

prime

Newsletter
for all our employees



Pensions and Retirement Income for our Members to Enjoy

New LGPS 2014 Proposals

As local government employees you may be aware of the Public Sector Pension Scheme Reforms and the recommendations made by Lord Hutton in 2010 about how best to reform public sector pension schemes in terms of:

Affordability

Sustainability

Fairness to all

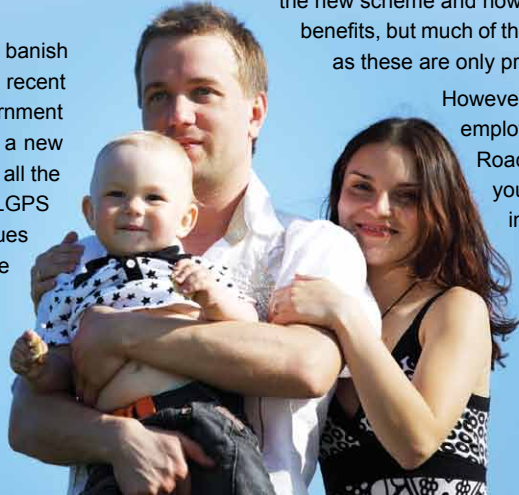
It is also fair to say, since Lord Hutton made his recommendations, there has been some uncertainty within public sector pensions and many rumours and fears about paying more, working longer and receiving less pension.

Thankfully we can now banish many of these rumours as recent announcements by the Government have unveiled proposals for a new LGPS, the 2014 scheme. Of all the public sector schemes the LGPS is the first to address the issues and recommendations made by Lord Hutton. What you will find in this edition of **prime** is information about the proposals, i.e. the “big ticket” items to be included in the new

scheme which is expected to come into effect from 1 April 2014. However, there is much that needs to happen first such as a consultation period with all stakeholders, establishing the final costs to employers and drawing up regulations which then need to be approved by Parliament.

As a scheme member, or possibly as a future scheme member, you will obviously want to know what the proposals for the new scheme are. The table on the next page shows the main provisions of the proposed new LGPS for membership from 1st April 2014 compared with those of the current scheme (LGPS 2008). You will probably have many questions about the new scheme and how it will affect your pension benefits, but much of the detail has yet to emerge as these are only proposals at this stage.

However, we are visiting different employers each month holding Roadshows where you and your colleagues can drop in and discuss the issues that mean the most to you. Why not check out upcoming Roadshows on our website and come and talk to us in person, we would be delighted to see you.





LGPS 2014 at a Glance

	LGPS 2014		LGPS 2008	
Basis of Pension	Career Average Revalued Earnings (CARE)		Final Salary	
Accrual Rate	1/49th		1/60th	
Revaluation Rate	Consumer Price Index (CPI)		Final Salary	
Pensionable Pay	Actual Pay (including non contractual overtime and additional hours for part time)		Whole Time Equivalent Pay (does not include overtime or additional hours)	
Employee Contribution Rate	Pensionable Pay	Rate	Pensionable Pay	Rate
	Up to £13,500	5.5%	Up to £13,500	5.5%
	£13,501 to £21,000	5.8%	£13,501 to £15,800	5.8%
	£21,001 to £34,000	6.5%	£15,801 to £20,400	5.9%
	£34,001 to £43,000	6.8%	£20,401 to £34,000	6.5%
	£43,001 to £60,000	8.5%	£34,401 to £45,500	6.8%
	£60,001 to £85,000	9.9%	£45,501 to £85,300	7.2%
	£85,001 to £100,000	10.5%	More than £85,300	7.5%
£100,001 to £150,000	11.4%			
More than £150,000	12.5%			
Average contribution rate		6.5%		6.5%
Contribution Flexibility	50% contribution for 50% pension benefit		None	
Normal Pension Age	State Pension Age		Age 65	
Pension to Lump Sum Conversion	Trade £1 pension for £12 Lump Sum		Trade £1 pension for £12 Lump Sum	
Death In Service	3 x Pensionable Pay		3 x Pensionable Pay	
Death In Service Survivor Benefits	1/160th accrual based on tier 1 ill health pension enhancement		1/160th accrual based on tier 1 ill health pension enhancement	
Ill Health Provision	Tier 1 – Immediate payment of pension and membership enhanced to normal pension age		Tier 1 – Immediate payment of pension and membership enhanced to age 65	
	Tier 2 – Immediate payment of pension and 25% enhancement of membership to normal pension age		Tier 2 – Immediate payment of pension and 25% enhancement of membership to age 65	
	Tier 3 – Temporary payment of pension for a maximum of 3 years		Tier 3 – Temporary payment of pension for a maximum of 3 years	
Indexation of pension in Payment	CPI		CPI (RPI pre 2011 increase)	
Refund Period	2 Years		3 Months	

