



nest egg

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

More change on the way- Hutton publishes Interim Report



Earlier this year the new Coalition Government set up the Independent Public Service Pensions Commission. The Commission chaired by Lord Hutton, a former Labour Minister, was tasked with undertaking a fundamental structural review of all public service pension provision in

time for the 2011 Budget. The Commission published its interim report which looked at both short and long term measures on 7th October 2010. Final recommendations will be made to Government in time for the 2011 Budget. Some of the key messages in the interim report are;

- The need to retain decent affordable pension provision for public service staff;
- The need to protect pension rights already built up prior to a new scheme being introduced;
- There needs to be a fairer balance of cost between current tax payers, public sector employees, current and future generations so changes are necessary;
- Wider Government policy is to encourage adequate saving for retirement and longer working lives;
- A recognition that public sector pensions are not gold plated;
- Future retirement ages need to reflect the fact that we are living longer;
- Final Salary Schemes are not fair to the majority of scheme members.

Details of the full extent of his recommendations, which could include switching from a final salary to a career average scheme, are not expected until before the 2011 Budget and will take some time for the Government to consider and implement. The full details contained in the report are available through a link on our website (see back page for our contact details).

One of the short term measures that the Government may wish to consider implementing in advance of a long term change is an increase to employee contributions, but Lord Hutton feels that any increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged.

Further updates will be made available on our website under "What's New" on this and other expected changes. I will update you with more information when the Government response to the interim report is known and again when the final report is published.

Janet Caiazzo
Pensions Manager

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Changes to Pension Scheme Regulations

Two sets of new Regulations issued since December 2009 make important changes to your pension scheme:

Changes backdated to take effect from 1 April 2008

Reductions to Final Pay

The conditions under which you can have your final pay treated as the average of any 3 consecutive years have been expanded to include restrictions as well as reductions in pay, where any reduction / restriction occurred as a result of a change to your contract made by your employer.

It also extends the period, under which the 3 consecutive years can be looked at, to cover 13 years (previously this was 10 years) however the reduction/restriction must have still occurred within the last 10 years. You are required under the regulations to give notice in writing if you request this method of calculation for final pay and must do so at least 1 month before you cease active membership.

Please note that the current annual pay award "freeze" is not classed as a "restriction" under the scheme regulations.

Civil Partners Survivors Benefits

Civil partners of members of the 2008 scheme are now treated the same as spouses in relation to survivor benefits, so that in cases where a civil partnership has taken effect before a member leaves or retires all membership is now taken into account in calculating survivors benefits, not just membership that had accrued from 6 April 1988 which had previously been the case.



Changes operative from 30 September 2010

Third Tier Ill health benefits

If you are awarded a 3rd tier Ill health retirement benefit prior to 65, after the maximum three year payment period has ended, 3rd tier benefits are normally suspended, however a further review can be carried out that may reveal the 3rd tier benefit should be increased to tier 2 benefits.

The new regulations restrict when this further review can take place and it must take place no more than 3 years after the 3rd tier benefits have been suspended or before the member reaches age 65 if this is earlier.

If your tier 3 ill health pension is "suspended" it is now possible to access these "suspended" benefits from age 60 but before age 65 with actuarial reductions for early payment.

If after being awarded an ill health pension you return to local government employment and are awarded further ill health retirement benefits, the total amount of the subsequent benefits will be restricted by taking into account the initial ill health benefits that were paid in the first instance.

Death in Service benefits

If there is a prior reduction in your hours as a result of a condition that leads to your death any benefits would be calculated ignoring this reduction in hours.

Persons incapable of managing their own affairs

Local Authority Pension Fund administrators are now permitted to re-direct payment of benefits to appropriate persons who are taking care of pensioners and other beneficiaries of the Scheme who are no longer capable of managing their own affairs.



Current issues

A Further opportunity to combine!

The choices for members, who leave the scheme and later rejoin, have been relaxed. You can now combine any of your previous periods of membership providing you elect to do so within 12 months of becoming a member. Previously this option was limited to your most recent LGPS membership only.

In addition, **all current members will now have an opportunity until 1 October 2011** to make an election to combine any previous Local Government Pension Scheme membership which they have either chosen not to, or have not been able to merge before due to other restrictions in the regulations.

We have already written directly to scheme members who we think may be able to combine former service. If however you believe this change applies to you, but you have not heard from us, it could mean that we do not have your LGPS membership outside of the Staffordshire Pension Scheme noted on our records. In this case please contact us and we will look into this for you.

Pensions Tax treatment – All Change!

The previous Government had proposed changes to the tax system to restrict pension contribution tax relief for high earners from April 2011. The current Government has revised these proposals and as a result more scheme members could be subject to an additional tax charge in some circumstances.

The new tax test will set a limit on how much the value of your "pension pot" can increase in any one year. For most cases unless you receive a very large pay increase (normally as a result of promotion or job change) or pay a very substantial amount in Additional Voluntary Contributions (AVCs) this limit will not apply.

