

LGPS Update – Changes from April 2006

Phasing out the 85 year rule

The normal retirement age for scheme members is already age 65 but employees can voluntarily retire from age 60 onwards (or from age 50 and before age 60 with their employer's consent). This is not changing but changes have been made to what is known as the 85 year rule (where age plus service equals 85. For example, age 60 years plus 25 years service equals 85).

The Government's legal advice is that the '85-year rule' will be in breach of Age Discrimination legislation which comes into force on 1st October 2006. For this reason, the '85-year rule' has been removed in respect of benefits you build up in the Scheme after 30th September 2006. Transitional protections will protect scheme members who will be 60 or over and meet the '85 year rule' by 31st March 2013. This means that if you retire before the age of 65 the benefits you build up in the Scheme after 30th September 2006 (or after 31st March 2013 if you are covered by the transitional protection) may be paid at a reduced rate to reflect the fact that you will be drawing them early.

Pension rights earned up to 30th September 2006 (or up to 31st March 2013 for scheme members covered by the transitional protection) are not affected by the change. The benefits of pensioners and deferred pensioners who left before 1st October 2006 will not be affected.

The change to the '85-year rule' will have no affect if you draw your pension at age 65, or if you are retired on the grounds of permanent ill health, or if you are retired on or after age 50 on the grounds of redundancy or efficiency of the service. Pension benefits in these circumstances will continue to be paid, as now, at an unreduced rate.

The change to the '85-year rule' will also not affect you if you choose to draw benefits before age 65 and you can not get 21 years membership in the Scheme before age 65. This is because you would not, even before the '85-year rule' was removed from the Scheme, have been able to meet the '85-year rule' before age 65 and so its removal will not affect you.

Many members will not be affected by the change and those existing members who will be affected will have full protection for the benefits they have built up in the Scheme at 30th September 2006 (or up to 31st March 2013 for scheme members who are covered by the transitional protection) . Only employees joining the Scheme after 30th September 2006 will be wholly affected by the change.

Tax simplification

The following changes take effect from 6th April 2006 and result from a simplification of the tax rules that govern pension schemes:

- flexible retirement from age 50 - rather than continuing in your job to 65 you can, with your employer's consent, reduce your hours or move to a less senior position and draw your pension benefits whilst continuing in employment and building up further benefits in the Scheme – helping you ease into retirement.
- if you draw your benefits on or after 6th April 2006, you can take up to a maximum of 25% of the capital value of your pension benefits as a tax free lump sum (the lump sum which is automatically paid on retirement roughly equates to 15% of the capital value). Any amount taken above the lump sum automatically paid on retirement would be achieved by exchanging part of your annual pension for a one off tax free cash payment at a rate of £12 lump sum for each £1 of pension given up.

- the current 15% limit on employees' contributions has been removed so you can pay more into the Scheme or into the Scheme's additional voluntary contribution arrangement in order to get bigger benefits from the Scheme.

The earliest age at which benefits may be paid on the grounds of redundancy or efficiency is to remain at age 50 - but will have to increase to 55 by 2010.

Other changes that come into effect from 6 April 2006

- you can join and remain in the Scheme until the day before your 75th birthday.
- if you defer drawing your pension beyond age 65, your pension benefits will be actuarially increased.
- the ability to give up part of your pension to provide a dependant's benefit over and above the standard spouse's, civil partner's or child's pension has been removed.
- children's pensions coming into payment from 6th April 2006 for children who are continuing in full time education or training have to cease by age 23.
- the maximum number of extra years of service (added years) you will be able to purchase in the Scheme by paying additional pension contributions is limited to 6 2/3rd years.
- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension has been removed.
- the maximum service limit of 40 years (or, for those who joined the Scheme before 1 June 1989, the maximum of 40 years at age 60 and 45 years at age 65) has been removed.
- the facility for employers to be able to reduce or waive the contributions of employees who have been in pensionable local government employment for at least 40 years is removed and so, as from 6 April 2006, any member who has had their contributions waived will have to start paying full contributions again. The employer can, at their discretion, recoup the contributions that would otherwise have been paid by the member had their contributions not been reduced or waived.
- the cap on pensionable earnings of £105,000 for those members who joined the Scheme after 31 May 1989 has been removed. From 6 April 2006 such members will have to start paying pension contributions on their uncapped pensionable pay. A service adjustment is to be performed on respect of membership between 1 June 1989 and 5 April 2006.

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