

Local Government Pension Scheme Bulletin

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

July 2007 Issue 2

Rule of 85 – Update Further Consultation

The Government has announced a formal consultation to consider a proposal to provide full protection, instead of **tapered** protection, for those scheme members who will be 60 between 2016 and 2020.

Background

The retirement age for men and women in the Local Government Pension Scheme (LGPS) has always been age 65. However, the regulations currently allow retirement at age 60, on an unreduced pension, if the member can comply with a test known as the “Rule of 85”. The “**Rule of 85**” determines whether or not retirement benefits should be reduced if put into payment before age 65.

To satisfy the “Rule of 85” the sum of a member’s age and membership (in complete years) must total 85 or more.

Benefits built up after 1 April 2008 will result in a reduced pension (by applying a reduction factor), unless the employee qualifies for “Rule of 85” protections.

However membership up to 31 March 2008 is protected.

The Government in a bid to equality proof the pension scheme first attempted to remove the “Rule of 85” in 2005, but they were forced to back down following the threat of strike action. A tripartite committee made up of the Employers, the Government and Unions was set up to find a way forward. Following the negotiations, two sets of amending regulations were published during 2006 containing transitional “Rule of 85” protections. These regulations extended the “Rule of 85” protections, and represented a considerable improvement for all members compared to those originally published in the revoked 2005 regulations.

The costs of extending the “Rule of 85” protections have already been taken into account when costing the New Look Local Government Pension Scheme which starts on 1 April 2008. Consequently the Government has



stated that any further improvements to the “Rule of 85” protections must be met by an increase in employee’s contributions, or by reducing the benefit package in the 2008 Scheme. The Minister responsible for Local Government has consistently maintained that the scheme must be affordable, legal and, provide good quality pensions for scheme members without placing an unfair burden on tax payers.

What do the regulations actually say?

The “Rule of 85” was removed from the current scheme regulations for new members who joined on or after 1 October 2006. For existing scheme members who were in the scheme before 1 October 2006 the “Rule of 85” is retained until the start of the New Scheme in April 2008. Those employees born before 1 April 1960 will retain the “Rule of 85” protections, when the new scheme starts in April 2008.

The protected employees can be sub divided into two groups:

- The first group who will be age 60 by 31 March 2016 will enjoy full protection.
- The second group who will be age 60 between 1 April 2016 and 31 March 2020 and can meet the “Rule of 85” will enjoy a limited protection, using a **tapering** method of working out the reduction factor to apply to their benefits.

The **tapering** of the reduction factors has the effect of phasing out the “Rule of 85” thereby avoiding a “cliff edge”. The original transitional protection did feature a “cliff edge” with some members enjoying full protection, whilst other members born on the wrong side of the cut off date had no protection. This was thought to be unfair so a means of applying the reduction factors on a sliding scale was introduced.

How does tapering work?

Scheme members born between the 1 April 1956 and the 31 March 1960 have a limited protection under the “Rule of 85”. The level of protection reduces the closer the member is to age 46.

For Example –

A female scheme member who was born on or after the 1 April 1960 and retires at age 60 will suffer a full 23% reduction to their pension built up after 1 April 2008. If however that scheme member was born between 1 April 1956 and 31 March 1960 the full 23% reduction would be reduced depending on when the member attains age 60.

Retirement Date	Percentage Reduction
31/03/2016	No reduction (fully protected)
1/04/2017	5.75% (1/4 of 23%)
1/04/2018	11.5 % (1/2 of 23%)
1/04/2019	17.25% (3/4 of 23%)
1/04/2020	23%



Present Consultation

The Government is consulting on removing the taper. When responding consultees are asked to give consideration to the following:

- Support for the extension of the protection for this group, by providing full protection instead of tapered protection.
- If an extension is supported consultees are asked to express a preference for a specific way of offsetting the costs of extending the transitional protection.
- Whether it is fair to increase employee's contributions or reduce the benefit package in the new scheme for what appears to be a minority group of scheme members.
- Removal of the tapering provisions creates a new "cliff edge" at 2020.
- Are there any employment policy or labour market objectives which could be applied to objectively justify an extension to the current protections?
- The fact that a different approach has been adopted in Scotland, as full protection has been given in respect of service from 2008 to 2020.

The Government Actuary has estimated that the cost of removing the taper protection and replacing it with full protection is about 0.1% of the pensionable payroll per annum over

the next 20 years, (This could vary for different employers depending on how many of this group make up the employers workforce).

If this change was introduced the additional costs could be recovered by changing some of the benefits of the 2008 scheme. Some examples which could produce a saving roughly equivalent to the additional costs might be;

1. Increasing the employees contributions by about 0.1% to 0.2% of pay;
2. Reducing the death in service lump sum from 3 times salary to 2 times salary;
3. Reducing the death after retirement guarantee in respect of future service benefits from 10 years back down to 5 years.

Responses to the consultation should be sent to:

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The consultation period for these proposals ends on 1 October 2007. Further information can be found on the Government website using this link; <http://www.xoq83.dial.pipex.com>

