Flexible retirement from the age of 50

- Under the old tax rules it was not possible to take occupational pension benefits and continue working for the same employer. This restriction has now been removed under the new tax rules. This will allow employers to introduce new flexible working arrangements if they want to. For example, it may be possible, with your employer's permission, for you to continue working if you agree to reduce your working hours and at the same time receive your pension benefits. These pension benefits would normally be reduced to allow for early payment, although your employer would have the power to decide whether to make the reduction. However, if your employer decided not to make the reduction, they would have to pay the pension fund the extra cost of paying your benefits without a reduction, which is generally quite a considerable amount. All employers must publish a policy on how they plan to work in line with the new flexible retirement rules. Your employer will need to carefully consider and will probably take some time to agree what they will do. At this time, we are not aware that any fund employer has agreed a policy yet. Once a policy has been agreed, your employer will publish it.

Membership

- Under the previous tax rules most employees were not allowed to join or stay in the scheme after they reached 65. The new tax rules now allow all employees to join or stay in the scheme until they reach 75.

Other changes to the scheme

Councillor pensions

- The normal pension scheme retirement age for councillors has been reduced from 70 to 65 in line with scheme rules applying to other scheme members. This now means that if a councillor chooses to receive retirement benefits from 65, they will no longer be reduced to allow for the early payment.

Added years

- A new limit has been introduced on buying added years. The maximum period that you can now buy is 6 years 243 days.

Children's pensions

If a scheme member who dies has a child under the age of 17, a children's pension will be paid. The pension would normally stop when the child reaches 17 but can continue beyond 17 if the child is in full-time education. Previously there was no age limit as to when the pension should stop if the child continued in full-time education. The scheme has now been changed so that children's pensions that become payable on or after 5 April 2006 must now stop when the child reaches 23. There continues to be no age limit on pensions payable to children who are permanently disabled.

Further developments

The Government has published a consultation paper on a new LGPS for 2008. If you would like to look at this paper, you can do so on our pension website at www.surreycc.gov.uk/pensions

How to contact Pension Services

You can contact Pension Services in any of the following ways.

In writing: Pension Services
Surrey County Council
PO Box 89
County Hall
Penrhyn Road
Kingston upon Thames
Surrey
KT1 2EB

By phone: **020 8541 9292** or **020 8541 9289**

By e-mail: **pensions@surreycc.gov.uk**

By fax: **020 8541 9287**

You can visit the office at any time between 8.00am and 4.30pm. You can also arrange an appointment with a member of staff.

You can visit the Pension Services' website at **www.surreycc.gov.uk/pensions**

If you would like a copy of this newsletter in large print or on tape, please contact Pension Services.

SURREY COUNTY COUNCIL   INVESTOR IN PEOPLE   Crystal Mark Clarity approved by Plain English Campaign

SURREY PENSION FUND lgps

Surrey Pensions News

SEPTEMBER 2006 ISSUE 5

Dear colleague

We have produced this newsletter to update you on changes to the Local Government Pension Scheme (LGPS). We hope you find it useful and interesting. If you have any suggestions or comments about the newsletter, or if you want any further information, please turn to page 6 for details on how to contact us.

The 85-year rule

You may already be aware from our previous newsletters and reports in the media that the 85-year rule has been widely discussed over the last 18 months. The Government and employers wanted to remove the 85-year rule to stop the rising costs of maintaining the LGPS and because it would be breaking age-discrimination laws that come into force on 1 October 2006.

It now appears that the Government, employers and unions have finally agreed on a timescale to remove the 85-year rule. New pension regulations confirm that the 85-year rule will be removed from the scheme from 1 October 2006, although there will be some protection from this change for existing scheme members – this is explained on page 2.

The 85-year rule means you could choose to retire before the age of 65 (only with your employer's permission if you are aged between 50 and 60) and receive unreduced pension benefits if your age and period of scheme membership are equal to or more than 85. For example, if you are aged 60 and have been a member of the scheme for 25 years, you meet the 85-year rule because 60 + 25 = 85.

If you do not meet the 85-year rule, you could still choose to retire before the age of 65, but your pension benefits would be reduced to allow for the fact that you have chosen to receive your benefits earlier than expected. This reduction is necessary because, as well as the pension contributions you pay into the pension fund, your employer also makes a pension contribution for you to make sure there is enough money in the fund to pay your benefits.

The amount your employer has to pay is worked out by assuming that you will not receive your benefits before you either reach the age of 65 or meet the 85-year rule, whichever is the earliest. As a result, if you choose to retire before you reach 65 or meet the 85-year rule, your benefits are reduced to allow for the fact that the pension contributions that have been paid into the fund are not enough to pay for an unreduced pension to be paid early.

Please remember that if you would have met the 85-year rule before you reached 65, removing it means that only the part of your pension benefits that builds up for your scheme membership from 1 October 2006 will be reduced if you retire voluntarily before you reach 65 and meet the 85-year rule. The part of your benefits that has built up before 1 October 2006 will be paid in full without any reduction.

Keeping you in touch with all the latest **Pension developments**

(Continued on page 2)

Protections

Although the 85-year rule is being removed, there will be some level of protection for those who are members of the scheme on 30 September 2006.

- The 85-year rule will be removed from 1 April 2008, not 1 October 2006.
- If you will be age 60 or over and would have met the 85-year rule by 31 March 2016, your benefits that have been built up for your scheme membership up to 31 March 2016 will be protected.
- If you will be 60 or over and would have met the 85-year rule between 1 April 2016 and 31 March 2020 and you choose to retire before you reach 65, the reduction to your pension benefits that have built up for your scheme membership from 1 April 2008 will not be as large as for other scheme members.

