

Background to LGPS 2014

Frequently Asked Questions



Why is another new scheme being introduced?

The Coalition government which came to power in 2010 had a clear agenda to change public sector pensions, including the LGPS. The government asked Lord Hutton to chair a commission on reform of public sector pension schemes.

Following publication of that report, changes were proposed to all the main public sector pension schemes, including the LGPS. In December 2011, the government agreed that the Local Government Association and main local government trade unions (Unison, GMB and Unite) could put forward a proposal for a new LGPS that met government objectives. This proposal has since been agreed and much of the required legislation is now in place to bring into effect the new scheme.

• Will my benefits change?

All pensions in payment or built up before April 2014 are protected. If you are currently in receipt of a pension or have left with a deferred pension the changes from April 2014 do not affect you.

If you are paying into the Local Government Pension Scheme (LGPS) you will automatically be in the new scheme from 1 April 2014. All benefits built up before April 2014, will continue to be based on your final year's pay when you leave the Scheme as these benefits were built up in the final salary scheme. This includes a protected Normal Pension Age (NPA) for payment of those benefits. The scheme protected NPA is age 65 except for some members who have an earlier protected age of 60. The whole of your pension must be taken at the same time.

• Are there likely to be further changes in the future?

The intention of trade unions and employers is to keep the cost of LGPS 2014 stable and the agreement reached in December 2011 sets out a two stage process to scheme reform.

The first stage centred on benefit design.

The second focuses on cost management and reform to the governance of the scheme, including the involvement of employers, trade unions and members in the decision-making and running of the LGPS.

Type of pension scheme

• Will I still know what pension to expect when I retire under the LGPS 2014?

Yes, LGPS 2014 is still a 'defined benefit' scheme. But instead of being a final salary scheme, where your benefits are calculated on your final pay, LGPS 2014 is a 'career average' scheme where you build up pension in your pension account each year.

• What is a 'career average' scheme?

A career average scheme means that benefits you build up are worked out using your pay each scheme year rather than your final salary.

Your pension earned each scheme year is added to your pension account and inflation is then added to the pension you've built up in your account so it keeps its value.

• What's included in 'pensionable pay' for contributions and benefits in the LGPS 2014?

Both contributions to and benefits from LGPS 2014 will be based on your actual pensionable pay. For part-time workers this means that pensionable pay will not be converted into a full-time equivalent figure.

A difference to the new definition of pensionable pay is that, from 1 April 2014, non contractual overtime will be pensionable. Also additional hours for part-time staff will be treated as pensionable from 1 April 2014.

- **Is it true that career average schemes are always worse than final salary schemes?**

No. For many members the benefits built up from April 2014 in the career average scheme will be better than those they would have built up if the Scheme remained a final salary scheme.

A career average scheme is often a better fit for those members whose opportunity for promotion is limited or who have a short period of service in the scheme. Final salary tends to suit some career patterns, usually those with promotion opportunities. Each individual will have their own circumstances but it's incorrect to suggest that a career average scheme isn't as good as a final salary scheme.

In fact, the improved rate at which pension builds up from April 2014 could mean that some members build up better pensions. A key point to note is that the Scheme is still a defined benefit pension scheme linked to career average rather than final salary.

Member Contributions

- **How much will I contribute in the new scheme?**

From April 2014 your contribution rate will be determined by reference to your actual pensionable pay.

There are 9 different pay bands with rates ranging from 5.5% to 12.5%. While the average cost for members will still be 6.5%, from April 2014, higher paid scheme members will pay more. If you are part-time, it could cost you less as your contribution rate will be assessed on your part-time pay instead of the full-time equivalent.

If you elect to join the 50/50 section you will pay half the contributions you would have paid in the main section of the Scheme.

- **Will my contributions go up?**

The contribution rates for the majority of members will not increase and some members, such as part-time staff, may pay a lower contribution rate than now. Higher paid scheme members (those earning over £43,000 will pay more.

- **I've heard that there is more contribution flexibility in the new scheme, what does that mean?**

Yes, there is a 50/50 option from April 2014. This means you can pay half your contribution rate and build up half the benefit whilst retaining the full value of other scheme benefits such as death in service lump sum and ill health cover.