CARE a Defined Benefit Scheme

The proposed LGPS 2014 will be a good scheme as it is still a defined benefit scheme, often referred to as a DB scheme. The existing LGPS is a final salary scheme, which is also a DB scheme. This means pension benefit values are not reliant on the amount of contributions paid or the investment performance of a pension fund, but are based on a set formula, in other words the benefits are defined.



Formula:

Pension for Year = 1 x Accrual Rate x Actual Pensionable Pay for Year

Example of a possible CARE scheme

	Pay	Accrual	Pension	CPI Year 1	CPI Year 2 3.1%	CPI Year 3 5.3%	Pension Plus CPI
Year 1	£20,000	1/49	£408.16	n/a	£12.65	£21.88	£442.69
Year 2	£22,000	1/49	£448.98		n/a	£23.34	£472.33
Year 3	£24,000	1/49	£489.80			n/a	£489.80
Total Value of Pension after Year 3 (£442.69 + 472.33 + £489.80)							£1,404.82

Protections

The new LGPS will start on 1st April 2014 and **only** pensionable service after that point will be included in the new scheme, under the new LGPS 2014 rules. Pensioner and deferred members will not see any change to their benefits while members with service in the current final salary scheme will **retain the link to final salary for all service before 1st April 2014 and the Normal Pension Age** as under the current rules.

Specific protection - the 'underpin' - is proposed to apply to members who were within 10 years of age 65 in April 2012. Some of these members would see their Normal Pension Age increase due to movements in the State Pension Age. So for these members a calculation will be completed on retirement at 65 to ensure they will get a pension at least equal to that which they would have received in the LGPS 2008

Your final salary pension for membership to 31 March 2014 will be calculated separately when you retire and be added to your pension from the LGPS 2014.

THE 50/50 OPTION

The proposed LGPS 2014 has an option that allows employees eligible for LGPS membership to elect to pay half their normal rate of contribution **instead of opting out of the scheme altogether**, but they will build up only **half pension during that period** in return.

The 50/50 option is designed to provide a short term alternative to those considering opting out of the scheme. It will work in tandem with the forthcoming Automatic Enrolment legislation and members who have elected for the 50/50 option will be regularly automatically enrolled back into the main scheme in line with these provisions.

More details of the LGPS 2014 can be found at www.lgps.org



Automatic Enrolment

You may have heard of something called **Work Place Pensions**, better known as **Automatic Enrolment** or **Auto Enrolment**. This is new employment legislation that requires employers to enrol all eligible employees in a qualifying pension scheme.

If you are already in the LGPS you will not notice any difference and will continue to pay your pension contributions and accrue pension rights at the same level as before.

Employees who are not members will be brought into the LGPS from their employer's staging date, which could be at any time between 1 October 2012 and 1 October 2017 depending on the number of employees on their payroll. Employees who do not wish to be in the scheme will still have the right to opt out.

Parts of the legislation came into effect from 1 July whereby your employer cannot induce employees to leave a pension scheme.

If you have not yet joined or you have chosen not to be a member of the LGPS your employer will write to tell you how this new legislation affects you and when you will be automatically put into the scheme. However, if you then decide to opt out of the LGPS you should be aware your employer will normally be required, by law, to enrol you again into the LGPS in about 3 years time.

For more Automatic Enrolment information talk to your employer.

And don't forget to tell us if you:

Move address, get married, get divorced, enter into or dissolve a civil partnership or change your name.

And

Want to make a nomination with regards to your death in service death grant which is valued at 3 times your salary or you wish to amend an existing nomination.

Live with a partner as they may be entitled to a pension if you die before them. There are certain criteria that need to be met but you can find out more on our website, including a copy of the cohabiting partner nomination form.



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