

Nest egg

A newsletter for members of the Local Government Pension Scheme participating in the Staffordshire County Pension Fund

January 2008

Issue 4

New-look Scheme for 2008 takes shape

Welcome to issue 4 of Nest egg. Following on from an earlier edition, this issue concentrates on providing more up-to-date information on the 'New-look' Local Government Pension Scheme which will come into force from April 2008. We look in detail at some of the differences between the current and the new Schemes and illustrate how they may affect you. We will provide more information on the new Scheme over the coming months and you will have the opportunity to attend a presentation. Annual Benefit Statements presently being issued are based on the current Scheme – but don't forget that you can use our "online" calculator to do your own benefit forecasts.



The online system will be updated for the new Scheme shortly after April 2008. See the item on page 7 if you need to find out about being issued with a password.

Also in this issue we look at some changes that have recently been made to the current Scheme and show the results of the customer satisfaction survey carried out earlier in the year.

Finally I would like to share with you the exciting news that, earlier in the year, the Pensions Services Section here in Staffordshire was awarded Charter Mark status, which is an award from the

Government for excellence in customer service delivery.

This reflects the improvements we have made (and I hope will continue to make) in the service we provide to you the Scheme member.

Janet Caizzo
Pensions Manager

In this issue

New Scheme	2 to 5
Current Scheme update	6
Pensions online	7
Bits and pieces	8
Contact us	8



Staffordshire

Current legislation... may change

April 2008 'New-look' Scheme – An overview

In the last issue of Nest egg we published a table of the changes proposed for the "new-look" LGPS to come into force on 1 April 2008. Now that regulations have been published we have a clearer idea of what the new Scheme will look like.

Basic structure

The new Scheme will still be a final salary scheme - in other words, your benefits will still be based on pay and membership. But what will change is that each year of membership will earn you a bigger proportion of your pay.

60ths to replace 80ths

The benefits you build up before 1 April 2008 will be worked out as they are now:

$$\text{Pension} = \text{Membership} \times \text{Pay} \div 80$$

Plus a lump sum of 3 times that pension.

But the benefits you build up from 1 April 2008 will consist of a bigger pension (but no automatic lump sum), worked out as follows:

$$\text{Pension} = \text{Membership} \times \text{Pay} \div 60$$

You will still have the flexibility to give up some pension to create a lump sum, if you wish, at the rate of £12 of lump sum for each £1 pension given up. But, as at present, the size of the lump sum will be restricted - it cannot be greater than 25% of the capital value of your benefits.

A '60ths scheme' gives an improved accrual rate (more pension for each year of membership). The current 80ths scheme plus automatic lump sum equates to a 64ths accrual rate.

Lump sum life cover

Lump sum life cover will increase to **three** times your pay (this is currently two times your pay).

Pensions for partners

Pensions for partners will be introduced for the first time – for "nominated" dependant partners who are free to marry or enter into a civil partnership. These pensions will be based on membership of the LGPS backdated to 1 April 1988, i.e. as for civil partner's pensions.

Buying additional pension

You will still be able to pay Additional Voluntary Contributions (AVCs) to a life assurance company. You will also be able to buy additional Scheme pension in blocks of £250 per year, up to a maximum of £5,000. This will replace the current Scheme rules which allow you to purchase additional membership.

Retirement age

The Scheme's normal retirement age will stay at **65**, you will still be able to choose to retire from age 60, with reduced benefits and all members who joined before October 2006 will keep any "85 year rule" protections. (We don't yet have details of how this will work, but will let you know as soon as we do). You are still able to stay in, or join the Scheme any time up to the age of 75.

Redundancy/efficiency

The right to draw benefits early in cases of retirement on the grounds of redundancy or efficiency will remain, but the minimum age for this will go up to 55 – from March 2010 for current members, and from April 2008 for new members.

Ill health retirement

It is currently proposed that there will be two levels of incapacity, with different levels of enhancement for each.

- ▶ If you are totally incapacitated and will not be able to undertake gainful employment before age 65, benefits will be based on your accrued membership plus an enhancement of all your prospective service up to age 65.
- ▶ If you cannot undertake gainful employment within a reasonable period of leaving Local Government employment, but you may be able to at some date in the future before 65, benefits will be based on your accrued membership plus an enhancement of 25% of your prospective service up to age 65.

This proposal is, however, subject to further consultation and could change.

Final Pensionable Pay

This is the pay figure which is used to work out your pension benefits. In the new Scheme this will still be based on the best year of your last 3 year's pay, but if you have been on reduced earnings (other than as a result of flexible retirement) it can be worked out on the best average of 3 consecutive years' salary over the last 10 years of service.

