

SURREY
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Latest update on the New Local Government Pension Scheme 2014

Dear colleague

In our last edition of Surrey Pensions News we informed you of the progress being made to introduce a new Local Government Pension Scheme (LGPS) from 1 April 2014.

The Local Government Association (LGA) and trade unions released a Joint Statement on 31 May 2012 announcing the outcome of their negotiations on the proposals for the new scheme '**LGPS 2014**'.

The LGA will now enter into consultation with employers and the trade unions with their members about the new LGPS proposals. The

government has confirmed that a favourable outcome to consultations will allow them to move directly to a statutory consultation later in the autumn to put these proposals into action.

All parties involved in these continuing discussions are committed to ensuring that the LGPS will still be one of the best pension schemes available.

This newsletter outlines the main proposed changes and you can find further details on the latest proposals at www.lgps.org.uk by searching for '**LGPS 2014**'.



LGPS 2014 –at a glance

The table below shows the main provisions of the proposed new ‘**LGPS 2014**’ for membership built up from 1 April 2014 compared with those of the current scheme ‘LGPS 2008’.

| | LGPS 2014 | LGPS 2008 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---------------|------|---------------|--|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|----------|-------|----------|----------|-------|-----------|----------|-------|--|---------------|-------------|------|---------------|--|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|-----------|---------|------|
| Basis of pension | Career Average Revalued Earnings (CARE) | Final Salary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrual rate | 1/49th | 1/60th | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revaluation rate | Consumer Price Index (CPI) | Based on final salary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pensionable pay | Actual pay including non-contractual overtime and additional hours for part-time staff | Pay excluding non-contractual overtime and non-pensionable additional hours | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Employee contribution rate – average 6.5% in both LGPS 2014 and LGPS 2008 (In the LGPS 2014 part-time members will have their contribution rates based on their actual pay and not the whole time equivalent pay) | <table border="1"> <thead> <tr> <th>Actual pay from</th> <th>Actual pay to</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td></td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£21,000</td> <td>5.8%</td> </tr> <tr> <td>£21,001</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£43,000</td> <td>6.8%</td> </tr> <tr> <td>£43,001</td> <td>£60,000</td> <td>8.5%</td> </tr> <tr> <td>£60,001</td> <td>£85,000</td> <td>9.9%</td> </tr> <tr> <td>£85,001</td> <td>£100,000</td> <td>10.5%</td> </tr> <tr> <td>£100,001</td> <td>£150,000</td> <td>11.4%</td> </tr> <tr> <td>More than</td> <td>£150,000</td> <td>12.5%</td> </tr> </tbody> </table> | Actual pay from | Actual pay to | Rate | Up to £13,500 | | 5.5% | £13,501 | £21,000 | 5.8% | £21,001 | £34,000 | 6.5% | £34,001 | £43,000 | 6.8% | £43,001 | £60,000 | 8.5% | £60,001 | £85,000 | 9.9% | £85,001 | £100,000 | 10.5% | £100,001 | £150,000 | 11.4% | More than | £150,000 | 12.5% | <table border="1"> <thead> <tr> <th>*WTE pay from</th> <th>*WTE pay to</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td></td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£15,800</td> <td>5.8%</td> </tr> <tr> <td>£15,801</td> <td>£20,400</td> <td>5.9%</td> </tr> <tr> <td>£20,401</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£45,000</td> <td>6.8%</td> </tr> <tr> <td>£45,501</td> <td>£85,300</td> <td>7.2%</td> </tr> <tr> <td>More than</td> <td>£85,300</td> <td>7.5%</td> </tr> </tbody> </table> <p>*Whole time equivalent</p> | *WTE pay from | *WTE pay to | Rate | Up to £13,500 | | 5.5% | £13,501 | £15,800 | 5.8% | £15,801 | £20,400 | 5.9% | £20,401 | £34,000 | 6.5% | £34,001 | £45,000 | 6.8% | £45,501 | £85,300 | 7.2% | More than | £85,300 | 7.5% |
| Actual pay from | Actual pay to | Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Up to £13,500 | | 5.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £13,501 | £21,000 | 5.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £21,001 | £34,000 | 6.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £34,001 | £43,000 | 6.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £43,001 | £60,000 | 8.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £60,001 | £85,000 | 9.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £85,001 | £100,000 | 10.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £100,001 | £150,000 | 11.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| More than | £150,000 | 12.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| *WTE pay from | *WTE pay to | Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Up to £13,500 | | 5.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £13,501 | £15,800 | 5.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £15,801 | £20,400 | 5.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £20,401 | £34,000 | 6.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £34,001 | £45,000 | 6.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| £45,501 | £85,300 | 7.2% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| More than | £85,300 | 7.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Contribution flexibility | Members can pay 50% of contributions for 50% of the pension benefit | No such option | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Normal Pension Age | Equal to the individual members State Pension Age (Minimum 65) | Age 65 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Only scheme membership accrued **from** 1 April 2014 will be used in the new scheme under the new ‘**LGPS 2014**’ rules. All scheme membership accrued **before** 1 April 2014 will be calculated under the current scheme. If you are already in receipt of a LGPS pension or if you have deferred benefits in respect of a former LGPS employment you will not see any change to these benefits as they were built up **before** 1 April 2014.

