Staffordshire Pension Fund
Local Government Pension Scheme

December 2011 – Issue 7

nest egg

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

Latest News on Pension Reform

The story so far...

Since the last edition of Nest Egg, public sector pensions have remained headline news. The Government and various public sector unions have been in discussion regarding the future for a number of public sector schemes. This edition of nest egg provides more detail regarding the Local Government Pension Scheme (LGPS) and aims to clarify the headlines and present them as more meaningful facts for members of the scheme.

In brief, the Government has adopted a 2 step approach to reform. The first step which forms the basis of the current consultation can be viewed on our pension website. The key proposals are:

- an increase in employee contributions from April 2012
- reduced future benefits from April 2013/2014
- linking the scheme retirement age to state retirement age

The second step would see the introduction of a new scheme by 2015.

An alternative solution may be to roll all the changes into one; this is currently being considered at a national level.

The details in this Nest Egg are current as at date of going to press and could be subject to change. Pension Services are committed to informing its LGPS members of any further developments relating to Pension Reform as they happen. We have started issuing a series of information bulletins on the subject, which can be found on the 'What's New' page of our website: www.staffspf.org.uk .

Whatever changes do eventually occur, it should be remembered that the LGPS will still provide an excellent range of benefits to its members. We explain these benefits inside this edition of Nest Egg and the consequences of what you could lose if you are considering opting out.

Your Annual Benefit Statement for 2011 provides details of the estimated value of your LGPS benefits as at 31 March 2011 and it is worth remembering that despite any future change, the basis upon which these have built up will not be affected.

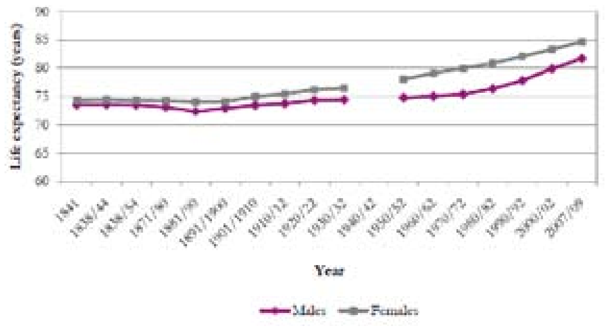
Janet Caiazzo
Pensions Manager

In this issue

Pension Reform – Why is it needed?

Reasons for the need to change

People in the UK are living much longer than they did in previous generations. The average 60 year old is living up to 10 years longer now than they did in the 1970s. This is illustrated in the following table.



(Source: Life tables, Office for National Statistics)

Because people are living longer, the retirement provision they build up during their time at work has to go increasingly further as pensions are being paid over a longer retirement period.

Analysis of Government Actuary's Department data shows that current pensioners retiring at 60 can expect to spend around 40 to 45% of their adult lives in retirement, compared with around 30% for pensioners in the 1950s.

Consequently, the expense of providing pensions for future generations of scheme members is increasing, with the cost being split between the member and employer.

The recommendations made in Lord Hutton's report are aimed at taking measures to address the anticipated higher costs and certain areas of unequal treatment in public sector final salary schemes. This is so that they are capable of sustaining the future pension demand from their members, whilst retaining a broadly similar package of scheme benefits to those that are available now.

To make public sector schemes sustainable requires certain structural alterations. For the LGPS, shorter term cost saving changes are currently being negotiated between the Department for Communities and Local Government, the Local Government Group (the employers) and various trade unions.

A second round of consultation (that has yet to begin) will consider the longer term proposal of introducing a new CARE (Career Average Revalued Earnings) Scheme to be introduced by April 2015 (see pages 4 and 5).

What has happened so far?

Last year (2010) the Government asked Lord Hutton, the former Secretary of State for Work and Pensions, to carry out a review of all public sector pensions.

Lord Hutton's full report was published in March 2011. The report contained a number of recommendations on how public sector pension schemes (including the Local Government Pension Scheme) should look in the future.

