

The Local Government Pension Scheme Changes Update December 2010

In this update we cover recent developments to pension provision that may impact on members of the Local Government Pension Scheme (LGPS).

Public Service Pension Commission

The Public Service Pension Commission headed by Lord Hutton and created by the Government to undertake a “fundamental, structural review of public service pensions”, including the Local Government Pension Scheme (LGPS), has issued its interim report.

The report says that public service pension schemes are part of the overall remuneration package for public sector workers and have a part to play in the public sector’s ability to recruit and retain staff. The report rejects claims that public sector pensions are “gold-plated”. In 2009/10 the average LGPS annual pension was £4,052.

Although reforms to the LGPS have already been made in recent years Lord Hutton says that further reform is necessary to strike a fairer balance, not just between current tax payers and public service employees, but also between future and current generations. However, the report acknowledges that it would be a mistake to bring the level of pension provision in the public sector down to the level of the provision in the private sector.

In the short-term, the Commission believes the best way to make further savings is to increase the contribution rate of members with some sort of protection for the low paid and, if possible, with staged increases.

In the long-term, the report concluded that the final salary defined benefit schemes will have to be reformed. The Commission’s long-term reform recommendations will be designed to deliver public service pensions which are:

- affordable and sustainable;
- adequate and fair;
- support productivity; and are
- transparent and simple.

The Commission’s final report, to be produced early next year (prior to the 2011 Budget), will consider a range of alternative approaches to a final salary defined benefit scheme.

The Commission will also consider such things as ensuring normal pension ages are in line with latest changes in life expectancy, reviewing the rules that govern benefits that are drawn before or after normal pension age and the rate that pensions build up.

As far as the rights existing members have already built up are concerned, the Commission says that these will be protected. However, after giving appropriate notice and meeting requirements for consultation on changes to scheme rules, the Commission says it should be possible to make changes to pension schemes for existing members relating to the benefits to be accrued in respect of their **future** service.

In its October 2010 Spending Review the Government accepted the findings of the Commission's interim report and its conclusion that public servants should pay a greater contribution if their pensions are to remain fair to taxpayers and employees, and affordable for the country. The Government has stated that it will commit to continue with a form of defined benefit pension, and will implement progressive changes to the level of employee contributions to be phased in from April 2012. The nature of the benefits and the precise level of contributions will be determined once Lord Hutton's final recommendations have been received.

You can find the Independent Public Service Pensions Commission's full interim report on [HM Treasury website](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm) at http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

State pension age

State pension age is the earliest age you can receive your state basic pension. The State pension age is currently age 65 for men. The State pension age for women is currently being increased to age 65 as shown in the table below, so that by 2020 the State pension age for men and women would be equalised at age 65.

Date of Birth	State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	Between 60 & 61
6 April 1951 - 5 April 1952	Between 61 & 62
6 April 1952 - 5 April 1953	Between 62 & 63
6 April 1953 - 5 April 1954	Between 63 & 64
6 April 1954 - 5 April 1955	Between 64 & 65
After 5 April 1955	65

The State pension age for men and women was set to rise to age 66 by 2026, to age 67 by 2036 and to age 68 by 2046.

However, the Government announced in its October 2010 Spending Review that as a result of increasing life expectancy and demographic change it will speed up the pace of State pension age equalisation for women from April 2016 so that women's State pension age will reach 65 in November 2018. The State pension age will then increase to 66 for both men and women from December 2018 to April 2020.

The Government is also considering the future increases to the State Pension Age to manage the ongoing challenges posed by increases in life expectancy.

Restricting tax relief on pension contributions

In the June 2010 budget the Government announced it was looking to replace the tapering away of higher rate tax relief on pension contributions for high earners, which was set to be introduced from April 2011 for those with gross income of £150,000 or more, with an alternate way of restricting pensions tax relief.

