SURREY PENSION FUND

lgps

Surrey Pensions News

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Update on changes to the Local Government Pension Scheme

Dear Colleague

You may recall from our last Newsletter in November 2011 that the Government's initial proposals for reform of the Local Government Pension Scheme (LGPS) were to have the long-term changes in place by April 2015 and to achieve short-term savings by introducing a phased increase in employee contributions from April 2012.

However, following subsequent negotiations between employers and unions a new **'single step solution'** to both the short and long-term issues has since been proposed, with the introduction of a new scheme from the earlier date of April 2014 and with **no contribution increase from April 2012.**

The Department for Communities and Local Government, together with the Local Government Association and trade unions have formed a project board for progressing reform of the LGPS. The project board have now agreed proposals (known as the Heads of Agreement) for the new pension scheme.

Under the Heads of Agreement, the key elements of the proposed new scheme from April 2014 are:

- The part of the pension that builds up from April 2014 will be based on career average earnings rather than final pay. This means that the pension will be based on an average of a member's pensionable earnings between 2014 and their retirement, with each year used being index-linked to maintain their current value. The part of the pension benefits that have built up prior to April 2014 will be protected and will still be calculated on final pensionable pay.

- A review of the accrual rate (that is the rate at which the pension is built up for each year of service in the scheme, which is currently 1/60th of pay for each year).

- For pension benefits that build up from April 2014 the scheme's normal pension age will match the member's state pension age. Pensions that have built up prior to 2014 will be protected and will be payable from the member's current scheme pension age.

- To encourage both the retention of existing members and encourage new membership, the scheme may provide an element of choice so members can choose to pay above or below the standard contribution rate according to the level of benefits they wish to receive.

- Members within 10 years of age 65 on 1 April 2012 will be protected from new scheme changes.

- The overall cost of the scheme should remain within pre-agreed limits in future. Employer costs will be restricted within a minimum and maximum range.

What happens next?

The project board is in the process of developing recommendations to put to Ministers on the more detailed aspects of the new scheme, such as what the pension accrual rate and employee pension contribution rates should be. When the project board and Ministers have reached agreement, the unions and the Local Government Association will begin consultation with their members. The intention is that the new scheme regulations will be in place by April 2013, ready for the implementation of the new scheme from April 2014.

Further information about the latest changes can be found on our website at www.surreycc.gov.uk/pensions

Employee contribution bandings for 2012-2013

Each April, the pay bands that determine what contribution rate members of the LGPS pay are increased in line with the annual increase in the Consumer Prices Index.

Although there is no change to contribution rates, the bandings to which the contribution rates are applied are changing.

The pay bandings that will apply from 1 April 2012 are as follows:

Whole-time equivalent pay bands	Employee contribution rate
£0 to £13,500	5.5%
£13.500.01 to £15,800	5.8%
£15,800.01 to £20,400	5.9%
£20,400.01 to £34,000	6.5%
£34,000.01 to £45,500	6.8%
£45,500.01 to £85,300	7.2%
More than £85,300	7.5%

Additional Voluntary Contributions (AVCs) – new Prudential charge

AVCs are a tax-efficient way of providing an extra pension or tax-free lump sum to top up your main LGPS benefits. Our current provider, Prudential, have announced that they will make an early exit charge for any <u>new</u> AVC member whose first AVC contribution is received by Prudential on or after 19 August 2012 and who withdraws their AVC fund within 5 years of commencing payment.

Prudential have said that it is necessary to introduce this charge because their normal annual management charge is insufficient to cover their initial set-up costs for short-term investors. Recently, there has been a significant increase in the number of members paying AVCs for a relatively short period and then taking 100% of their AVC fund in tax-free cash.

The charge will be applied as a percentage of the member's AVC fund on a sliding scale as follows:

Year of withdrawal	Year 1	Year 2	Year 3	Year 4	Year 5
% of AVC fund	15%	10%	8%	6%	5%

If you were considering paying AVCs in the future, you may wish to start paying now to avoid any potential charge later if you withdraw your AVC fund within 5 years.

To avoid the exit charge Prudential must receive your AVC payment before 19 August. In practice this means Prudential would need to receive your application by **8 June** to ensure your AVC payment was deducted from your pay no later than your July salary.

If you wish to start paying AVCs you need to contact Prudential directly by telephoning them on 0800 234 6918 or visiting their website at **www.pru.co.uk/localgovavc.** Prudential will contact your employer's payroll provider directly once your application has been processed.

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