Environment Agency

Your pension – issue 6 Spring 2011

Introduction

As the Government continues to make announcements about pension changes, we wanted to provide all Environment Agency Pension Fund (EAPF) members with an update on what has been happening. This newsletter confirms the rate of pension increases and changes to contribution bands, and provides updates on changes to tax relief, the final report from the Public Sector Pensions Commission and the Budget announcements, as well as some other matters we think will be of interest.

Pension briefings

Face-to-face briefings are being organised for all employees and deferred and pensioner members. These will include information about the Government's proposals for changes to State and public sector pensions.

- Briefings for Environment Agency employees will take place between 11 May and 14 September 2011.
- A pilot deferred member briefing is on 25 May in London and we have mailed invitations to deferred members in the South East. If this pilot is successful we will cover other locations next year.
- Pensioner briefings are on 24 May in Manchester and 25 May in London and we issued invitations with your recent pension increase letter.

If you are an employee, you should book your place at a briefing through 1B1S. If you are a deferred or pensioner member you should complete the form on your invitation letter and return it to Capita Hartshead if you wish to attend.

Pension increases

In our last newsletter, we told you the Government had announced that future increases to Local Government Pension Scheme (LGPS) pensions in payment and deferred pensions will be in line with any increase in the Consumer Price Index (CPI) in the year to the previous September. This announcement was confirmed by parliament in March 2011 and means that the increase in April 2011 is 3.1%. If you would like more information, there is a new guide to pension increases on **www.eapf.org.uk**.

The impact of the 2011 change to CPI has been widely covered in the media. CPI is currently lower than RPI and, if this continues, it will reduce the rate of your future pension increases but will have a positive impact on the future funding of the EAPF.

Pay ranges used to determine contribution rates from April 2011

The pay ranges used to determine contribution rates have also increased by 3.1%. Your contribution rate depends on how much you are paid and is between 5.5% and 7.5% of your pensionable pay. Here are the pay bands and rates that apply from 1 April 2011 to 31 March 2012, with those applicable from 1 April 2010 to 31 March 2011 also shown for comparison.

Band	Contribution rate	Pensionable pay range until 31 March 2011	Pensionable pay range from 1 April 2011
Band 1	5.5%	Up to £12600	Up to £12900
Band 2	5.8%	£12601 - £14700	£12901 - £15100
Band 3	5.9%	£14701 - £18900	£15101 - £19400
Band 4	6.5%	£18901 - £31500	£19401 - £32400
Band 5	6.8%	£31501 - £42000	£32401 - £43300
Band 6	7.2%	£42001 - £78700	£43301 - £81100
Band 7	7.5%	More than £78700	More than £81100

Most people will find that they have stayed in the same band but some may have moved into a lower or higher contribution band.

If you are a contributing member of the Active Pension Fund, you pay between 5.5% and 7.5% of your pensionable pay towards the cost of providing your pension benefits and the remainder is paid by the Environment Agency. Following the latest valuation of the Active Fund, which found that the funding level at 31 March 2010 was a healthy 94%, the Environment Agency will continue to make payments into the Fund equivalent to 16.5% of your salary until 31 March 2014, when the employer contribution rate will be reviewed again. This is a valuable employee benefit.

Tax relief changes - reduction in the Annual Allowance (AA)

Last October the Government's spending review announced changes that may affect your pension. We outlined these in "Your pension 5" but can now give you some more detail about the AA reduction from April 2011.

The AA is the amount by which the value of your pension is allowed to increase each year without incurring a tax charge. In April 2011, the AA will be reduced from £255,000 to £50,000 which means that more people may be liable for the charges. However, any increase in benefits in excess of the Annual Allowance can be offset by any unused allowance from the previous three years.

The AA check looks at the value of your pension at 1 April each year compared with its value at the following 31 March. If the increase in your pension exceeds the AA (for example following a significant increase in salary, due to a promotion) then you may be required to pay an additional tax charge.

The Government is in the process of finalising how it will collect any excess tax charges. We will include more detail in our next issue of "Your pension" and we are making plans to include any additional information members may need on annual benefit statements from 2012.

Removal of the default retirement age

The Pensions Bill published in January 2011 confirmed the Government's plan to remove the default retirement age of 65. The change will be phased in between April and October 2011. This means that from October employers will no longer be able to dismiss employees just because they have reached age 65 and employees will have more choice about when they retire. The Environment Agency is in the process of updating its retirement related policies and will produce some guidance to accompany the change, which will be published on Easinet in due course.

Equitable Life 'with profits' Additional Voluntary Contributions (AVCs)

As part of the 2010 Comprehensive Spending Review, the Government announced that funds would be made available by the Government for the Equitable Life Payments Scheme and set up the Independent Commission on Equitable Life Payments to recommend how best to fairly allocate these funds.

The Commission reported in January 2011 and the Government has accepted all of its recommendations. These include a pro rata allocation of the available money to be paid relative to the losses suffered, taking a single policyholder view when policyholders have multiple policies and setting a de minimis amount, beneath which payments should not be made. Payments to the oldest policyholders and the estates of deceased policyholders will be prioritised.

