



PensionChanges

An update on the new Local Government Pension Scheme



Living longer means pension changes

It's great news that the average life expectancy for people who reach 65 is dramatically higher than it used to be in the 1970s. But there's no getting away from the fact that there is a price to pay. That's why the Government has announced that the state pension age is rising to 68 from 2044.

The same applies to the Local Government Pension Scheme (LGPS). It, too, has had to address the needs of a longer-living workforce and find a solution that is affordable and realistic in these changing times. Indeed there is evidence that local government employees live even longer than the ever-increasing national average!

Solutions

There are only two realistic ways of dealing with the fact that people are living longer – without bankrupting employers and employees through much higher contributions, or asking the taxpayer to pay through council tax.

One way is to offer lower pension payments. The other is to start those payments at a later age. But rather than letting their members suffer lower pensions and be poor in old age, the scheme has revised current benefits linked to early retirement to control the costs of the scheme.

The local government workforce is diverse, but almost half work part time

and 72% are female. The average length of service is now only 6.3 years. The pension scheme is still good quality and secure, offering stable and attractive benefits, but it has to move with the times.

This newsletter aims to set out clearly the main proposed changes to your pension scheme and how they might affect you personally. But with so many variations in your age, length of service, salary and retirement choices, we also advise you on how to find out more about your particular case ([SEE PAGE 6](#)).

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LGPS members: the basics

- 72% are women and almost half are part time
- The average age is 44
- The average length of service is down from 8.1 years in 1992–95 to 6.3 years in 2001–04
- Over half of scheme members retire before 65.



The facts: What is changing in April 2008?

We are still consulting about the changes but your new-look pensions will probably be different in several ways, most of which will apply from April 2008.

The new pensions will still be a **final salary scheme**. This means your pensions payments are based on a proportion of your annual salary in the year you retire, multiplied by the number of years you've been a member of the scheme.

In addition, the **accrual rate** is improved – it's going up from 1/80th to 1/60th. This is roughly the same as saying the accruals (the amount you build up in your pension based on a percentage of your salary) will go up by around 3% – so your pension should be bigger when you retire.

The automatic **tax-free lump sum** on retirement is also to be altered. It's no longer automatic, but you will still have the chance to opt for it. You can still exchange some of your retirement payments for a tax-free lump sum and then receive lower pension payments as a result.

There are other improvements to the new system. **Death-in-service** benefits will rise from twice to three times your salary and cohabiting partners will now be eligible to receive a pension following the death of a scheme member.

Benefits for those suffering ill-health will be based on a fairer, tiered system. This means the amount you receive will be linked to your actual degree of incapacity. There will also be extensions to **flexible retirement** provisions to offer more options to members.

Contributions

Average employee contributions will go up from today's rate of 5.8% to 6.3%.

But for some employees already paying 6% your contributions will be smaller than before. In particular, those workers who currently have lower salaries (see the table below) will benefit from this change considerably as your contribution rates will decrease. The table shows the likely effects by salary bands:

Pensionable full-time salary	Contributions
Up to £12,000	Go down
£12,001 to £16,000	Go down
£16,001 upwards	Go up

Goodbye to the 'Rule of 85'



The other main change to your pension concerns the 'Rule of 85'. This rule, which was unique to local government, was removed on 1 October 2006. But what did it mean?

In the past, you could choose to retire and receive an unreduced pension at 60 or over, when the sum of your age and length of service was 85 or more. So, if you retired at 62 with 23 years' service, you received pension payments exactly as if you had retired at 65.

Why was it removed?

There were two main reasons for the removal of the Rule of 85: age discrimination under EU and UK law and cost to the taxpayer.

Discrimination

A High Court judgment confirmed that it was age discriminatory. Someone joining before age 35 would always satisfy the rule, even if they didn't stay in the scheme through to 60, but someone joining later would not.

Cost to the taxpayer

The Rule of 85 was also very expensive. The cost has been estimated at up to 2.5% of pensionable pay each

year; that's £675 million per year in current costs. And as local government staff, like everyone else, are living longer (in fact, longer than average), something had to be done to stop the cost of pensions getting out of control and destabilising the scheme.

And to ensure that it remains financially viable, 50% of the amount saved from the removal of the Rule is being recycled back into the scheme.

Further information about how you may have been affected is available at

www.communities.gov.uk/lgps

Fiction

The pension scheme retirement age has been increased from 60 to 65.

FACT

The retirement age in local government has been 65 since the 1920s. The option to retire earlier has been part of the scheme since 1974 but with financial penalties (except where the Rule of 85 applied to individual eligible members).

Fiction

Everyone will have to work until 65 now.

FACT

You can still retire before 65 and your age and length of service are taken into account to determine whether – and to what extent – you'll have a reduced pension. In any case, you would still be able to buy an extra £5,000 of additional pension on top of the main scheme benefits, pay in tiered contributions and benefit from new taxation flexibilities.

Fiction

The changes take away contractual rights to pension benefits.

FACT

Contractual rights allow employees to join the scheme. The LGPS can change so long as the change affects future accruals but not past ones. However, in the proposed new-look scheme all the rights accrued by existing scheme members until April 2008 are fully protected by law.



Laura



Laura is a **59-year-old junior manager in social services**, who joined the scheme at 46. She works full time on a salary of £32,000. Laura is single and hopes to retire at around 63 in order to spend some time travelling while she is still fit!

As Laura joined the pension scheme at older than 45, she wouldn't have qualified for the Rule of 85, so would have had a reduced pension in any case if she retired before 65. On her salary, she can expect her contributions to go up by around £230 per year.

