

Your Pension

Welcome to the 2012 edition of **Your Pension** our annual newsletter keeping you up to date with what's happening in the Local Government Pension Scheme (LGPS) and providing you with information about your Annual Benefit Statement.

Since last year, when we told you about proposed changes to the Scheme from April 2015, the Local Government Association (LGA) and trade unions released a joint statement in May this year announcing the outcome of their negotiations. This resulted in further proposals for a new LGPS effective from the earlier date of April 2014. Following a favourable outcome from the ongoing consultation with employers and trade unions, a formal statutory consultation period is planned for the autumn and you can read all about the proposed changes on page 2.

You often ask us about the security of your pension scheme benefits so we'd like to take this opportunity to reassure all of our members that they are safe, even though the Scheme is changing again. The government has already indicated that benefits accrued in the Scheme up until the date it changes will be protected and members won't lose out. Everyone involved in the discussions for the new scheme is committed to ensuring the LGPS remains a good quality pension scheme.

We hope you enjoy reading our newsletter, our usual contact details are shown on page 6, please let us know straight away if you have any queries on your statement or if the information shown is inaccurate. We also like to hear what you think about our communications so we can improve what we produce, so if there's anything you would like particular information about, please let us know.

LGPS 2014 Update

On 31 May 2012, the Local Government Association (LGA) and trade unions made a joint announcement on the outcome of their negotiations for a new Local Government Pension Scheme (LGPS) for England and Wales. The trade unions consulted their members on the proposals and the LGA consulted employers with the intention of the new scheme coming into operation on 1 April 2014. The Government indicated that a favourable outcome to the consultations would allow them to move directly to a statutory consultation in the autumn, allowing the **LGPS 2014** to be developed. As we go to press we have not yet received the formal consultation documents, but will keep our website regularly updated with the details as they are announced.

Important

Proposed New Scheme Benefits

The proposal is for the new LGPS to apply from 1 April 2014. All benefits in payment or built up before 1 April 2014 will be protected. If you are already in receipt of a pension or have left with a deferred (frozen) pension, these changes will not affect those benefits. **The rate at which the pension builds up (accrual rate) will improve to 1/49th from 1/60th.**

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary (FS)
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Price Index (CPI)	Based on final salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)	65
Lump Sum Option	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	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	<p>Tier 1: Immediate payment with service enhanced to Normal Pension Age</p> <p>Tier 2: Immediate payment of pension with 25% service enhancement to Normal Pension age</p> <p>Tier 3: Temporary payment of pension for up to 3 years</p>	<p>Tier 1: Immediate payment with service enhanced to Normal Pension Age (65)</p> <p>Tier 2: Immediate payment of pension with 25% service enhancement to Normal Pension age (65)</p> <p>Tier 3: Temporary payment of pension for up to 3 years</p>
Indexation of Pension in Payment	CPI	CPI
Qualifying Period for benefits	2 years	3 months

What type of scheme will it be?

A Career Average Pension

The proposal is for the LGPS 2014 to be a career average pension scheme, often referred to as a CARE scheme, (Career Average Re-valued Earnings). Like the current 2008 scheme the proposed scheme will remain a defined benefit pension scheme. Simply, this means that a member of the LGPS will know the amount of benefit they will accrue each year and that the benefit has been based on a preset formula.

In a final salary scheme it is the pensionable pay at the end of the period of membership that is used to calculate the pension benefits, but in a CARE scheme it is the pensionable pay earned each year that is used. Those benefits are then re-valued (*increased*) each year by the Consumer Price Index (CPI) to keep pace with inflation.

EXAMPLE: this member works part time and in 2014 earns £10,000.

Year	Pensionable Pay	Pension	Revalued Pension to 2018
2014	£10,000	£204.08	£229.70
2015	£10,500	£214.29	£234.16
2016	£11,000	£224.49	£238.16
2017	£11,500	£234.69	£241.73
2018	£12,000	£244.90	£244.90
Total			£1,188.65 per year

For the example we have assumed an annual pay increase of £500 and a CPI increase of 3%

How will the new scheme affect me?

Will I still receive an automatic tax free lump sum?

Yes, if you have membership before 1 April 2008. As now, for membership after this date the proposal is that you will be able to exchange some of your pension for a tax free lump sum. For every £1 of pension given up you will get £12 cash. Up to 25% of your LGPS benefit (*including Additional Voluntary Contributions but subject to some tax limits*) can be traded in this way.

Will I have some flexibility to reduce the contributions I pay?

Yes, the proposals include a "50/50" option that will allow you to pay less in contributions and receive a smaller benefit for a period of time as an alternative to opting out of the LGPS altogether. It is not intended to replace long term membership of the full scheme though and works very simply. You can choose to pay half the contributions due to receive half the pension. In our example above the pension awarded would be £102.04 in 2014. Taking the 50/50 option doesn't mean losing out on

other benefits either as you would still retain the full value of death in service and ill health benefits.