In July 2011, the Secretary of State for Communities and Local Government asked the Local Government Group (the employers) and national trade unions to discuss and present their proposals to the government for initial cost saving measures ahead of a proposed new Scheme that is due to become operational by April 2015.

On 21 September 2011, the Local Government Group submitted their proposals to the Secretary of State.

In October 2011, the government published their response to the proposals and this started a statutory 12 week consultation process that enables employers, trade unions, administering authorities and others to comment. The outcome of this process will be known early in 2012.

Brief details of these short term proposals are shown on page 3 opposite.

On 2 November 2011, HM Treasury published in their document "Public Service Pensions: good pensions at last", improved proposals for all new Public Service Pension Schemes. This suggests offering protection to scheme members who are within 10 years of retirement at 1 April 2012. When the proposed new scheme is introduced, their pension could continue to be calculated in line with current scheme rules. No definition of retirement date has been provided to illustrate how this would work in practice. There is also an improvement to the offer of the proportion of pay used in the pension calculation.

It is important to stress that there will be much debate before the final details of any changes are known.

Pension Reform – How may it affect me now?

What do we already know?

The benefits that you have built under the current scheme rules up to the date of any proposed scheme changes, have been guaranteed by the Government.

After any changes to the scheme:

- you would keep all the pension benefits you have earned already
- they will be worked out in the same way when you retire as they are now
- you can draw your benefits at the same retirement age as now

How your pension is calculated now and up to the point of any scheme change

* This will be 1/80th for any service prior to 1st April 2008, but includes an automatic tax-free lump sum

Will the proposed short term changes mean that members have to pay more?

Under the current proposals for short term cost savings not all members will pay an increase in their contributions. Members whose pay is less than £15,000 pa* would not be required to pay any increase.

For members who earn more than £15,000 pa*, but less than £21,000 pa*, the proposed increase is limited.

Will the future calculation of my benefits change?

Maybe; the consultation proposes a phased reduction in the build up of future benefits from 1/4/2013 or 1/4/2014.

We have published some examples of how these changes may look in Information Bulletin No. 2 on the Proposed Pension Reform, available under 'What's New' on our website www.staffspf.org.uk.

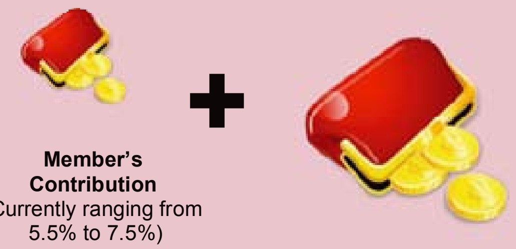
* Whole time equivalent (WTE) pay

It is worth remembering what the LGPS currently offers:

- A pension based on your length of membership
- option of a tax free lump sum on retirement
- index linked benefits which keep in line with inflation
- immediate benefits if you have to retire due to ill health
- death in service lump sum of three years' actual pay
- survivors' pensions for spouse, civil partner, nominated cohabiting partner or eligible children
- the right to retire from age 60 (reduction may apply)
- early retirement benefits from age 55 on redundancy

Remember also that if you leave the Scheme you will no longer be covered by these benefits and will need to find another way of saving for retirement and protecting your family.

Your employer makes a significant contribution towards the cost of your pension



Member's Contribution
(Currently ranging from 5.5% to 7.5%)

Employer's Contribution
(In the Staffordshire Pension Fund this could be as much as 27% of your pay)

What if I opted out?

If you opt out, it will cost you considerably more to continue financing the same package of benefits as that offered by the LGPS. For example, a member would have to contribute in the region of a third of their pay to get the same pension benefits in an individual private pension plan. E.g. this would mean that in order to receive a pension of £17,500 the pension pot required would need be in the region of £475,000#.

#Source: HM Treasury document 'Public Service Pensions: good pensions that last'

Pension Reform – How may it affect me in the future?

How will the proposed longer term changes affect the benefits I receive?