The 50/50 section is intended to allow flexibility in times of financial hardship. It's a short-term measure for when times are tough. Every three years we will re-enrol those in the 50/50 section into the main section of the Scheme.

- **What will my employer contribute to my pension from April 2014?**

Your employer pays in the balance of the cost of providing your benefits after taking into account investment returns.

Every three years, an independent actuary calculates how much your employer should contribute to the scheme. The amount will vary, but generally the present underlying assumption is that employees contribute approximately one third of the scheme's costs and the employer contributes the rest.

- **Is it really worth being in the LGPS?**

Yes. The scheme provides pension benefits, ill health cover, death in service lump sum etc. Also you get tax relief on your contributions so the cost to you is less.

Taking account of the employer contributions, the comparatively low level of state pension provision available, the real question to ask yourself is can you afford not to be in the LGPS?

Pension

• How much pension will I get?

The amount of pension you get will depend on your pensionable pay and length of LGPS membership for your pre 1 April 2014 benefits. For each scheme year (or part year) in the LGPS from April 2014 your pension will build up at a rate of 1/49th of your pensionable pay and the money you pay into your pension will be build up each year. This will be revalued each year in line with inflation (Consumer Price Index).

If you have pre-April 2014 membership we will add all the pension you have built up in both the final salary and career average scheme to form your total LGPS pension.

• Can I buy more pension?

Yes, you will be able to pay extra to increase your pension either by paying additional contributions to buy an increased LGPS pension known as Additional Pension Contributions (APCs) or by making payments to our in house Additional Voluntary Contribution (AVC) arrangement.

• Will I get a pension lump sum?

If you were a member of the LGPS before April 2008 you will have built up membership which included an automatic lump sum. You will receive this and for benefits you've built up from 1 April 2008 and continue to build in the new scheme you can still exchange some pension to get a tax-free cash lump sum. For every £1 of pension you give up you will get £12 of tax-free lump sum (subject to HM Revenue & Customs limits).

• I joined the LGPS when it was a final salary scheme. Will my pension now be recalculated as career average?

No, all of the pension you build up before April 2014 will be linked to your final pay on retirement or leaving the scheme. Only pension built up after 1 April 2014 will be calculated based on the new career average scheme.

Retirement

• When can I take my pension?

You will be able to take your pension at any age on or after your 55th birthday (or from age 50 if you are a DoE/HMIP member). However, if you retire before your Normal Pension Age (which is the same as State Pension Age in new scheme your pension built up from April 2014 will be reduced. Alternatively if you retire after your Normal Pension Age, your pension will be increased.

• If I retire before my Normal Pension Age, will my LGPS pension be reduced?

If you retire before your Normal Pension Age there will be a reduction on the pension you build up from April 2014. However, providing you are at least age 65 there will not be a reduction to the pension you have built up before 31 March 2014. Some members may come under rule of 85 protections from age 60 so there will not be a reduction to the pension.

• If I retire after my Normal Pension Age, will my LGPS pension be increased?

Yes, your LGPS 2014 pension will be enhanced if you retire after your Normal Pension Age and your pension built up before April 2014 will be enhanced if you retire after age 65.

Currently pensions are enhanced for payment after pension age in line with GAD guidance.

• How much will the reduction be if I take my pension before my Normal Pension Age?

The amount a pension could be reduced by for retiring early will be set out in factors to be determined in consultation with the government. Information will be added once these factors have been confirmed.

• What happens if my State Pension Age changes again?

Should your State Pension Age change in the future, all of your membership built up from April 2014 (but not membership built up before then) will be payable without reduction or enhancement at your new State Pension Age (also your Normal Pension Age).

• My State Pension Age is less than 65. Does that mean I can take my pension at that date without reduction?

No, there is a minimum age of 65 for taking pension built up from April 2014 without reduction, other than in cases of redundancy, business efficiency or ill health retirement or in cases where a member has rule of 85 protections.

