



# Your pension - issue 5

Winter 2010

**Introduction** - The Government continues to make announcements about pensions so we wanted to provide active, deferred and pensioner members with an update on known or possible changes. When we have firm information on any legislative changes arising from the developments below we will let you know.

**Annual Environment Agency Pension Fund pension increase** - A change, announced by the Government in June 2010, means that, from April 2011, increases to pensions in payment and deferred pensions under the LGPS, will be linked to the rise in the Consumer Prices Index (CPI), rather than to the rise in the Retail Prices Index (RPI). The annual change in CPI to 30 September was 3.1% so we await confirmation from the Communities and Local Government (CLG) that this will be the amount by which your Environment Agency pension will increase next April.

**State Pension Increase** - The Government announced in June 2010 a new 'triple guarantee' for the basic State Pension. Each year from April 2011 it will rise by the higher of: **earnings** – the average increase in UK wages that year; **prices** – how much the cost of living (CPI) increases that year; or **2.5 per cent**. For 2011 only, the Government said it will increase the Basic State Pension at least the equivalent of RPI. The Chancellor will confirm the annual increase in his Budget Statement next year but the annual change in RPI to September 2010 was 4.6% so, we expect that, this is likely to be the amount by which it increases.

**State pension age** - In its October 2010 Spending Review the Government announced that it intends to speed up the pace of State Pension Age equalisation for women so that women's State Pension Age reaches 65 for all by November 2018. It will then increase to 66 for both men and women from December 2018 to April 2020. The acceleration of both changes will affect women born after 5 April 1953 and men born after 5 December 1953.

**Default retirement age** - In July 2010 the Government issued a consultation about the possible phasing out of the Default Retirement Age (DRA) of 65 from 6 April 2011, potentially making it easier for employees to continue working beyond age 65. The consultation suggested there would be transitional arrangements for retirements agreed before April 2011, where retirement date is before 1 October 2011. It closed on 21 October 2010 and the Government legislation is expected early in 2011.

**Restrictions to tax relief on pensions** - The Government has decided to restrict the Annual and Lifetime income tax relief allowances that particularly benefit high earners. The restrictions will only affect a small number of pension savers (mainly those currently in pensionable service earning over £100,000 pa).

From April 2011 the annual allowance (AA) will be reduced to £50,000 (it is currently £255,000). Individuals will be allowed to offset contributions exceeding the AA against unused allowance from the previous three years. Carry-forward will be available against an assumed AA of £50,000 for the tax years 2008-09, 2009-10 and 2010-11. In April 2012 the Lifetime Allowance (the maximum capital amount of tax exempt pension savings that an individual can build up over their lifetime) will be £1.5m (currently £1.8m).

The Government plans to issue legislation in early 2011. The new restrictions will be implemented via the annual income tax self-assessment process and we will include the additional information you will need to complete this on future annual benefit statements.

**Equitable Life AVCs** - Within the 2010 Comprehensive Spending Review, the Chancellor announced that £1.5bn would be made available by the Government for the Equitable Life Payments Scheme. An independent commission will decide in January 2011 how compensation payments should be allocated. There is still a lack of detail on exactly how this will be applied to the policies held by members of the Active Fund. We will take whatever action the commission requires when the position becomes clearer.

**Lord Hutton's review of public sector pensions** - The Independent Public Service Pensions Commission, chaired by Lord Hutton, published its interim report on 7 October. This report says that public service pension schemes are a vital part of the public sector remuneration package and Lord Hutton rejected the claims that public service pensions are 'gold-plated'. However, he recommended that public sector pensions need structural reform to make them more sustainable, and to strike a fairer balance in who pays for them, not just between current tax payers and public service employees, but also between current and future generations. In the short term he recommended the need for increased member contributions.

The Government accepted the findings of his interim report and in October announced plans for the equivalent of a 3% increase in member contributions (probably less for lower paid workers) for all public sector pension schemes, which is to be phased in between 2012 and 2015. We expect the CLG to issue a consultation on how the Government's proposal might be implemented in the LGPS in mid 2011.

Lord Hutton is now preparing his final report for the Government including options for longer term structural reform of public sector pensions and recommendations for the protection of accrued pension rights. His final report, which is expected to be issued in February 2011, will inform the Government's 23 March 2011 Budget. Any structural changes to public sector pensions and the LGPS are not expected to take place until 2012 at the earliest.

**Contact Details** - If you have any questions regarding this newsletter, your pension entitlement or about the scheme in general, please contact either Capita Hartshead or the Environment Agency as appropriate: -

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

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**Acknowledgement and Disclaimer** - The content of this issue of Your pension is based on the Environment Agency and Capita Hartshead understanding of the legislation and events as at November 2010. Nothing in this newsletter can override legislation. It is not intended to constitute advice and should not be considered as a substitute for specific advice in relation to individual circumstances.