A Career Average Revalued Earnings (CARE) scheme

The new scheme will be a Career Average Revalued Earnings (CARE) scheme. This means that rather than using your final year's pensionable pay at leaving, benefits will be based on an average of your yearly pay during your period of membership of the scheme. As part of the calculation each year of pay will be index linked to maintain its value.

Only benefits that build up **from** 1 April 2014 will be based on Career Average Earnings. All benefits built up **before** 1 April 2014 will be calculated under the

current final salary scheme.

How does the new CARE scheme compare with a final salary scheme?

The table below shows an example of a CARE pension **from** 1 April 2014 with a 1/49th accrual rate over a four-year period. It has been based on the assumption that the index linking will be at the rate of 3% per year (compounded) and that pay increases will be 2% per year.

| Year | Yearly pay | Accrual rate | Pension built up for each year | Revaluation | Revalued pension |
|--|------------|--------------|--------------------------------|-------------|------------------|
| One | £20,000 | 1/49th | £408 | 9.27% | £446 |
| Two | £20,400 | 1/49th | £416 | 6.09% | £441 |
| Three | £20,808 | 1/49th | £425 | 3.00% | £438 |
| Four | £21,224 | 1/49th | £433 | - | £433 |
| Total pension at the end of year four | | | | | £1,758 |

For a significant number of members, a CARE scheme will generate a better pension than they would have received under the current final salary scheme.

An example of the benefits payable under the current final salary scheme, based on the same pay and the same scheme membership with a current 1/60th accrual rate are shown below for comparison:

| Total years | Final pay | Accrual rate | Total pension |
|-------------|-----------|--------------|---------------|
| Four | £21,224 | 1/60th | £1,415 |

Final salary schemes generally offer significantly better value to members of the scheme who have high wage increases towards the end of their careers and high flyers who have faster pay progression than those members whose pay rises steadily throughout their career.

LGPS 2014 is fairer for the majority of members because it removes the potential for pensions to be disproportionately increased in these circumstances.

The accrual rate will increase to 1/49th

The accrual rate is the rate at which your pension builds up for each year of membership in the scheme. It is currently 1/60th of your pay for each year of membership, but **from** 1 April 2014 it will increase to 1/49th for each year of membership. The improved accrual rate would

mean that the majority of members would build up a higher pension under the '**LGPS 2014**'.

How does the new accrual rate compare with the current accrual rate?

New accrual rate:

| Number of years membership | Yearly pay | New accrual rate | Total pension |
|----------------------------|------------|------------------|---------------|
| One | £20,000 | 1/49th | £408 |

Current accrual rate:

| Number of years membership | Yearly pay | Current accrual rate | Total pension |
|----------------------------|------------|----------------------|---------------|
| One | £20,000 | 1/60th | £333 |

Only benefits that build up **from** 1 April 2014 will be based on a 1/49th accrual rate. All benefits built up

before 1 April 2014 will be calculated under the old 1/60th accrual rate.

A change to the normal scheme pension age

The current scheme has a Normal Pension Age (NPA) of age 65. Under the proposals of the new scheme this would change. For pension benefits that build up **from** 1 April 2014 the scheme's normal pension age will match your new State Pension Age (SPA).

If you are not sure what your new SPA is you can find out by visiting the Department for Work and Pensions website at: www.direct.go.uk/pensions

Pensions that have built up **before** 1 April 2014 will be protected and will still be payable from your current

NPA of 65. You will also keep any '85-year rule' protection you have that enables you to retire between the age of 60 and 65 with an unreduced pension.

Despite the changes to the pension age all members will still have the right to retire from age 60 with a reduced pension.

This means that members of the scheme will have different NPAs determined by their date of birth and SPA rules at the time of their retirement.

Protection for members who were within 10 years of retirement on 1 April 2012.