Other scheme benefits

- **Does the Scheme still provide death in service cover?**

If you die before you receive your pension, and whilst an active member of the Scheme, from April 2014 you'll continue to receive death in service cover of three times your annual pensionable pay.

The only difference from April 2014 is that non-contractual overtime is included in your annual pensionable pay figure.

- **Does the Scheme still provide ill health cover?**

The ill health retirement provisions are the same from April 2014 - with one difference.

Any enhancement of membership to age 65 for Tier 1 or enhancement of 25% of membership to 65 for Tier 2 will be replaced by the same enhancement but based on the your Normal Pension Age rather than age 65. If your State Pension Age is higher than 65 and you are retired on grounds of ill health, the enhancement you'll receive will reflect that higher pension age.

- **Does the scheme still provide survivors' pensions?**

Yes, survivor pensions continue from April 2014. For death in service this means 1/160th of pensionable pay for each year of membership and notional membership (notional membership is calculated in the absence of pensionable pay, where there has been a break of service), from date of death to your Normal Pension Age.

- **When can I access my pension from the new scheme if I'm made redundant?**

If you are made compulsorily redundant or leave our employment on efficiency grounds, that is under our Voluntary Early Release Scheme (VERS) and are age 55 or over in the new scheme your pension will still be payable immediately and will be unreduced.

- **Is the new scheme more flexible for members?**

There are two main differences in the new scheme that improve the flexibility for members.

Firstly, the 50/50 option allows you to pay half your contributions and get half of your normal pension. (You still get full life assurance cover even though you're paying half contributions). The 50/50 option allows flexibility in times of financial hardship and is designed as a short-term measure for when times are tough.

Secondly, in order to be entitled to a retirement benefit new joiners from April 2014 will need to be in the Scheme for 2 years. This means if you have very short membership, less than 2 years, in LGPS 2014 you will receive a refund of contributions on leaving.

Protection

- **What happens to the pension I've built up before April 2014?**

On 1 April 2014 if you are paying into the Local Government Pension Scheme (LGPS) you will automatically join the new career average pension scheme. All the pension you have built up in the LGPS before this date is fully protected.

All benefits built up before April 2014 will continue to be based on your final pay when you leave the Scheme as these benefits were built up in the final salary scheme. That means that all the membership you built up to 31 March 2014 will be used to calculate your final salary benefits when you leave.

Your Normal Pension Age is also protected. This means that the benefits you build up before April 2014 retain their Normal Pension Age under final salary scheme rules, which for most members is age 65.

When you choose to take your benefits remember that your benefits under the pre and post 2014 schemes must be paid together, that is taken at the same time. You cannot take your pension relating to benefits built up prior to April 2014 at a different date to your pension built up from April 2014 (except in the case of flexible retirement).

• **What about Rule of 85 protection after April 2014?**

For those members who have rule of 85 protection this will continue to apply. It protects some or all of a member's benefits from the normal early payment reduction and will automatically be applied after age 60. To benefit from rule of 85 protections you must have been a member of the LGPS on 30 September 2006.

The rule of 85 is satisfied if your age at the date you draw your pension and your scheme membership (each in whole years) add up to 85 or more.

If you would not satisfy the rule of 85 by the time you are 65, then all your benefits are reduced if you choose to retire before age 65.

• **The government said there would be 10 years protection for those nearing retirement. I'm within 10 years of retirement – do I get any protection?**

Yes, protections are in place if you are within 10 years of your normal pension age to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2014. This protection is known as the 'underpin'.

The underpin applies to you if you were:

- paying into the Scheme on 31 March 2012 and,
- you were within 10 years of your Normal Pension Age on 1 April 2012,
- you haven't had a disqualifying break in service of more than 5 years,
- you've not drawn any benefits in the LGPS before Normal Pension Age and
- you leave with an immediate entitlement to benefits.

The references in this underpin section to Normal Pension Age are to your protected Normal Pension Age under the 2008 scheme – normally age 65.

If you are covered by the underpin, Capita will undertake a calculation at the date you cease to contribute to the Scheme, or at your Normal Pension Age if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2014.

If the pension payable under the 2014 scheme is lower the difference will be added to your pension.