

# Nest egg

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

January 2007 Issue 3

## Keeping up with change!



Welcome to the third edition of Nest egg. As always the aim of the newsletter is to keep you updated about changes to the Local Government Pension Scheme (LGPS), both those that have happened recently and those that are planned for the future. 2006 has been a difficult year in terms of the changes that needed to be made to the LGPS in order to comply with overriding legislation such as changes in Tax law and compliance with Age Discrimination regulations. The application of the 'Rule of 85' proved particularly difficult to resolve and agreement was reached well beyond the original target date of April 2006. You can see a summary of the changes that took place in 2006 on pages 2 & 3.

2007 is also set to be a very busy year getting to grips with the proposed new look LGPS to be introduced in April 2008. Current proposals can be seen on pages 6 & 7 and I will keep you informed throughout the year as further information becomes available.

In the first issue of Nest egg I asked you for ideas for topics that you would like to see covered in future issues and I was very pleased with the response – we now have a 'requested topics' page. Please keep sending in your suggestions for topics that you would like information on and for ways in which we can improve our service to you.

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Pensions Manager

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Staffordshire

## Removal of 15% limit on contributions

With the removal of this limit it is now possible to pay more into the LGPS or into an Additional Voluntary Contribution (AVC) arrangement to provide bigger retirement benefits.

Members can now pay 100% of their pensionable pay or £3,600 per annum (whichever is the greater) in pension contributions. If your earnings in Local Government employment are less than £3600 you can only pay up to your full pensionable pay into the LGPS, but you can top up to £3,600 with another pension arrangement.

*Please note, however, that the Department for Communities and Local Government (DCLG) intends to impose a 50% limit on contributions to LGPS AVC arrangements. The limit will be backdated to April 2006.*

## Purchase of 'Added Years'

The maximum length of scheme membership that may be purchased is limited to 6 <sup>2</sup>/<sub>3</sub> years for any contract that started on or after 6 April 2006.

## Maximum service limit

Members are no longer restricted to total membership caps of 40 years at 60 or 45 years at 65.

Before this change employers had the discretion to reduce or waive payment of contributions for members who had accrued more than 40 years membership before age 60. This discretion has also been removed and employers are now allowed, at their discretion, to recoup contributions from those members still in employment who have had their contributions reduced or waived in the past.

## Flexible retirement

Scheme members who reduce their hours or change to a lower paid job after reaching age 50 may be able to draw their LGPS benefits whilst still working. This has to be with the consent of the employer as it could involve a cost to them, and each employer will have to formulate a policy as to whether they will allow flexible retirement and, if so, under what circumstances.

## Working beyond age 65

If their employer agrees to their working past the normal retirement age of 65 people can remain in the LGPS (or join it) up to age 75, but will need

their employer's consent to draw their benefit at 65. Members who defer drawing benefits beyond age 65 will have an increase applied to their benefit.

## Lifetime Allowance (LA)

There is an overall limit on the capital value of all retirement benefits that can be paid to an individual. It is calculated by multiplying your annual pension by 20 and adding this to your retirement grant. The lifetime allowance is £1.5 million for 2006/7 and will be increased annually.

Personal pensions, stakeholder pensions, AVCs and any occupational pensions are included in the calculation of the LA.

State pensions, pension credit benefits, surviving spouse's pensions, civil partner's pensions and dependant's pensions are not included in the calculation of the LA.

As a consequence of this change we are now required by H M Revenue and Customs (HMRC) to obtain details of Scheme member's pension arrangements before we are allowed to make payment of their LGPS pension and lump sum on retirement. Failure to provide this information will result in late payment and a tax charge on all benefits including the lump sum.

It is unlikely that scheme members will exceed the LA unless they have substantial benefits from their LGPS and/or a previous pension arrangement.

## Bigger Tax Free Lump Sum

Scheme members now have the option to increase their lump sum up to a maximum of 25% of their LGPS Lifetime Allowance (including any AVCs).

The increase to the standard lump sum is funded by giving up part of the pension. Normally every £1 of pension given up can provide an extra £12 tax free lump sum (subject to Government requirements to pay a minimum pension).

## Dependant's benefits

The option to give up a proportion of pension to provide a bigger pension for a surviving spouse, civil partner or dependant has been removed.

Children's pensions that come into payment on or after 6 April 2006 will cease when the child reaches age 23 (even where the child is still in full time education) unless the child is physically or mentally incapacitated.

# Technical update . . . . Changes made in 2006

**The 85 year rule** has been removed with effect from 1 October 2006 and will not, therefore, apply to anyone who joined the LGPS on or after that date. Existing Scheme members at 30 September 2006 will, however, have varying levels of protection.