If you were within 10 years of age 65 on 1 April 2012, you will be protected from the new scheme changes if they produce a lower pension than you would have received under the current scheme. Most members are likely to find that the new scheme produces a higher pension than the current scheme and the protection will not be needed.

Proposed contribution bands and rates for 1 April 2014

Although the **average** member contribution to the LGPS will remain at 6.5% as it is now, the contribution bandings will change because the new structure has been designed to take tax relief on pension

contributions into account. This would mean the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale.

| LGPS 2014 Proposed member contributions | | |
|--|------------------------------|-----------------------------|
| Actual pensionable pay | Contribution rate before tax | Contribution rate after tax |
| Up to £13,500 | 5.5% | 4.40% |
| £13,501 - £21,000 | 5.8% | 4.64% |
| £21,001 - £34,000 | 6.5% | 5.20% |
| £34,001 - £43,000 | 6.8% | 5.44% |
| £43,001 - £60,000 | 8.5% | 5.10% |
| £60,001 - £85,000 | 9.9% | 5.94% |
| £85,001 - £100,000 | 10.5% | 6.30% |
| £100,001 - £150,000 | 11.4% | 6.84% |
| More than £150,000 | 12.5% | 6.88% |

| Current LGPS | |
|---------------------------|-------------------|
| Whole time equivalent pay | Contribution rate |
| Up to £13,500 | 5.5% |
| £13,501 - £15,800 | 5.8% |
| £15,801 - £20,400 | 5.9% |
| £20,401 - £34,000 | 6.5% |
| £34,001 - £45,500 | 6.8% |
| £45,501 - £85,300 | 7.2% |
| More than £85,300 | 7.5% |

Currently the contribution rate that members of the scheme pay is determined on their whole-time equivalent pay. Therefore, if you work part-time, your rate will be based on the whole-time pay rate for your job (although you will only pay contributions on the pay you actually earn).

In **LGPS 2014** part-time members will have their contribution rates based on actual pay and not the whole time equivalent pay. This will mean that some part-time members will pay lower contributions than they do now.

The 50/50 option

The new scheme has been designed to provide an element of choice. The 50/50 option has been proposed to allow members to pay half of their normal rate of pension contributions for a period of time and in return build up half the value of the pension for that period. Members would still retain the full value of other benefits in the scheme such as an ill-health pension, death in service benefits and redundancy.

This has been proposed to attract non-members who are unable to afford the current contribution rate and also to retain existing members who suffer periods of financial hardship.

The current scheme has no such option.

What will the calculation of my benefits look like?

Members who have scheme membership **before** 1 April 2014 will still retain the link to a final salary scheme in respect of membership accrued **before** 1 April 2014.

Changes to the scheme in 2008 and now 2014 will mean that many members will have their pension benefits made up of two or possibly three separate calculations and the example below shows how this will work in practice.

Calculation A - If you have any period of scheme membership built up before 31 March 2008, your pension benefits will be calculated as follows:

Calculation A- LGPS 1997 scheme membership

Annual pension based on:

1/80th of final year's pay at leaving for each year of scheme membership up to 31 March 2008

Lump sum based on:

3/80th of final year's pay at leaving for each year of scheme membership up to 31 March 2008

PLUS

Calculation B - If you have any period of scheme membership built up before 31 March 2014, your pension will be calculated as follows:

Calculation B - LGPS 1 April 2008 scheme membership

Annual pension based on:

1/60th of final year's pay at leaving for each year of scheme membership (from 1 April 2008) up to 31 March 2014

Lump sum*

PLUS

Calculation C - Periods of scheme membership built up after 31 March 2014 will be calculated as follows:

Calculation C - LGPS 1 April 2014 scheme membership

Annual pension based on:

1/49th of career average pay for each year of scheme membership accrued from 1 April 2014

Lump sum*

* There is no automatic right to a tax-free lump sum for membership built up from 1 April 2008 but members have the option to convert 25% of the overall value of their pension benefits to a lump sum at retirement. The conversion rate is £12 of lump sum (tax-free) for every £1 of annual pension given up.

What happens next?

It is important to stress that these are only proposals at this stage. The LGA will now enter into

consultation with employers and the trade unions with their members about the new LGPS proposals.

Where can you find more information?

This is only a brief overview of the proposed changes to the scheme from 1 April 2014. Further information about the new scheme proposals and how these changes will affect you can be found on the National Members website at: www.lgps.org.uk by searching for 'LGPS 2014'.

We will keep you updated in future newsletters with any relevant developments on the next stage of the consultation.

Please note that Pension Services will not be able to provide any calculations of the benefits payable under the proposed new scheme at this stage.