	19%	21%
Trustees of Carisbrooke Castle Museum	17%	19%	21%
Isle of Wight Society for the Blind	17%	19%	21%
Isle of Wight Rural Community Council	17%	19%	21%
South Wight Housing Association	15%	15%	15%
Medina Housing Association	15.7%	17.7%	19.7%
The Quarr Group (formerly Group 90 Ltd)	19%	19%	19%
Riverside Centre Ltd	16.8%	16.8%	16.8%
OSEL Enterprises	16.8%	16.8%	16.8%
Atlantic Housing	13.2%	13.2%	13.2%

The Pension Fund

In common with pension funds across the Country the Isle of Wight Pension Fund has been affected by poor stock exchange performance in the three years to March 2003, coupled with a steady improvement in the life expectancy of Fund members.

At 31 March 2001 the Fund's assets stood at 90% of its liabilities, but by the time the equity market reached its lowest point in March 2003 this had fallen to below 65%. Since then markets have rallied strongly, so that by the time the March 2004 valuation took place this had risen to 72%, and since then the situation has improved further.

Benefits payable by the scheme are of course guaranteed by statute, regardless of investment performance, and employers' contribution rates for the next four years have been set at the level calculated by the actuary as necessary to meet all liabilities over the short, medium and long term.

Statement by the Deputy Prime Minister

On 18 March 2005 the Deputy Prime Minister, John Prescott, stated that he would revoke the changes to the Local Government Pension Scheme, effective from 1 April 2005, at the "earliest Parliamentary opportunity". In reality the changes will still take effect on 1 April 2005, however the revocation will have retrospective effect to ensure that no Scheme member is disadvantaged during the period 1 April 2005 to the date of the actual revocation.

The Deputy Prime Minister intends to meet representatives of the Local Authority employers and trades unions as soon as possible to discuss a programme of action and terms of reference on the basis that nothing is ruled out or ruled in.

Future of the LGPS

These changes to the LGPS form the second phase of the current review of the scheme, known as the Stocktake. The third and final phase is being consulted on right now. It aims to modernise the scheme so that it meets the needs of the current local government workforce. Partner's pensions, flexible retirement options and improved death benefits together with increased contributions for employees are just some of the things being considered.

Government Ministers have expressed their commitment to retaining a defined benefit final salary arrangement which is relevant to the local government workforce provided that it remains both affordable and sustainable to scheme members, scheme employers and tax payers.

More information on the next phase of the review is available at www.xoq83.dial.pipex.com/gpfbv

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 part of the Council's Directorate of Corporate Services and is located in Room 208 on Floor Two of County Hall directly above the Customer Service Centre.