## What is the 85 year rule?

The 85 year rule is used to work out whether or not your benefits will be reduced if you choose to retire before age 65. It is not used to decide when you can retire.

When you retire the sum of your age plus your membership (both in whole years) must equal at least 85, or benefits will be reduced. This previously allowed members to retire voluntarily from age 60 (or from age 50 with their employer's consent) with unreduced benefits where they satisfied the 'rule of 85'.

## What is the reduction?

The reduction applied to benefits coming into payment before 65 (where the 'rule of 85' is not satisfied, or not applicable) is calculated in accordance with a set of factors issued by the Government Actuary's Department (GAD) and is based on how long before your normal retirement age you are retiring. The current factors are shown in the table below.

Years Early	Pension reduction		Lump Sum reduction
	(%) Males	(%) Females	(%) All members
0	0	0	0
1	6	5	2
2	11	10	5
3	16	15	7
4	20	19	9
5	24	23	12
6	28	27	14
7	32	30	16
8	35	33	18
9	38	36	20
10	41	39	22
11	44	42	24
12	47	45	26
13	50	47	27
14	52	49	29
15	54	51	31

## Protections

### Full protection

Those born before 1 April 1956 will suffer no reduction to benefits based on membership before 1 April 2016 if they retire before age 65, provided they satisfy the rule of 85 at the time of retirement. They will however suffer a reduction to benefits for membership built up from 1 April 2016, based on the period between retirement and age 65.

### Phased protection

Those born between 1 April 1956 and 31 March 1960 will suffer no reduction to benefits based on membership before 1 April 2008 if they retire before age 65 provided they satisfy the rule of 85 at the time of retirement. They will, however suffer a partial reduction on benefits based on membership between 1 April 2008 and 31 March 2020. The normal reduction factors for retirement before age 65 will be adjusted in direct proportion to the period between their birth date and 1 April 1956.

Someone born on 1 April 1957 is only one year on from 1 April 1956 and will suffer only 1/4 of the full reduction.

Someone born on 1 April 1959 is three years on from 1 April 1956 and will suffer 3/4 of the full reduction.

### Partial protection

Those born on or after 1 April 1960 will suffer no reduction to benefits based on membership before 1 April 2008 if they retire before age 65 provided they satisfy the rule of 85 at the time of retirement. They will, however suffer a full reduction on benefits based on membership from 1 April 2008.

### No Protection

Those who joined the LGPS on or after 1 October 2006. Those who joined the LGPS at age 45 or over, and have no other membership (who would not therefore be able to satisfy the 'rule of 85 before age 65).

# Frequently asked questions . . .

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## What is Nomination?

Staffordshire County Council, as the Fund administering authority, has total discretion as to whom your death grant should be paid. Normally this would be as outlined in the article on the opposite page. They could, however, take account of any “nomination” made by you and held on your pension file. If they are satisfied that this is a valid representation of your wishes, they would pay the death grant directly to the nominee(s). This could mean that the death grant is released quickly without having to wait for the Probate process to be completed.

## Nomination forms

To make a nomination, please ask Pension Services for a form (see contact details on the back page of this Newsletter, or you could make your request on line via our website). Along with the form you will be sent some notes that explain how nomination works. For example, a nomination for children will be accepted but the children must not be minors, i.e. they must be age 18 or over. Also, if a nomination was made before a change in circumstances, such as a marriage, there could be a question of doubt as to your wishes and the payment would probably be made to your personal representatives.

## Re-employment – what effect will this have on my pension?

With effect from 1 October 2006 Staffordshire County Pension Fund has revised its policy concerning the reduction/suspension of LGPS pensions during a period of re-employment with an LGPS employer.

### Old policy

Your LGPS pension and any compensatory added years pension were subject to reduction if you took up re-employment with an LGPS employer and the rate of earnings in that re-employment when added to the rate of the pensions in payment to you exceeded the salary payable in respect of your former employment. The reduction applied was equal to the amount of the excess.

This policy still applies if your re-employment started before 1 October 2006.

### New policy

If your re-employment started on or after 1 October 2006 the reduction will only apply to any compensatory added years pension you are getting – it will not apply to your LGPS pension.

Please contact Pensions Services if you need this explained in greater detail.



# Requested topics - What benefits are payable if I die?

## Lump sum life cover

### Whilst a scheme member

If you die whilst in employment, a lump sum death grant equal to two years' pensionable pay is payable. This cover is provided from the moment you join the LGPS. If you are part time the death grant is equal to two years actual part time pensionable pay or the retirement lump sum to which you were entitled at the date of death if this would be more.

