

PENSIONS NEWSFLASH

Summer 2007

The Local Government Pension Scheme is changing!

From April 2008 all current members will move into a New Look scheme.

The Local Government Pensions Scheme will continue to be a good quality final salary scheme and pensions in payment will continue to increase in line with the Retail Price Index.

How much will I pay?

Currently, you pay 6% of the pay you receive on your contractual hours, unless you have a protected right to pay 5%. In the new scheme, contributions will be banded so all members will pay a contribution based on their annual earnings at the 1 April each year (or the date they join if later). The band ranges will increase in line with the Retail Price Index each April. This table shows how much you will pay:

Band	Range	Contribution Rate
1	£0 - £12,000	5.5%
2	£12,001 - £14,000	5.8%
3	£14,001 - £18,000	5.9%
4	£18,001 - £30,000	6.5%
5	£30,001 - £40,000	6.8%
6	£40,001 - £75,000	7.2%
7	More than £75,000	7.5%



Lancashire Pensions Services

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- **What if I am part time?**

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

- **What if I work term-time only?**

If you only work during term time then your contribution rate is again determined on the full time equivalent pay you receive but only in respect of the term time period worked over the year.

- **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.

When can I retire?

The normal retirement age for receiving unreduced benefits will stay at 65 but you do not have to retire at this age:

- **What if I want to work beyond the age of 65?**

You can remain in the scheme beyond age 65 but must draw your benefits before reaching age 75 (After age 65, benefits will be increased to reflect they are being paid after the normal retirement age)

- **What is flexible retirement and can I take this option?**

Flexible retirement enables a member, who has their employer's consent and who reduces their hours or grade to draw some or all of their benefits whilst continuing to work. From April 2008, with your employers consent, you may take this option after age 55, (or after age 50 if you are an existing member and take flexible retirement before 31 March 2010).

- **Can I retire after age 60 but before the normal retirement age of 65?**

You will be able to retire from age 60 but there may be reductions to your benefits, depending on your age and service.

- **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 to those benefits dependent on the severity of your illness. If you are unlikely to get another job before you reach 65, a higher enhancement of benefits will be payable. If you are unlikely to get another job in a reasonable time, but may do before you are 65, a lower enhancement of benefits will be payable.

- **Are there any other ways I can retire early?**

You can claim your benefits if your employer retires you on the grounds of redundancy or efficiency if you have attained age 55 (or age 50 if you are an existing member and will leave before 31 March 2010).

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 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, if your post is downgraded or you voluntarily downgrade, you may apply to use an average of the best three (financial) years in the last ten as your final pay figure.

- **What calculation will be used?**

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

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

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

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

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 choice whether to take part of your benefits as a lump sum. You can convert pension into a lump sum at the rate of £1 of pension for £12 of lump sum up to the point where your total lump sum is equal to 25% of the capital value of all your pension benefits.

- **How can I increase my benefits?**

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, but you will not be able to start buying added years after April 2008 (those who are already buying added years will not be affected). You will also be able to pay Additional Voluntary Contributions (AVCs).

What changes are there to the benefits that will be paid when I die?

- **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 co-habitee.

Changes to the Existing Scheme

There have recently been a number of changes to the current Local Government Pension Scheme. Many of these changes are corrections and clarifications designed to bring the Scheme into line with wider pensions industry changes that took place on 6 April 2006. Among the key changes are the following:

1. The changes have allowed a relaxation on the limits for ill-health enhancements. Previously, any enhancements payable to a member retiring on the grounds of ill-health could not result in the member receiving more than 40 years service in total. With effect from 6 April 2006 the 40 year maximum has been removed.
2. From April 2006 it is no longer possible to pay a death grant in respect of a member who was aged 75 or over upon death.
3. Under certain circumstances it is possible for Lancashire Pensions Services to pay small annual pensions in the form of a one-off cash lump sum, known as commutation. From April 2007 some of the rules governing this process have been changed and the previous maximum annual limit for paying a pension as a lump sum of £195 (or £260 for a dependant's pension) has been removed. There are, however, still a number of restrictions that do apply before a pension can be commuted. For further information, please contact us.
4. Prior to April 2007 the maximum amount of service that your employer could award you was 6 years 243 days. Following the changes the maximum has been increased to 10 years. It remains entirely at your employer's discretion whether they wish to grant additional service or not.
5. From April 2007 the maximum amount that you can pay into the Lancashire Pension Fund's Additional Voluntary Contribution (AVC) Fund is 50% of your pay, in respect of each employment you may have. Contributions must be paid through payroll and be taken directly from your pay.