The Government has now announced that from April 2011 it will reduce the amount by which the value of a person's pension savings can increase in any one year (the annual allowance) before a tax charge is due, from £255,000 to £50,000 for all scheme members. Members whose pension grows by more than £3,125 over a year ($£3,125 \times 16 = £50,000$) could be affected, but with the ability to use unused allowance in the preceding three years, **it is anticipated that only high earners will be affected by the changes.**

The proposal from April 2011 is for the pension values at the start and end of the financial year to be multiplied by 16, with the value at the start increased by the Consumer Price Index (CPI). The difference in these values is then added to any separately accrued lump sum increased by CPI, plus any AVCs paid over the year. If the growth is less than the proposed annual allowance of £50,000 there is no additional tax charge. If greater, any unused allowance in the preceding three years can be used. If still exceeded a tax charge at the Scheme members marginal rate will apply and paid via Self-assessment by the member. Examples of how the changes may affect some scheme members are as follows:

John has been a member of the LGPS for 20 years (18 years pre 2008 and 2 years post 2008) and earns a salary of £60,000. In his 21st year he receives a 3% pay rise.

Step 1 Calculate opening entitlement

Pension	$£60,000 * (18/80 + 2/60) =$	£15,500
Lump sum	$£60,000 * (3 * 18/80) =$	£40,500

Step 2 Revalue opening entitlement for inflation (2% for illustration purposes)

Pension	$£15,500 * 1.02 =$	£15,810
Lump sum	$£40,500 * 1.02 =$	£41,310

Step 3 Calculate closing entitlement using new salary

Pension	$£61,800 * (18/80 + 3/60) =$	£16,995
Lump sum	$£61,800 * (3 * 18/80) =$	£41,715

Step 4 Calculate annual entitlement

Pension	$£16,995 - £15,810 =$	£ 1,185
Lump sum	$£41,715 - £41,310 =$	£ 405

Step 5 Calculate growth

Pension	$£1,185 * 16 =$	£18,960
Lump sum	£ 405	
Growth	$£18,960 + £405 =$	£19,365 – no tax charge as less than £50,000

Joan has been a member of the LGPS for 20 years (18 years pre 2008 and 2 years post 2008) and earns a salary of £100,000. In her 21st year she receives a 10% pay rise.

Step 1 Calculate opening entitlement

Pension £100,000* (18/80+2/60) = £25,833.33

Lump sum £100,000* (3*18/80) = £67,500

Step 2 Revalue opening entitlement for inflation (2% for illustration purposes)

Pension £25,833.33*1.02 = £26,350

Lump sum £67,500*1.02 = £68,850

Step 3 Calculate closing entitlement using new salary

Pension £110,000* (18/80+3/60) = £30,250

Lump sum £110,000* (3*18/80) = £74,250

Step 4 Calculate annual entitlement

Pension £30,250-£26,350 = £3,900

Lump sum £74,250-£68,850 = £5,400

Step 5 Calculate growth

Pension £3,900*16 = £62,400

Lump sum £5,400

Growth £62,400+£5,400 = £67,800 – tax charge on £17,800

Also, from April 2012, the total capital value of all a person's pension savings which they can build up (the lifetime allowance) without paying extra tax will be reduced from £1.8million to £1.5million. The revaluation figure for benefits is expected to remain at 20 and the tax charges at 55% where excess benefits are taken as a lump sum and 25% if taken as a pension. The lump sum limit of 25% of the lifetime allowance is expected to remain before tax is payable. In reducing the lifetime allowance from £1.8 million to £1.5 million, it is not Treasury's intention to cause retrospective tax to arise where current members had reached or were anticipating reaching the £1.8 million. Enhanced and Primary Protections in place will continue to apply.

The Pensions Team are able to provide general information regarding the proposed changes in tax relief restriction however we are not tax advisors and it is recommended that high earners seek expert tax advice regarding the changes.

More information

We hope you find this information helpful. Further information is available from the pensions team via email at pensions@buckscc.gov.uk or by telephone on 01296 383755 and on www.lgps.org.uk

This leaflet is a brief guide on the changes to the LGPS for Employees in England and Wales from 30 September 2010. It was up-to-date at the time of publication and reflects the current provisions of the LGPS. Changes to the scheme can be made by the Government in the future after consultation with interested parties. The leaflet is for general use only and does not cover every personal circumstance. It does not cover councillor members of the LGPS. In the event of any dispute as to benefits due under the LGPS the appropriate legislation will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only.