One of Lord Hutton's recommendations is to change the LGPS from a Final Salary Scheme to a CARE (Career Average Revalued Earnings) Scheme. The proposal is for this change to be introduced by April 2015.

CARE, like Final Salary is a type of 'defined benefit' pension scheme, by this we mean that the Scheme member is promised a defined level of pension when they retire based on a formula generally related to their pay and the number of years they have contributed to the LGPS.

In a CARE Scheme the amount of pension build up is calculated each year as a proportion of the member's pay received for that year. The resulting pension is quite often referred to as the 'pension pot' or 'retirement pot'. Each year's pots are added together to determine the final pension.

In order to maintain the value of the pension, each yearly component is revalued annually up until the time the member leaves the Scheme or retires. Increases will be aligned to earnings revaluation.

This sounds complicated, but we have provided an illustration of how this may look on the page opposite.

In contrast, Final Salary Schemes (like the LGPS) use the pensionable pay, which is generally received during the Scheme member's last year before retirement. The pay is multiplied by the number of years service and then by the rate that determines the proportion of pay.

An illustration of how your pension is calculated under the existing Final Salary Scheme is shown on page 3 and is further defined in your annual benefits statement.

STOP PRESS

– Unless agreement is reached by the Government, unions and employers, the improved 2 November 2011 offer (see page 2) may be withdrawn.
The offer includes a more generous benefit package for the new, 2015, scheme, and protection for those members within 10 years of normal retirement age .

Will any proposed changes to the Scheme's normal retirement age (NRA) affect me?

Maybe, because one of the recommendations being considered is to change our scheme retirement age to match the State Pension Age. You will, however, still be able to retire from the LGPS from age 60 although your benefits may be reduced, as under the current arrangements. This would be subject to existing and future retirement age protections.

State Pension Age and State Pension Date explained

The observed and projected increase in life expectancy (see page 2 column 1) has already been recognised within the State Pension system with the Pensions Act 2007 proposing an increased State Pension Age (SPA) of 68 from 2046 for both men and women, with interim increases to 66 and 67.

The first step in this journey started with the equalisation of State Pension Age for men and women. From April 2010, State Pension Age for women started to be gradually increased until it reaches age 65 for both sexes. This will affect all women born on or after 6 April 1950.

Following this equalisation there will be further staged increases in State Pension Age which will apply to both men and women. The first of these will be to increase SPA from 65 to 66.

While the increases in State Pension Age are being phased in, the date at which a person becomes eligible to receive their State Pension may not fall on a particular birthday (as used to be the case before April 2010). Instead, they will become entitled to receive the pension on a particular date, referred to as the State Pension Date (SPD).

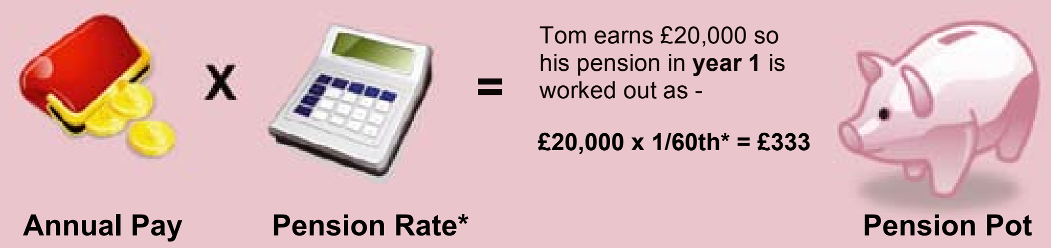
Pension Services has prepared a helpful leaflet that informs members of the expected State Pension Age or Date corresponding to their date of birth. This is available on our website.