### After retirement

If you die before you have drawn a full five years' pension the balance of undrawn pension may be paid as a lump sum death grant.

### Who is the death grant paid to?

If you have not completed a **Nomination Form** the death grant will form part of your estate.

If you have made a Will your death grant would be payable to whomever is dealing with your estate and would be distributed in accordance with the terms of your Will.

If you have not made a will your death grant would be payable to your personal representatives (normally your next of kin), who would need to obtain Letters of Administration if the death grant was more than £5000.

## Spouse/civil partner cover

### Short term pension

Payable for 3 months – extended to 6 months if you have a child who is eligible to receive a pension and they are in the care of your spouse/civil partner

- Whilst a scheme member
  - ✓ paid at the same rate as your pensionable pay – if you are part time this is your actual part time pensionable pay
- After retirement
  - ✓ widow's pension (for pre retirement marriages) paid at the same rate as your pension
  - ✓ widow's pension (for post retirement marriages) widower's and civil partner's pensions paid at same rate as a pension based on your membership from 6 April 1978
  - ✓ widower's pension and civil partner's pensions paid at same rate as a pension based on your membership from 6 April 1988

### Long term pension

Payable for life.

- Whilst a scheme member – paid where you have at least 3 months membership
  - ✓ widow's pension based on 1/2 your pension for ill health retirement
- After retirement
  - ✓ widow's pension (for pre retirement marriages) based on 1/2 your pension
  - ✓ widow's pension (for post retirement marriages) based on 1/2 your pension in respect of membership from 6 April 1978
  - ✓ widower's/civil partner's pension based on 1/2 your pension in respect of membership from 6 April 1988

## Cover for your children -

This is provided for children aged under 17, or who, since becoming 17 are in full time education, or are physically or mentally incapacitated and became so whilst a child.

Children's pensions payable after age 17 because the child is in full time education cease when

- full time education ceases, if the pension came into payment before 6 April 2006;
- the child reaches age 23, where it came into payment on or after 6 April 2006.

### Short term pension

(only payable if there is no Spouse/civil partner cover)

#### Whilst a scheme member

paid for 6 months at the same rate as your pensionable pay, divided amongst any eligible children.

#### After retirement

paid for 6 months at the same rate as your pension, divided amongst any eligible children.

### Long term pension

(Payable when short term child's/spouse's/civil partner's cover ends)

#### Whilst a scheme member

**one child** – based on 1/4 your pension for ill health retirement, or a pension for 10 years membership if greater. (this is 1/3 where there is no spouse/civil partner cover)

**two or more children** - based on 1/2 your pension for ill health retirement (or a pension for 10 years membership if greater) divided amongst any eligible children. (this is 2/3 where there is no spouse/civil partner cover)

#### After retirement

**one child** – based on 1/4 your pension (or a pension for 10 years membership if greater). (this is 1/3 where there is no spouse/civil partner cover)

**two or more children** - based on 1/2 your pension (or a pension for 10 years membership if greater) divided amongst any eligible children. (this is 2/3 where there is no spouse/civil partner cover)

# Proposed 'New-look' Scheme – April 2008

Following discussions between the Tripartite Committee of the DCLG, Employers and the Trade Unions the DCLG announced a series of proposals for change to the LGPS from April 2008.

## Why the need to change?

The LGPS Scheme structure has remained, in broad terms, unchanged since the early 1970s and has provided good value pension cover for members since that time. The Scheme, however, has to be both sustainable in the long-term (which means it has to be affordable for employers and tax payers) and appropriate for all Scheme members. Over the last few years, costs have increased, the membership profile of the Scheme has changed and working patterns have altered. The future Scheme must be:

- affordable and viable
- fair to tax payers
- attractive to existing and future members
- an important part of the remuneration package in a diverse workforce
- able to deliver a defined benefit, index-linked income in retirement

## Progress to date

- Consultation exercise undertaken between 30 June and 29 September 2006
- Ministerial statement on way forward made in Parliament by Phil Woolas MP and letter issued by DCLG on 23 November 2006
- Draft regulations issued by DCLG in late December 2006

## Timetable

- Statutory consultation period on draft regulations- December 2006 to February 2007
- New regulations to be made by April 2007
- New Scheme in force from April 2008

## Current proposals

- Employee contributions - rate to be set at 5.5% on the first £12,000 of whole time pay and 7.5% on whole time pay in excess of £12,000. (A part time employee working 50% of whole time would pay 5.5 % on the first £6000 of their actual pay)

Illustrations of the estimated average rate of contribution can be seen below

Whole time salary	Contribution rate
£10,000	5.5%
£15,000	5.9%
£20,000	6.3%
£25,000	6.5%
£30,000	6.7%
£40,000	6.9%
£50,000	7.0%