There is more information at **www.hm-treasury.gov.uk/fin_equitable_life.htm**. Timing and processes for payments have not been finalised so no action is needed at the moment. We will continue to monitor events and keep you informed.

Future pension contributions

Last year we told you about a mechanism the Government introduced into the LGPS Regulations to enable increases in future costs to be shared between employers and pension fund members. This was originally known as "cost sharing" but more recently was called "cap and share". This could have resulted in some changes to contribution levels for active members and employers. It has now been put on hold because of the Hutton review of public sector pensions.

The current contribution rate percentages of between 5.5% and 7.5% set in 2008 will remain fixed until April 2012, by which time they will have been at the same levels for four years. However, HM Treasury has made it clear that it thinks contributions by members of public sector schemes should increase by an average of 3% by 2015. We expect to see public consultation on this subject later this year and contribution rates may change from April 2012.

Review of public service pensions
Lord Hutton's Independent Public Service Pension Commission (IPSPC) published its final report on 10 March 2011. It is available at: **www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm**

In the Budget on 23 March 2011, the Chancellor announced that "The Government accepts Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer."

The report stands by the commitment given at the 2010 Spending Review that there should be no "race to the bottom" of pension provision and that public service pensions should continue to provide some form of defined benefit, and will remain a valuable employee benefit.

The report also recommends that the Government continue to engage with those working in the public sector, trades unions and others in taking forward any future reforms.

The main recommendations are:

- Future public sector pensions should have a normal pension age in line with State Pension Age.
- New public pension schemes should be implemented by 2015 before the end of this parliament.
- Pensions should stop building up on a "final salary" basis. However, pension benefits built up before the date of change should continue to be linked to final salary on retirement.
- New pension build up should be on a "career average" basis. This means that the pension would be based on a proportion of pay earned each year, and up-rated in line with national average earnings while an individual is working, and in line with prices after an individual retires.

The proposals are unlikely to have an impact on deferred members or members already receiving their pensions. The effect on future pensions for contributing members is likely to vary, generally those with salaries rising rapidly towards the end of their careers may receive a smaller pension, while those with more steady earnings profiles over their careers will be less impacted and some may gain.

It is likely that, from the date of change from the current Local Government Pension Scheme (LGPS) to the new scheme, contributing members' pensions will be calculated on a new basis using:

- accrued pensionable service built up to the date of scheme change and your final salary upon retirement, and
- average earnings from the date of scheme change to your date of retirement.

The Government has not made any decisions to change the LGPS at this time but the Pensions Committee will continue to keep you informed of future developments via the pension fund website and "Your pension" newsletters.

The Pensions Committee considers that there are major benefits for fund members and considerable strategic benefits to the Environment Agency in being a statutory member of the LGPS and maintaining the Active Pension fund for its employees.

A reminder of the key benefits of being a member of the EAPF
There is a lot of information, as well as a number of guides that you can download, at **www.eapf.org.uk**. These detail different aspects of the LGPS benefits provided by the EAPF as well as the options available for increasing your benefits.

Some of the key benefits are set out below (in some cases the benefits are subject to meeting qualifying conditions).

When you retire from the Environment Agency you will get:

- A generous annual pension that will increase in line with cost of living.
- An optional tax-free lump sum of up to 25% of the capital value of your EAPF benefits.

Benefits payable following your death:

- A survivor's annual pension for life may be payable to your widow/widower, civil partner or nominated co-habiting partner.
- A pension will be paid to your eligible children up to age 18, and if they are in full time education up to age 23.
- If you die before you reach age 75, your spouse, civil partner, nominated cohabiting partner, or anyone else you may wish to nominate, will receive a lump sum of:
  - three times your salary if you are still working for the Environment Agency; or
  - five times your pension if your benefits are deferred (three times for members who left before 1 April 2008); or
  - up to ten times your pension if you are already receiving your pension (up to five times for members who left before 1 April 2008).

You can also top up your pension by paying in house AVCs or Additional Regular Contributions (ARCs).

The EAPF is part of the statutory Local Government Pension Scheme which means the benefits from our pension fund are secure and backed by a Government promise. Members currently receive benefits based on their length of membership and earnings and not on how stock markets perform.

Contact details

If you have any questions regarding your pension entitlement or about the Fund in general, please contact either Capita Hartshead or the Environment Agency as appropriate.

Please note the new freephone telephone number for Capita Hartshead.

Enquiries about the Environment Agency Pension Fund or entitlement to your benefits should be addressed to:

Environment Agency Pensions Team
Capita Hartshead
Hartshead House
2 Cutlers Gate
Sheffield
S4 7TL

Email: info@eapf.org.uk
Telephone: 0800 121 6593 (New)
Fax: 0114 273 0299

Enquiries about the management of the Environment Agency Pension Fund should be addressed to:

Head of Environmental Finance and Pension Fund Management
Environment Agency
Horizon House
Deanery Road
Bristol
BS1 5QH

Email: pensions.team@environment-agency.gov.uk
Telephone: 0117 934 5094

Disclaimer - This issue of "Your pension" is not intended to cover every personal circumstance, nor does it confer any contractual or statutory rights; it is provided for information purposes only. In the event of any dispute over your pension benefits the appropriate legislation will prevail.