The following examples explain how removing the 85-year rule may affect you.

You retire on or after you reach 65

Your position is the same and your benefits will be paid in full without a reduction.

You choose to retire between 60 and 65 and you will not meet the 85-year rule before you reach 65

Your position is the same because you never had the option to receive an unreduced pension before the age of 65. As a result, if you choose to take your benefits before the age of 65, they will be reduced as before.

You choose to retire between 60 and 65, you joined the scheme before 1 October 2006, and you will reach 60 and meet the 85-year rule before 1 April 2016.

Your pension benefits that have built up for your scheme membership before 1 April 2016 will continue to be paid unreduced if you retire and meet the 85-year rule.

However, any pension benefits that have built up for your scheme membership from 1 April 2016 will be reduced if you retire before the age of 65.

Here is an example:

A man retires at the age of 60 on 31 March 2014 having been a member of the scheme for 30 years. His final year's pensionable pay is £24,000.

His pension benefits would not be reduced because he was 60 before 1 April 2016 and met the 85-year rule (60 + 30 = 90).

His pension benefits would be worked out as follows:

Pension	$\frac{30}{80}$	x 24,000	= 9,000
Lump sum	3 x $\frac{30}{80}$	x 24,000	= 27,000

If the same person decided to retire at the age of 63 on 31 March 2017, the pension benefits that had built up for the one year's membership from 1 April 2016 would be reduced.

Here is an example:

Pension	$\frac{32}{80}$	x 24,000	= 9,600
plus	$\frac{1}{80}$	x 24,000	= 300
less a reduction of 15% x 300			= -45
		Total	**= 9,855**
Lump sum	3 x $\frac{32}{80}$	x 24,000	= 28,800
plus	3 x $\frac{1}{80}$	x 24,000	= 900
less a reduction of 5% x 900			= -45
		Total	**= 29,655**

You choose to retire between 60 and 65, you joined the scheme before 1 October 2006, and you will meet the 85-year rule before the age of 65, but you will be under 60 on 1 April 2016.

Your pension benefits that have built up for your scheme membership before 1 April 2008 will continue to be paid unreduced if you meet the 85-year rule when you retire. Your benefits that have built up for your scheme membership from 1 April 2008 will be reduced.

Here is an example:

A woman retires at the age of 60 on 31 March 2018. She has been a member of the scheme for 30 years, of which 20 years are before 1 April 2008 and the other 10 years are from 1 April 2008.

Her final year's pensionable pay is £24,000.

Pension	$\frac{20}{80}$	x 24,000	= 6,000
plus	$\frac{10}{80}$	x 24,000	= 3,000
less a reduction of 27% x 3,000			= -810
		Total	**= 8,190**
Lump sum	3 x $\frac{20}{80}$	x 24,000	= 18,000
plus	3 x $\frac{10}{80}$	x 24,000	= 9,000
less a reduction of 11% x 9,000			= -990
		Total	**= 26,010**

(The reduction percentages used in the examples are set by the Government Actuary's Department and are being reviewed. So, the percentages are for illustration purposes only.)

New tax rules for pensions

In the last newsletter, we told you that new tax rules affecting pensions would be introduced from 6 April 2006 and we described how these changes may affect the LGPS.

A consultation exercise took place between local authority employers, unions and the Government on how the LGPS should be changed. The changes to the scheme have been agreed and have now come into force, and they are very much in line with what we said may happen in our last newsletter. You can look at that newsletter and other newsletters on our pensions website at www.surreycc.gov.uk/pensions

The main changes are as follows.

Removing contribution and service limits

- Pension benefits will no longer be restricted by service limits, so you will now be able to continue to earn benefits beyond 40 years' service. Instead a lifetime allowance (LTA) has been introduced which limits the total amount of pension savings (from all sources) that an individual can have without having to pay extra tax charges. The LTA will increase each year and is £1.5 million for the tax year 2006/2007. It is only very high earners that are likely to be affected by the limits set or possibly those on lower pay who have very large pension funds in other schemes. To work out your total fund, simply multiply your yearly pension by 20 and add on your lump sum. So, as an example, a pension of £5,000 and a lump sum of £15,000 would mean a total fund of £115,000.

  £5,000 x 20 plus £15,000 = £115,000

- A limit will also be set on how much your pension benefits (from all sources) can grow each year without you having to pay extra tax charges. This limit is known as the annual allowance, which will increase each year and will start in 2006/2007 at £215,000. Again, only the very high earners are likely to be affected by this limit.
- Under the old tax rules the maximum pension contributions you could pay into a pension scheme like the LGPS was limited to 15% of your pay. The new tax rules now allow you to pay up to 100% of your pay in a tax year, with full tax relief at your highest rate of income tax. This means that there is now more scope to pay additional voluntary contributions (AVCs) into the AVC fund and to buy extra periods of scheme membership (added years).

Choosing a bigger lump sum

- The new tax rules will allow you to take a larger tax-free lump sum than under the previous tax rules. You will now be able to take up to 25% of the value of your total fund as a tax-free lump sum. This is a significant increase on the current amount (worked out as $\frac{3}{80}$ of your final salary for each year of service). This increase can be achieved in two ways.

1. By exchanging part of your annual pension for an extra tax-free lump sum at a rate of £12 lump sum for each £1 of pension you give up. Although this will reduce your own pension, it will not affect the amount of pension payable to your husband or wife, civil partner or children if you die.
2. By choosing to take up to 100% of your additional voluntary contribution (AVC) fund as a lump sum.

Pension Services will give you full details of the maximum lump sum that you can take when you are entitled to receive payment of your benefits.

(Continued on page 5)

If you have any suggestions or comments about this newsletter, or if you want any more information, turn to page 6.