SURREY PENSION FUND
lgps

Surrey Pensions News

FEBRUARY 2005 ISSUE 3

Dear Colleague

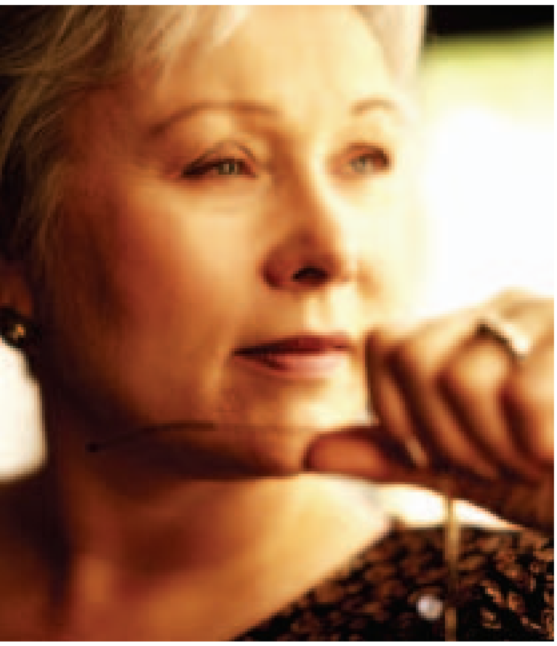
The main purpose of this newsletter is to update you on:
- some important changes to the Local Government Pension Scheme (LGPS) coming into force from April 2005; and
- a consultation document published by the Government on other possible changes to the scheme from 2008.

In our August newsletter we told you that the Government was proposing to make some changes to the LGPS from 1 April 2005. The Office of the Deputy Prime Minister (ODPM) has now issued regulations that confirm these changes will be made. The changes concern removing the right to retire under the '85-year rule' (which we explain below) and increasing the earliest age that pension benefits can be paid from age 50 to age 55. Similar changes are being made to all other public-sector pension schemes.

The Government is making these changes because it is concerned about the rising cost of providing pensions in the public sector. There is a growing trend for scheme members to retire earlier and live longer. While this is obviously good for the individual, the fact that pensions are being paid for longer means it is becoming more expensive for employers to maintain the pension scheme.

By making these changes, the Government intends to encourage employees to work longer. This will help to reduce the cost of providing pensions to a level which is more acceptable and affordable to employers and taxpayers.

If you have any suggestions or comments about this newsletter, or if you want any more information, turn to page 4.



Removing the right to an unreduced pension before the age of 65 (the 85-year rule)

As we mentioned above, from 1 April 2005 the 85-year rule will be removed from the scheme. The 85-year rule is where 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 25 years of scheme membership, 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.

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

The amount your employer has to pay is worked out on the assumption 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.

Although the 85-year rule is being removed, some members will not be affected by this change or will be given some level of protection. If you will reach 60 before 1 April 2013 and meet the 85-year rule before your 65th birthday, your service before 1 April 2013 will be protected if you retire when you have met the 85-year rule. If you will not reach 60 before 1 April 2013 but will meet the 85-year rule before your 65th birthday, your service up to 1 April 2005 will be protected if you retire when you meet the 85-year rule. The following examples explain how removing the 85-year rule may affect you.

You retire on or after you reach age 65

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

You choose to retire between the ages of 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 the ages of 60 and 65, you joined the scheme before 1 April 2005, you will reach 60 before 1 April 2013 and meet the 85-year rule before 65

Your pension benefits that have built up for your scheme membership before 1 April 2013 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 2013 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 2012 with 30 years' scheme membership and final year's pensionable pay of £24,000.
His pension benefits would not be reduced because he was 60 before 1 April 2013 and met the 85-year rule (60+30=90). His pension benefits would be worked out as follows.

Pension	30÷80 x 24,000	=	9,000
Lump sum	3 x 30÷80 x 24,000	=	27,000

If the same person decided to retire at the age of 63 on 31 March 2015, the pension benefits that had built up for the two years' membership from 1 April 2013 would be reduced. For example:

Pension	31÷80 x 24,000	=	9,300
plus	2÷80 x 24,000	=	600
less a reduction of	15% x 600	=	- 90
	Total	=	**9,810**
Lump sum	3 x 31÷80 x 24,000	=	27,900
plus	3 x 2÷80 x 24,000	=	1,800
less a reduction of	5% x 1,800	=	- 90
	Total	=	**29,610**

You choose to retire between the ages of 60 and 65, you joined the scheme before 1 April 2005, you will meet the 85-year rule before the age of 65, but you will be under 60 at 1 April 2013

Your pension benefits that have built up for your scheme membership before 1 April 2005 will continue to be paid unreduced if you retire and meet the 85-year rule. Your benefits that have built up for your membership from 1 April 2005 will be reduced if you retire before the age of 65.

Here is an example.
A woman retires at the age of 60 on 31 March 2015. Her total scheme membership is 30 years, of which 20 years are before 1 April 2005 and the other remaining 10 years are from 1 April 2005. Her final year's pensionable pay is £24,000.

Pension	20÷80 x 24,000 =	6,000
plus	10÷80 x 24,000 =	3,000
less a reduction of	27% x 3,000 =	- 810
	Total =	**8,190**
Lump sum	3 x 20÷80 x 24,000 =	18,000
plus	3 x 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 Actuaries Department and are being reviewed. So, the percentages are for illustration purposes only.)

You can see more examples on the ODPM website at **www.xoq83.pipex.com**

Is there any way I can pay extra contributions to avoid the reduction to my benefits if I want to retire before the age of 65?

The Government has not announced any plans to make this possible. However, there is a way under the scheme rules to make extra contributions to buy extra pension benefits that could be used to offset the reduction to your benefits. You can buy extra pension benefits in two ways. The first is to pay extra contributions to the Prudential Assurance Society. The second is to pay extra contributions to buy an extra period of membership (added years).

If you are interested in buying added years, you may find it to your advantage if you choose to do so before 1 April 2005. As we explained before, if you would meet the 85-year rule before the age of 65, your pension benefits built up for your scheme membership before 1 April 2005 would be unreduced if you retired before 65 and meet the 85-year rule. If this applies to you and you choose to buy added years before 1 April 2005, the extra benefits paid as a result of buying the added years would also be unreduced. If you choose on or after 1 April 2005, the extra benefits would be reduced if you retire before age 65.

You can get more information on paying extra contributions to Prudential and buying added years from Pension Services or by visiting the pensions website (see page 4).

Increase in the minimum retirement age

From 1 April 2005, the minimum age that pension benefits can be paid from (other than due to permanent ill health, for which there is no minimum age) will be increased from 50 to 55. However, members who are 50 or over on 31 March 2005 are protected and will not be affected by this change.

Further changes from 2008?

The Government has issued a consultation paper called 'Facing the future – Principles and propositions for an affordable and sustainable Local Government Pension Scheme'. The paper asks for views on the future design of the LGPS and makes suggestions for a number of changes to the scheme from 2008. We will provide more information on possible changes to the scheme in future newsletters when more information is available. If you would like to see this paper, you can find it on the Pension Services' website.

Other pension news

- This is to remind members who joined the scheme on or before 1 April 2004 who have previous LGPS pension rights that they must decide whether or not to transfer these pension rights before 1 April 2005.

  We covered this in detail in our August newsletter. You can get a copy of the August newsletter from Pension Services or the Pension Services' website.

- We have now sent all employers annual benefit statements for members who joined the scheme before 1 April 2004. If you have not received your statement, please contact Pension Services or your employer.

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 9289** or **020 8541 9292**

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