Please note that Central Government policy may change and that the Department for Work and Pensions have an SPD calculator on their website at: http://pensions-service.direct.gov.uk

How a CARE (Career Average Revalued Earnings) scheme works

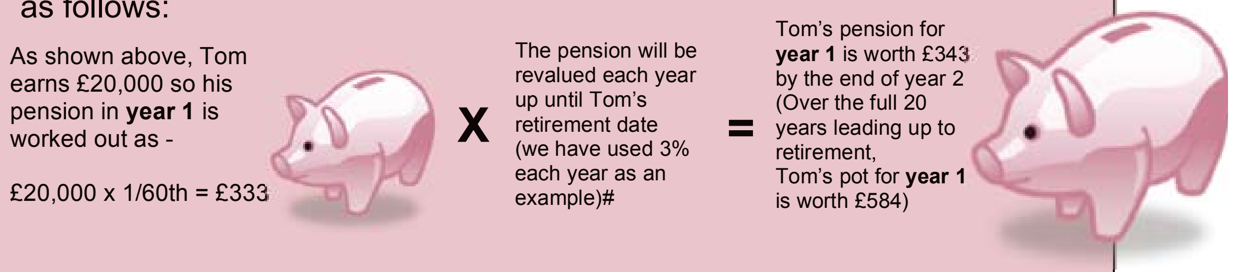
The illustration below uses Tom as an example. Tom works full-time and earns £20,000 a year. We have assumed he remains a scheme member for 20 years until he retires

This is what would happen in Tom's first year of membership under the CARE scheme. He would earn a percentage of his salary for his year of membership and this would start his 'Pension Pot'. This is illustrated as follows:

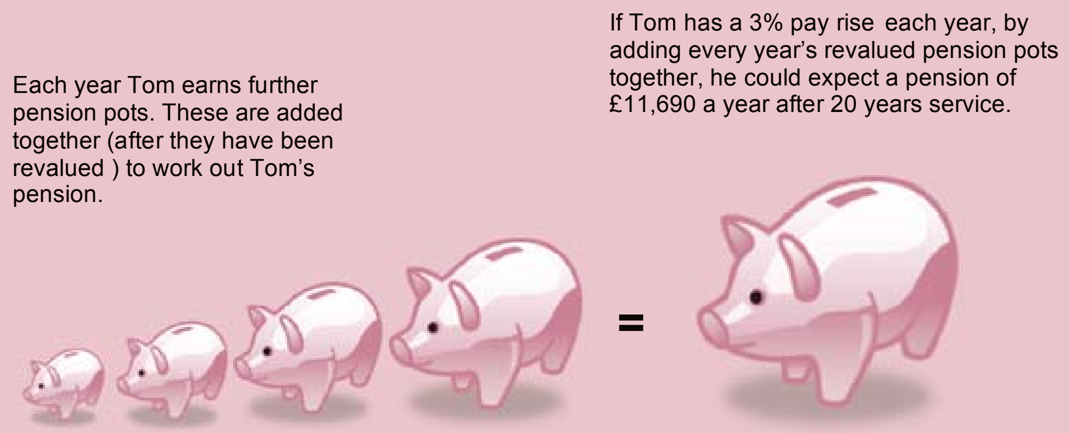


* This is often referred to as the pension 'Accrual Rate' and represents what proportion of annual salary is used in the pension calculation. It has yet to be decided what the rate will be for the proposed CARE Scheme. However, the new proposals issued by HM Treasury on the 2nd November 2011, in their document 'Public Service Pensions: good pensions that last' suggest that the rate could remain at 1/60th, so this is what we've used in the example.

Tom's pension pot from the **first year** would be revalued the following year and for each year thereafter up until his retirement. This can be illustrated as follows:



It is proposed that the level of increase is linked to earning revaluations



Frequently Asked Questions

Q1. Will the proposed pension reform alter the level of pension that I've built up so far?

A1. No, the benefits you have built up under the current scheme rules, up to the date of any proposed scheme changes, have been guaranteed by the government.

Q2. Will the proposed pension reform alter the level of pension that I will build up in the future?

A2. The current proposals do make suggestions for a slight reduction in build up following any change. However, it is important to stress that there will be much debate before the final details of any changes are known. The 'Value of your benefits as at 65' shown in your annual benefit statement, is based on current rules, as we cannot speculate what the future change may be Please refer to our series of information bulletins on Pension Reform, which can be found on the 'What's New' page of our website www.staffspf.org.uk for the latest details of what changes are being proposed.