Will my existing benefits be protected?

Yes, membership in the 2008 scheme will retain its link to unreduced benefits at age 65 and a final salary calculation for all membership before 1 April 2014. Benefits under the LGPS 1997 and 2008 will be calculated separately when you retire and be added to your benefits in the LGPS 2014 scheme.

To make sure members within ten years of age 65 at 1 April 2012 are no worse off, a "benefits underpin" is proposed. This means that those members will get a pension at least equal to that which they would have received in the current scheme.

If you currently qualify for the rule of 85 protections, these will continue to apply. Transitional tapered protection is also retained for members aged 60 between 1 April 2016 and 31 March 2020.

Rule of 85 means your membership and age, in whole years, when added together equal 85.

How would my Pension be worked out in the CARE scheme?

Each year you will effectively "buy" a pension which will be worked out like this:

$$\text{Pension} = 1/49\text{th} \times \text{Pensionable Pay}$$

In a CARE scheme, your pensionable pay will be your actual earnings in the year, so whether you are full time or part time, the calculation is the same. Each year's re-valued pension amount is then added together to arrive at your total pension and your pension builds up like this:

$$\begin{aligned} &\text{Pension for year 1} \times \text{CPI} \\ &+ \text{Pension for year 2} \times \text{CPI} \\ &+ \text{Pension for year 3} \times \text{CPI} \end{aligned}$$

and so on until your membership ends

What happens if my job is TUPE transferred?

If you are transferred to a private contractor because a contract has been out-sourced, you will be able to stay in the LGPS. The exact details for this have yet to be worked out.

When will I be able to retire?

The proposal is that the normal pension age (the date you can receive your benefits unreduced) will be linked to the age you can receive your state pension. This means that many members will see an increase in the age that they can retire on unreduced benefits. However, the benefits you have accrued prior to 1 April 2014 can still be taken at age 65 and there are further protections for older members who will satisfy the rule of 85.

It will also be possible to retire early in the new scheme and get an LGPS pension at any age on or after your 55th birthday, but your pension will

be reduced depending on how many years before your normal pension age you are when you do retire.

How much will I pay in the new scheme?

Contribution rates for the majority of members will not increase under the new scheme proposals. The new contribution bands take tax relief and level of income into account so that those in the top bands will see their net contribution rates after tax relief progressively increase as shown in the table below.

There is a key change proposed to the way contribution rates will be assessed for part-time members. Under the current scheme the percentage rate part-time members pay is based on their full time equivalent pay, but in the new scheme it will be based on their actual part time earnings, reducing the amount many part time members will have to pay.

For example, a member currently earning £10,000 per year for working part time in a job where the full time equivalent pay is £20,000 per year will see a reduction in the rate they pay from 5.9% to 5.5%.

What happens next?

Discussions will continue on the scheme design, including on how individual LGPS funds will be effectively managed, the costing of it and the laying of draft regulations. The aim is to have the new regulations in place by April 2013 to tie in with the 2013 fund valuations and give fund administrators time to upgrade systems and procedures to have the new scheme operational by April 2014. We will keep our website regularly updated with new information and also keep your employer well informed of forthcoming changes.

Comparison Table

LGPS 2014 (New Scheme)		
Actual Pensionable Pay	Gross Contribution	Contribution after Tax Relief
Up to £13,500	5.5%	4.40%
£13,501 to £21,000	5.8%	4.64%
£21,001 to £34,000	6.5%	5.20%
£34,001 to £43,000	6.8%	5.44%
£43,001 to £60,000	8.5%	5.10%
£60,001 to £85,000	9.9%	6.30%
£85,001 to £100,000	10.5%	6.84%
£100,001 to £150,000	11.4%	6.88%
More than £150,000	12.5%	

LGPS 2008 (Current Scheme)		
Full Time Equivalent Pensionable Pay	Gross Contribution	Contribution after Tax Relief
Up to £13,500	5.5%	4.40%
£13,501 to £15,800	5.8%	4.64%
£15,801 to £20,400	5.9%	4.72%
£20,401 to £34,000	6.5%	5.20%
£34,001 to £45,000	6.8%	5.44%
£45,001 to £85,300	7.2%	4.32%
More than £85,300	7.5%	4.50% or 4.13%



Do you live with your partner?

Over four million couples live together in England and Wales and although they have gained legal protection in some areas, they and their families have significantly fewer rights than couples who are married, or who have formed a civil partnership.

Many couples living together think that because they are "common law" partners, they have the same rights as a married couple, but this is not the case. In fact, they have hardly any of the rights married couples and civil partners enjoy because there is no such thing as a common law marriage.