Under the new test the annual increase in your pension will be multiplied by 16. Any increase in the value of your other pension arrangements such as AVCs and if applicable lump sum benefits will be added this. If the total increase exceeds £50000 the excess will be taxable at your highest personal income tax rate. It will be possible to carry forward any unused allowance from the previous 3 years.

If you choose to combine previous LGPS service, as covered in our article above, this could lead to a substantial rise in value of your "pension pot". If you do intend to combine your former service, you may wish to consider making an election before 5th April 2011.

HM Treasury have stated that 80% of those affected by this test will earn in excess of £100,000 pa. Other scheme members could be affected if they receive

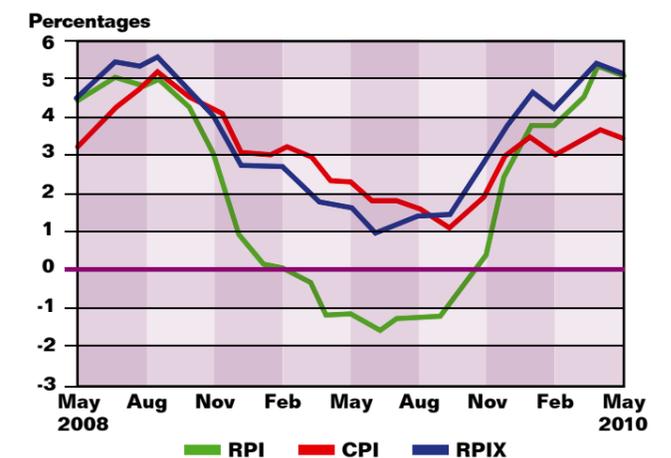
a large pay increase, for example in the case of a promotion or job change

Changes in Public Sector Pensions Increases

In his "emergency" budget statement the Chancellor, George Osborne announced that in future annual increases for public sector pension schemes will be linked to the annual rise in the Consumer Price Index (CPI), rather than the Retail Price Index (RPI), which was used to calculate annual "Pensions Increase Orders" previously.

This change affects "deferred" benefits (pension and lump sum) as well as pensions currently in payment. It will only apply going forward in time and does not alter the current value of any benefits you have already earned or are receiving.

The CPI index is based on a wider "basket" of goods and services but excludes changes in housing costs. Over time the two indices will produce different results as can be seen in the graph below, which shows the relative differences since the CPI index was introduced.



RPI = Retail Prices Index
RPIX = RPI but excluding mortgage interest payments
CPI = Consumer Prices Index (the new measure)

Why the Change?

The Government's budget report states "CPI is a more appropriate measure of benefits and pension recipients' experiences than RPI, because it excludes the majority of housing costs faced by homeowners.....". Over the long term, the CPI tends to have smaller increases than RPI

The change will apply from April 2011. Current Staffordshire Pension Fund literature and articles on our website refer to increases in line with the (RPI). We are currently working to update all these references, unfortunately this may take a while to complete. In view of this for the time being please take any reference to RPI to mean CPI.

Customer Service Excellence Award

The Staffordshire Pensions Section is delighted to have been awarded the Government's "Customer Service Excellence" (CSE) award in August this year.

This award replaces the "Chartermark" award previously held by the section. The new award focuses on delivery, communication material, timeliness, professionalism, customer experience and satisfaction.



The Government Standard

Customer Service Standards

The Pensions Section sets performance targets in 13 key areas and a minimum benchmark completion target of 90%.

After listening to your views, and a substantial revision of our internal procedures we have considerably exceeded the 90% target in most areas. Notably for benefit quotations, retirement details, information to next of kin, transfer in quotations, new starters and early leavers, our performance is in the range 94 to 100%.

The section will continue to strive to maintain these standards and aims to improve further where possible. Full details can be found on our website under "Performance Standards".

Website - Self Service Calculator

We would like to remind you that there is a "Self Service Calculator" on our website and once you have applied for a password to access this facility, you can view (and in some cases amend) the information we hold in our records and perform your own benefit estimates.

To request a password visit the "Self Service Calculator" section of our website (web address shown below) and follow the instructions given there.



Please retain your Annual Benefit Statement

Please keep your Annual Benefit Statement somewhere safe. Last year we ran several Pensions Surgeries throughout the County which were very well received, so we intend to hold more within the coming months. Once the dates and venues have been arranged we will ask your Employer to advertise the information.

What became apparent at last year's Surgeries was that where scheme members had brought along their most recent Annual Benefit Statement it provided all the information we needed to be able to answer a lot of their queries on the spot rather than wait until we could access their records back at the office.

Contact us

by writing to: Pensions Services Section, Staffordshire County Council,
Wedgwood Building, Tipping Street,
Stafford ST16 2DH

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.staffspf.org.uk

If you would like this information in large print, Braille, audio tape/disc, British Sign Language or any other language, please ring 01785 278222.

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.