The cost to you

The current standard contribution rate is 6%, but the new Scheme will bring in different rates according to pay bands – see pages 4 and 5

Current legislation... may change

2008 scheme – Benefit calculations

Here are two examples of how the new-look Scheme will work for members. In each example we compare the current Scheme and the new-look 2008 Scheme.

Mrs A - joined the LGPS in April 2005 and is planning to retire in April 2023 when she is 63. This means that she will not satisfy the '85 year rule' when she retires at 63, because 63 plus 18 only equals 81. Indeed, her benefits would have been reduced even if the '85 year rule' had not been phased out, as they are being paid two years early. Mrs A's final salary at retirement is £25,000.

Current Scheme		New Scheme	
Her membership at age 63 is 18 years, so current Scheme benefits would have been calculated as follows;		Her pre-2008 membership will be 3 years and her post-2008 membership will be 15 years, so new Scheme benefits will be calculated as follows;	
Pension	= 18 yrs x £25,000 ÷ 80 = £5625.00	Pension	= 3 yrs x £25,000 ÷ 80 = £ 937.50
	Less 10% reduction £ 562.50		15 yrs x £25,000 ÷ 60 = £6250.00
	Total £5062.50		£7187.50
		Less 10% reduction	£ 718.75
Lump sum	= 3 x £5625.50 = £16875.00	Total	£6468.75
	Less 5% reduction £ 843.75		
	Total £16031.25	Lump sum	= 3 x £937.50 = £2812.50
			Less 5% reduction £ 140.63
		Total	£2671.87

Under the new scheme no automatic lump sum is payable for her post-2008 service but she can choose to give up to 25% of her total pension benefits for an additional tax-free cash lump sum at a conversion rate of £12 for every £1 of pension given up. To get the same lump sum as under the current Scheme she would have to give up £1,113.28 of pension which would leave benefits of **£5,355.47** pension per year and a lump sum of **£16,031.25**.

Mr B - joined the LGPS in 1988. He is planning to retire in 2015, on his 60th birthday, when he will have 27 years of membership with a final salary of £40,000. Under the '85 year rule' protections, since he reaches 60 and satisfies the 'rule of 85' before 1 April 2016, none of his benefits will be reduced for early payment.

Current Scheme		New Scheme	
His membership at age 60 is 27 years, so current Scheme benefits would have been calculated as follows;		His pre-2008 membership will be 20 years and his post-2008 membership will be 7 years, so new Scheme benefits will be calculated as follows;	
Pension	= 27 yrs x £40,000 ÷ 80 = £13500.00	Pension	= 20 yrs x £40,000 ÷ 80 = £10000.00
			7 yrs x £40,000 ÷ 60 = £ 4666.67
		Total	£14666.67
Lump sum	= 3 x £13500.00 = £40500.00	Lump sum	= 3 x £10000.00 = £30000.00

Under the new scheme no automatic lump sum is payable for his post-2008 service but he can choose to give up to 25% of his total pension benefits for an additional tax-free cash lump sum at a conversion rate of £12 for every £1 of pension given up. To get the same lump sum as under the current Scheme he would have to give up £875.00 of pension which would leave benefits of **£13,791.67** pension per year and a lump sum of **£40,500.00**.

Current legislation... may change

2008 scheme – Banded contribution rates

New contribution rates

Under the present Scheme members pay 6% in pension contributions with some protected employees paying 5%. In the new Scheme there will be banded contribution rates for employees, and the contribution rate will be based on your whole time equivalent pay.

The bands shown below will go up in line with Pensions Increases (which are based on the Retail Price Index) each April from 2009.

Protected rates for Scheme members paying 5% at 31 March 2008

Those members who have historically been paying at a protected contribution rate of 5% will need to be identified as they are subject to specially protected rates between 1 April 2008 and 31 March 2011 - by 1 April 2011 they will be assimilated into the standard table.

Year commencing	Contribution rate
1st April 2008	5.25%
1st April 2009	5.5%
1st April 2010	6.5%

The rates in the above table will apply for the first three years. However, the rate should not be in excess of the standard contribution rate (shown in the table below).

For example from 1 April 2010 if a protected rate member earns less than £30,000 then the employee's contribution for 2010/2011 will be taken from the standard table.

Rates for all other employees

Band	Range	Contribution rate
1	Up to £12,000	5.5%
2	More than £12,000 – up to £14,000	5.8%
3	More than £14,000 – up to £18,000	5.9%
4	More than £18,000 – up to £30,000	6.5%
5	More than £30,000 – up to £40,000	6.8%
6	More than £40,000 – up to £75,000	7.2%
7	More than £75,000	7.5%

2008 scheme – Banded contribution rates

How will this work?