So, if you are in a co-habiting partnership there are important steps you should take to protect your LGPS benefits and make sure that if anything happens to you, your family doesn't lose out on valuable financial benefits.

You can nominate your co-habiting partner, who can be the same or opposite sex, to receive a survivor's pension on your death as long as you have been living together (as if you were husband and wife or civil partners) for a continuous period of two years on the date you both sign the nomination form. To complete the form you and your partner must:

- Be free to marry or enter a civil partnership
- Not have been living with someone else as a married or civil partner
- Be financially inter dependent, or your partner must be financially dependent on you.

We can't pay a survivor's pension to your partner if you haven't nominated them to receive it, so visit our website now to download a form. Complete it and return it as soon as possible and make sure your loved ones are not left in financial difficulty if you die. The fact is that none of us know what the future holds, but by simply completing the nomination form you can rest assured that while you are a member of the LGPS your partner would benefit from the security of a lifelong pension.



Stop Press

Regulation Changes from 1 October 2012

Additional Survivors' Benefits

Nominated co-habiting partners' pensions are based on LGPS membership on or after 6 April 1988. If you have already nominated your co-habiting partner and you have scheme membership before this date, new regulations from 1 October 2012 have extended the option period for you to choose to buy additional survivor benefits. You can elect to pay additional contributions to have your pre 6 April 1988 membership included, but you must make the election by 31 March 2013.

If you have not yet made a nomination, you can do so at any time and will have the same option to increase your partner's pension value, but you must make the election within 12 months of making your first nomination. Please contact us if you want details of the cost.

Definition of final pay

The definition of final pay, the pay figure that is used to calculate your benefits on leaving the scheme, has been amended to allow pay from a previous local government scheme employer to be used, as long as the pay is from the last 365 days of membership in the LGPS.

Changes affecting Flexible Retirement

The ability to only take a part of your accrued benefits in the case of flexible retirement was introduced in 2008; these regulation changes update the flexible retirement regulation to confirm what combinations of benefits can be taken:

- All or none of any benefits accrued before 1st April 2008; and
- All, part or none of any benefits accrued since 1st April 2008

Employers must still give their permission for you to either reduce your working hours or the grade at which you work, and give permission for the flexible retirement benefits to be paid, in accordance with their written policy.

Tier 3 Ill-Health retirees

Retirements that cease via an ill health review or after three years in payment, would become known as a 'pensioner member with deferred benefits'.

Previously you would have lost any '85 Year Rule' protections you had prior to your ill-health retirement.

Following the regulation changes you now retain these '85 year rule' protections if you elect to receive your deferred benefits early.

The regulation has also been amended so that you can now apply for the 'deferred benefits' to be released on ill health grounds.

Questions and Answers

Can I retire before age 65?

The normal retirement age of the LGPS is 65 but you can choose to retire and draw your benefits from age 60 onwards without the need to obtain your employer's consent. You can also retire and receive your LGPS benefits from age 55, but only if your employer approves it.

If you decide to retire before age 65 your benefits may be reduced to take the early payment into account. If retirement is due to permanent ill health, benefits are payable regardless of age.

I work part time during the school term – how are my benefits calculated?

Members often ask us this when they receive their annual statement, so here is an example of how benefits are calculated if you work part-time, during school term only:

Mary works 10 hours every week during term-time. Her contract is based on 39 working weeks plus 4.4 holiday weeks, a total of 43.4 weeks out of a possible 52.143 weeks in the year (365 days divided by 7 days). Mary's pay is a proportion of the full time equivalent salary of £18,000 per year.

We must work out Mary's membership in two steps:

$$10 \text{ (hours per week)} \times 43.4 \text{ (total weeks)} \\ \text{divided by } 52.143 \text{ (weeks in a year)} \\ = 8.32 \text{ hours per week over the whole year}$$

$$8.32 \div 37.00 \times 365 \text{ (days in year)} \\ = 82 \text{ days membership}$$

Mary's pension is then worked out using the full-time equivalent salary and her total membership for each year she works:

$$82 \div 365 \text{ days} \times \pounds 18,000 \div 60 = \pounds 67.40$$

Do I have to retire at age 65?

No, the LGPS regulations allow you to carry on working and stay in the Scheme and your benefits are increased if you retire after age 65. You must retire by age 75 though so as not to breach any HMRC legislation.

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If you need to visit the Fund office, you'll find us in the Forum in Chester, which is located behind the Town Hall. If you want to meet a member of the team, please call first to make an appointment. This will save you time and means we are prepared to deal with your enquiry.

When contacting us, please be prepared to quote your National Insurance Number in all cases.

Please note that in order to protect your personal data and benefits, we cannot accept changes to personal details over the telephone.

The information in this Newsletter can also be provided in large print, audio CD or Braille format. Please contact the Cheshire Pension Fund if you require any assistance.