- Employee benefits - for a comparison please see the table on the opposite page



# Proposed 'New Look' Scheme – April 2008

Provision	Existing Scheme	Proposed Scheme
<b>Type of Scheme</b>	Final Salary	Final Salary
<b>Pension Accrual</b>	1/80th (1/64th including lump sum)	1/60th
<b>Lump Sum</b>	Automatic 3/80ths lump sum plus optional commutation at £12 lump sum per £1 of pension given up - to an overall limit of 25% of capital value of benefits	No automatic lump sum – only optional commutation at £12 lump sum per £1 of pension given up - to an overall limit of 25% of capital value of benefits
<b>Survivor Benefits</b>	Spouse or Civil Partner only Payable for life	Spouse/ Civil Partner or Cohabiting Partner Payable for life
<b>Children's Pensions</b>	1/4 of member's pension per child (up to max of 1/2 for 2 or more children) if there is a survivor's pension or, 1/3 of member's pension per child (up to max of 2/3 for 2 or more children) if there is no survivor's pension	1/4 of member's pension per child (up to max of 1/2 for 2 or more children)
<b>Death in Service Grant</b>	2 times salary tax free lump sum	3 times salary tax free lump sum
<b>Normal Pension Age (Date unreduced benefits paid)</b>	65 (With 85 year rule protection for all pre-1/10/2006 members up to 31/3/2008 plus further transitional protection for certain members)	65 (85 year rule protection expected to continue)
<b>Earliest Retirement Age (Except ill health)</b>	Currently age 50 (55 from 2010)	For pre 1/4/2008 members age 50 (55 from 2010) For new starters from 1/4/2008, age 55
<b>Ill health benefits</b>	Immediate unreduced benefits payable at any age for those certified as permanently incapable of continuing to carry out own job or available comparable post.  With 5 or more years membership enhancement as follows:  Actual Enhancement  Up to 10yrs - membership doubled 10 to 13 1/3 - membership increased to 20 Over 13 1/3 - membership increased by 6 2/3 (subject to a limit of service to age 65 or a service total of 40 years)	3 Tiers - payable at any age Tier 1 - Immediate accrued benefits, for those certified as permanently incapable of continuing to carry out own job or available comparable post but currently capable of other work. Tier 2 - Immediate accrued benefits plus 25% of prospective service to age 65, for those certified as permanently incapable of continuing to carry out own job or available comparable post but able to do some gainful employment at some point before age 65 Tier 3 - Immediate accrued benefits plus 50% of prospective service to age 65, for those certified as permanently incapable of ANY gainful employment before age 65
<b>Pensionable Pay</b>	Best of; Final year's pay, Best of last 3 year's pay or Certificate of Protection Pay	Best of; Final year's pay or Best 3 year's consecutive average pay (revalued) in the last 10 years
<b>Buying added years</b>	Possible to purchase up to 6 2/3 years membership by % contributions based on current age payable to age 65	Option to buy up to £5,000 additional annual pension

An overview of the new-look scheme can be seen at <http://www.communities.gov.uk/lgps>

**The final Regulations may differ from these proposals**

# Bits and pieces...

## State pension

In the first edition of Nest egg we included an article that gave details of state retirement ages. Proposals in the new Pensions Bill recommend that the State Retirement Age be extended from 65 to 68 by 2046. A summary of existing and proposed state retirement ages can be seen in the table below;

Date of Birth	State retirement age	
	Women	Men
On or before 5 April 1950	60	65
6 April 1950 to 5 April 1955	between 60 and 65	65
6 April 1955 to 5 April 1959	65	65
On or after 6 April 1959	The State pension age will increase from 65 to 66 between 2024 and 2026; 66 to 67 between 2034 and 2036 and then to 68 between 2044 and 2046.	

The Bill also recommends the restoration of the link between the State pension and earnings by 2012 at the earliest. It also addresses the 'gender gap', where inequalities exist in payments received by men and women. Currently, men have to work for 44 years and women for 39 to be entitled to a full State pension. Under the new rules, eligibility for all will be after 30 years.

**Further information on State Retirement pensions can be found via the internet at <http://www.thepensionservice.gov.uk>**

## Don't forget...

You should always tell Pensions Services directly of any changes in your circumstances or of any amendments we need to make to your personal details. 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 below.

It is possible to update address details directly via the Staffordshire County Pension Fund website provided you have asked us to issue you with a password.

## Contact us



**by writing to:**

Pension Services, Resources Directorate  
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](mailto:pensions.enquiries@staffordshire.gov.uk)

**We also have a website at:** [www.staffordshire.gov.uk/pensions](http://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*