The pay to be used is the whole-time equivalent pay plus any known allowances (at their whole-time equivalent) including any known changes - such as increments. Where an employee has more than one job each job is to be assessed separately.

If you are a part-time employee then your contribution rates will be worked out using the 'whole-time' equivalent pay i.e. the pay of a full-time employee in the same post.

If you are regarded as a 'term-time' employee then your contribution rate will be worked out on the 'whole-time' 'term-time' equivalent pay.

To give you an idea of how this will work we have outlined some examples for different employees.

Employee A

Works half-time and receives a basic salary of £7,500 per annum plus a 20% shift allowance of £1,500.

The whole-time equivalent is £15,000 per annum salary plus a 20% shift allowance of £3,000.

This employee would fall into the 5.9% payband

Employee B

Works half-time and receives a basic salary of £7,500 per annum plus a 20% shift allowance of £1,500 and, as and when required, stays on the premises overnight for which a sleep-in payment is made. The total sleep-in payments for any one year can vary from £0 to £2,000.

The whole-time equivalent is £15,000 per annum plus a shift allowance of £3,000.

This employee could again fall into the 5.9% payband as the employer may decide that sleep-in payments are too variable to form part of the assessment.

Employee C

Works half-time in each of their 2 jobs.

For job 1 the whole-time equivalent pay is £21,000.

For job 2 the whole-time equivalent pay is £17,000.

This employee would fall into the 6.5% payband for job 1 and the 5.9% payband for job 2.

Employee D

Works whole-time and receives a salary of £13,000 per annum.

Previously they paid the protected 5% contribution rate.

On 1 April 2008 this employee would pay the protected rate of 5.25% rather than the standard rate of 5.8%. In 2009 they would again pay a protected rate (5.5%), but in 2010 they would pay the standard rate of 5.8%.

Who decides which band I fall into?

It is the responsibility of your employer to assess which payband you fall into.

Each employer in the fund will have to:

- ▶ Determine which payband each of their employees will fall into on 1 April 2008
- ▶ Notify each of their employees what rate of contribution they will be paying from 1 April 2008, before the first payment of salary due after 1 April 2008
- ▶ Decide at what date each year they want to carry out a review of each employee's paybanding, and notify the employee of any changes.

A brief reminder of some of the changes already in place at 6 April 2006

- ▶ 15% limit on contributions removed.
- ▶ Purchase of 'Added Years' limited to 6 $\frac{2}{3}$ years for any contract that started on or after 6 April 2006.
- ▶ Maximum service limit removed.
- ▶ Flexible retirement for employees aged over 50, at the employer's discretion.
- ▶ Working up to age 75, with employer's consent.
- ▶ Lifetime Allowance (LA) – tax free capital value set at £1.6m for 2007/08.
- ▶ Bigger Tax Free Lump Sum – give up £1 pension for £12 lump sum up to HMRC limits.
- ▶ Children's pensions that came into payment on or after 6 April 2006 cease when the child reaches age 23 unless the child is physically or mentally incapacitated.

Further changes – AVCs

Many of the old tax limits surrounding pensions were dropped in April 2006. One change this brought in was the opportunity to pay much more into AVCs.

Her Majesty's Revenue and Customs (HMRC) became concerned that people could exploit this by paying in excessive amounts just before they retire. To prevent this the Department for Communities & Local Government (DCLG) introduced a restriction limiting AVC contributions to the LGPS of 50% of pay.

From 6 April 2007 AVC contributions cannot be more than 50% of taxable pay and can only be paid direct from pay.

If you have paid AVC contributions in excess of 50% of your monthly salary, in any one month, since April 2007 please contact us for advice.

Ill health enhancement

From April 2006, the total membership for ill health retirements is no longer 'capped' at 40 years. So if a scheme member retires on ill health at age 58, with 39 years service, for example, they will now get the full 6 $\frac{2}{3}$ years extra, taking their total membership up to 45 $\frac{2}{3}$ years. (They still cannot, however, exceed the membership they would have built up by age 65).

Last chance to buy extra LGPS membership

The option to pay increased contributions in order to purchase an additional period of scheme membership (added years) will not be available in the 2008 Scheme. It will feature, instead, the facility to buy extra pension in multiples of £250.

Any contracts to purchase added years that are entered into before 1 April 2008 will, however, still buy membership under the terms of the current LGPS regulations.