Q3. How will I find out when any change may occur and how it will affect me?

A3. Pension Services have made a commitment to notify members of any changes as they happen. We have started issuing a series of information bulletins that can be found on the 'What's New' page of our website www.staffspf.org.uk

Q4. I am a part-time employee and have worked for my employer for 6 years. Why is my period of membership shown on the statement as only 3 years?

A4. If you work part-time, your membership builds up according to the number of contractual hours you work each week as a proportion of what you would work if a whole-time employee. For example, if you have worked half-time since you commenced your employment 6 calendar years ago, your total membership credit is 50% of 6 years, i.e. 3 years.

Q5. What is the Lifetime Allowance (LTA)?

A5. This is the maximum 'pot', taking into account all of your pension sources, that you are allowed before a special tax charge is applied by the HM Revenue and Customs. The threshold will reduce from £1.8m to £1.5m from April 2012.

Q6. I am a term-time employee. How does this affect my period of membership?

A6. If you work term-time, your membership is reduced in accordance with the number of paid term-time weeks for which you are employed. For example, if a person works half-time – 18.50 hours a week out of a standard 37 hours - for 45.22 paid weeks a year, their percentage of whole -time membership would be calculated as follows:

Firstly, reduce contractual hours by paid term-time weeks: 18.50 x 45.22/52.14 = 16.04

Secondly, work out percentage of whole-time membership: 16.04/37 x 100 = 43.35%

Q7. I joined whole-time local government employment straight from school but my total membership does not seem to reflect this. Why?

A7. Were you under 18 when you took up your job? Until 01/04/1990, you could not join the LGPS unless you were age 18 or over. Then the admission age was reduced to 16. (There is no minimum admission age at all now).

Q8. I started working in local government in a whole-time post 28 years ago but the Statement shows total membership as 27 years. Why?

A8. If your membership is exactly one year less than your period of employment, the most likely reason is that you were appointed as a manual worker. Before 01/04/1990, anyone appointed as a manual worker was required to serve a 12-month qualifying period before being admitted to the LGPS.

Q9. The pensionable pay figure on my Statement looks far too high. Is it correct?

A9. Do you work part-time? If you do, remember that when your benefits are assessed, although membership reflects the hours you work (see Q4), the pay used in the benefit formula is that which you would receive if the post was whole-time.

Q10. Why is my total period of membership a longer period than my employment?

A10. This could be for a number of reasons: e.g. you have transferred service into the LGPS, you have purchased extra membership, or you have merged service from an employment you held concurrently.

Frequently Asked Questions

Q11. I am not married but have a partner. Would he/she be entitled to the spouse's pension?

A11. The LGPS makes provision for surviving spouses and civil partners. There is also provision for nominated co-habiting partners. Please see our website for further information.

Q12. There is no mention of death benefit cover for children on my Statement.

A12. This is because the amount of child's benefit varies according to the number of eligible children and whether or not a survivor pension is paid. There would be too many alternatives to include in a brief Statement. Get in touch with Pension Services if you would like more information about children's benefits.

Q13. Why have my benefits been split at 01/04/2008?

A13. This is because a new LGPS, with a new method of benefit assessment, was introduced on 01/04/2008. Benefits based on membership built up before 01/04/2008 are different to benefits built up after.

Q14. How are benefits assessed?

A14. Each reckonable year of membership before 01/04/2008 provides -

- a pension of 1/80th of final pay
- a lump sum of 3/80ths of final pay

Each reckonable year of membership from 01/04/2008 provides -

- a pension of 1/60th of final pay

When the benefits become payable you will be given the option to convert part of the pension to (more) lump sum. Each £1 of pension converted would provide £12 lump sum.

Q15. When can I draw my benefits?

A15. Under the existing rules, normal retirement age is currently 65. This is the age at which benefits can be paid without any reduction. If you draw them after age 65, your benefits will be increased in line with guidance issued by the Government Actuary. Under tax rules, benefits must be paid before age 75.