Sanjeev



Sanjeev is a **47-year-old senior manager in environmental services**. He joined the scheme at 30 and is now on a salary of £40,000. Married with children, he hopes to retire in 2019, aged 60, to spend more time with his family.

As far as the Rule of 85 is concerned, Sanjeev comes into the 'age protected group' (born between April 1956 and March 1960 and planning to retire before April 2020). This means that the benefits he builds up before 1 April 2008 (19 years' worth) will not be reduced at all but that benefits after that date (11 years' worth) *will* be – but on a sliding scale. On his relatively high salary, his contributions are likely to go up by around £350 per year. This takes into account tax relief.

Is this you?

How these pension scheme changes affect you personally will depend on a number of factors. These include your length of service, when you joined the scheme, when you plan to retire and your salary. Here are some examples.*

*not their real names

Darren



Darren is a **32-year-old refuse operative**, who joined the scheme at 26. He is single and on a salary of £15,000. Although retirement is a long way off, he'd like to carry on until around 62.

Because of his younger age and when he joined the scheme, Darren's benefits will be only partly protected. Those he built up before April 2008 (eight years' worth) won't be affected. But if he retires under the age of 65, benefits over the remaining years will be reduced. On his salary he can expect his contributions to go down.

Emma



Emma is a **27-year-old classroom assistant**, married with two young children. She works part time to fit in with the children, so her pro-rata salary is £11,000. Having joined the scheme two years ago, her future plans are uncertain. But the job suits her very well, so she hopes to stay put until 60.

Like Darren, Emma's benefits will be partly protected. Those built up before April 2008 (four years' worth) won't be affected but her remaining years to retirement will be, as she plans to retire early. On a relatively low salary, though, her contributions will go down.

Fact or fiction?

Fiction

Members will be losing up to a third of their pension.

FACT

The maximum reduction anyone will experience is 24% if they choose to retire at 60 *and* only on benefits building up after 2008.

Fiction

Local government pensions are very small.

FACT

Pension amounts are based on length of service and salary at the time of retirement. So where pensions are small, this is directly linked to a relatively low average salary (nearly half of employees are part time) and a relatively short length of service (6.3 years on average) – compared with some other public sector professions.

Fiction

Employees are facing higher contribution rates to compensate for the employer contribution 'holidays' taken 20 years ago.

FACT

The contribution 'holidays' have not caused higher

contribution rates for employees. Although these breaks in employer contributions may have led to deficits in 1992, by 2001 the average fund had assets greater than 90% of liabilities. Increasing life expectancy and external market forces are two of the biggest real factors behind the current revisions to stabilise the costs of the pension scheme.

Fiction

Some employees will lose out if their jobs are physically impossible over 60.

FACT

How long you work depends on your state of physical and mental health at any age and in any role. The new 'flexible retirement' agenda addresses this. It enables employers to give people more retirement options than before. These include working part time (drawing some or all of their pension and continuing to earn too); changing the nature of their job; offering ill-health retirement pension; and – for those who want to – working beyond 65.

Frequently asked questions

Who is the LGPS (Local Government Pension Scheme) for?

The scheme is for all local government employees and others with a local authority connection. There are around 1.7 million people paying into it and approximately 900,000 pensioners receiving payments.

Who is responsible for the pension scheme?

Communities and Local Government oversees the scheme and Secretary of State Ruth Kelly is responsible for its regulation and ongoing solvency. The scheme is administered by local authorities.

In what way is the LGPS different from other public sector schemes?

Your scheme differs from others in many ways. To start with, it is funded completely differently. As well as relying on contributions from employees and employers, it benefits from the income generated by its cash-based

pension funds' investments. In contrast, other public sector schemes are 'pay-as-you-go', they have no pension funds and all their costs are met from revenue.

The retirement age for the local government scheme is 65 (in line with most of the private sector), but civil servants, NHS workers and teachers have traditionally had a retirement age of 60, with the option of staying longer. Even this is changing for new employees.

Factors that affect the affordability of their occupational pension schemes, such as average age, length of service and salary, vary from one profession to another.

With everyone living longer, the other public sector schemes are having to change too and won't in future be able to pay unreduced pensions to those under 65.

When, and what next?

The story so far – 2006

30 June – consultation began on four possible options for the new pension scheme

29 September – consultation on the options closed

1 October – the Rule of 85 was removed with protections for eligible scheme members

Late October – reporting of the consultation analysis to ministers

By end of November – statutory consultation begins on new-look option decision

Looking ahead – 2007 & 2008

April 2007 – the new pension scheme regulations will be confirmed

Between **April 2007** and **April 2008** – pension administration systems will be changed and all changes communicated fully to scheme members

From **1 April 2008** – the new scheme will take effect and will apply to both existing members and new entrants

What should you do next?

This newsletter can only tell you the story so far. As further details of the changes become clear, you will need to keep up to date.

www.communities.gov.uk/lgps

A special website has been set up to explain everything you need to know about the new pension scheme. It will be frequently updated.

The website will include the latest news and frequently asked questions. All you need to do is register for regular updates by emailing your contact details to lgpensions@communities.gsi.gov.uk and you will receive an email when important information is added.

For more details

If you need to have any aspect of the pension scheme explained in more detail, or you just need to know how you personally will be affected, contact your pension fund manager. They look after your pension and your personnel records, and can therefore calculate your benefits.

You can find contact details for your pension fund manager by looking at your annual benefits statement or by asking your human resources manager.

i Did you know?

- The average life expectancy for our pension scheme members is higher than the UK average
- The new rules will have *no* effect on existing pensioners
- The average length of service for our pension scheme members is only 6.3 years

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