This means that there is the opportunity to elect to buy added years before 1 April 2008 (even if your first payment falls after this date).

If you would like more details about purchasing added years of membership please contact us.



Pensions online

The “Self Service Calculator” section of our website has been up and running for some time now and many members have applied for a password to enable them to access this facility, allowing them to view (and in some cases amend) the information we hold in their records and perform their own benefit estimates. Once you have a password the following areas can be accessed;



- ▶ **Personal Details** shows personal details including your home address, which you can amend if necessary.
- ▶ **Membership Details** shows details of your service including any changes to your hours of work.
- ▶ **Financial Details** shows your contribution rate and the latest pay details known to us.
- ▶ **AVCS and Added Years Details** shows any purchases you are making (if applicable).
- ▶ **Benefit Projector** allows you to perform a number of benefit calculations. You can amend certain dates and use a more accurate pay figure if the one we show is out of date.
- ▶ **Options** allows you send a new or revised Nomination Form as well as amend your password or lifestyle questions.

To request a password visit the “Self Service Calculator” section of our website (web address shown on back page) and follow the instructions given there.

Don't forget...

If you are unable to access the website, or if there are any amendments we need to make to your personal details that you can't change yourself via the website, you should always tell Pensions Services directly.

Details should be given in writing, quoting your National Insurance number and enclosing any relevant supporting documentation (e.g. a copy of your marriage certificate if you have married), our address is in the contact details given on the back page.



Customer Satisfaction Surveys

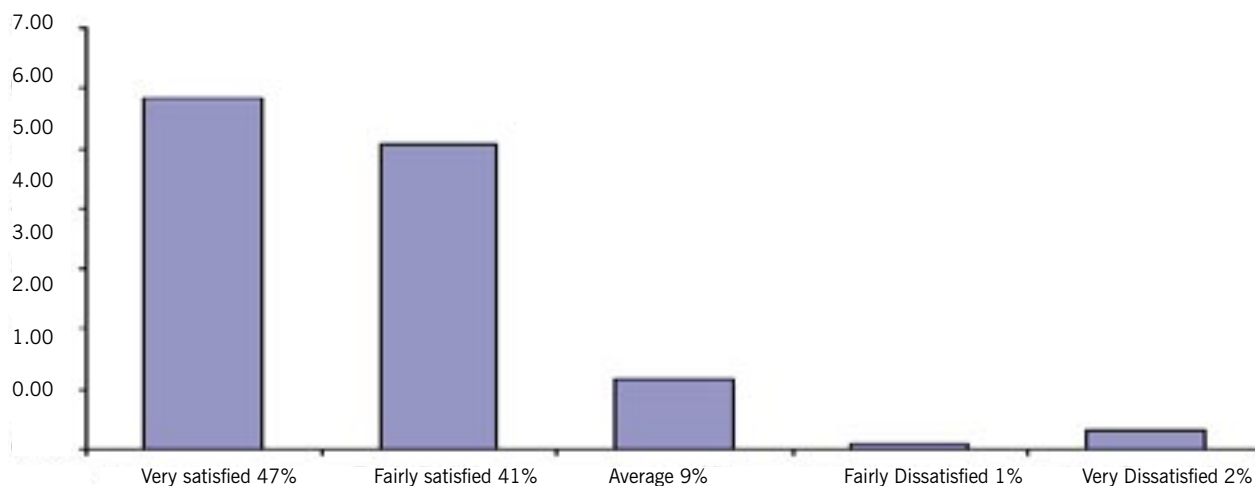
During 2008, we will be sending questionnaires to a random selection of our members so that we can find out what you feel about the service we offer.

If you receive a questionnaire we would be very grateful if you could use this opportunity to let us know what additional services you would like us to provide.

Pensions can seem a complicated subject and therefore if you have any ideas of what else we could do for you, please let us know!

A summary of responses received from the questionnaire issued to a number of our current scheme members in 2007 is shown in the pie chart below.

Results from Customer Survey 2007



Contact us



by writing to:

Pensions Services,
Staffordshire County Council
17 Eastgate Street, Stafford ST16 2NF

or by telephoning:

01785 278222

or by fax:

01785 276489

or by e-mailing:

pensions.enquiries@staffordshire.gov.uk

We also have a website at:

www.staffordshire.gov.uk/pensions

If a copy of the information in this Newsletter is needed in large print, Braille, another language or on cassette, please get in touch with us

The articles in this newsletter are a condensation and generalisation of the relevant legislation. Nothing contained in this newsletter overrides the provisions of the Local Government Pension Scheme Regulations and other pensions legislation.