You can request earlier payment - from age 55. But if you are below age 60, you will need your employer's consent. Benefits paid before age 65 may be reduced (some longer-serving members have protection against this reduction).

The LGPS contains special provisions for early retirement without reduction on grounds of ill-health or redundancy/efficiency.

Q16. I am married - why isn't a spouse's pension shown on my Statement?

A16. This will be because your pension record shows you as single. Please notify Pension Services in writing to change this.

Q17. I pay additional contributions to improve my retirement benefits. Are the additional benefits shown in the Statement?

A17. If, under the LGPS prior to 01/04/2008, you elected to pay additional contributions to purchase a period of membership, the amount purchased to date will be credited as membership before 01/04/2008 in the benefit assessment. If, under the LGPS from 01/04/2008, you have elected to pay additional regular contributions (ARCs) in order to purchase additional pension, the amount of additional pension purchased to date will be included in your benefits shown. If you have elected to pay additional voluntary contributions (AVCs) to a life assurance company linked with the Staffordshire Pension Fund, you will receive a separate statement relating to the AVCs.

Q18. Why is there a delay between the date to which benefits are calculated, and the date at which the Statement was issued?

A18. This is because the calculations are based on pay figures provided by your employer and there is often a delay between the end of the financial year to which the figures relate and the provision of this information.

Q19. Why have I received a Statement, but relatives/friends who are also LGPS members have not?

A19. Because there are a great many members in the Pension Fund, the Statements are not produced and sent out at the same time for everyone.

Q20. I've got questions about the LGPS that aren't included in this list. Can you help?

A20. Please check our website where further information should be available. Alternatively, you can contact us direct.

Q21. How do I find out more about paying additional contributions?

A21. Please see our website or contact Pension Services Section

Q22. I shall be age 60 this year and am thinking of retirement. Can I get more up-to-date figures?

A22. Yes, please get in touch with us direct.

Keeping up-to-date with change

Pension Services is committed to informing members of the Staffordshire Pension Fund of the latest news concerning the proposed Pension Reform and other issues related to the Local Government Pension Scheme. To provide this service effectively and efficiently, we are asking members to register their email address with us so that up-to-date information can be sent to them direct. To register, simply send us an email at pensionsonline@staffordshire.gov.uk using the address you wish to register, stating your interest in using the service and providing us with, your full name, the name of your employer and your pay reference.

Customer Service Standards

Performance targets of 90% are set in 13 key areas relating to membership administration and benefit calculation.

Our results for 2010/11 show that performance targets have been exceeded in 8 key areas despite increases in workload, with a further 4 key areas achieving performance between 80% and 90%.

Full details can be found on our website under 'Performance Standards'

Customer Service Excellence Award

In the last edition of nest egg I was able to bring you news of how delighted we were in Pension Services with our successful achievement of the Customer Service Excellence (CSE) standard. This year we achieved an even greater height when our annual review revealed that we were now fully compliant against all 57 elements of the standard, an accomplishment achieved by relatively few holders of CSE. This is a fantastic achievement by the team and serves as an external endorsement of how well we deliver our services to our Scheme members.

my pension

Website - Self Service Calculator

We would again 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 at the web address shown below and follow the instructions given there.

A new version of the calculator "Member Self-Service – my pension" is currently being introduced. If you have previously registered, the first time you access the new calculator you will need to follow the on screen instructions to re register. Full instructions on how to use the new "my pension" facility will be available on our website.

Your 2010/11 Annual Benefit Statement

The estimate of benefits shown in your Annual Benefit Statement at 31 March 2011 is based on current scheme rules. The government has guaranteed that these benefits will be worked out in the same way when you retire whatever changes the new scheme may bring. The retirement age will also be protected. In light of the uncertainty of future pension build up in the proposals for change, the estimate of projected benefits at age 65 may alter in future statements.

Contact us

by writing to: Pension Services Section, Staffordshire County Council,
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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.

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