

# **The new LGPS and you**

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*The new Local Government  
Pension Scheme  
for England and Wales  
from April 2008*

**A GENERAL GUIDE  
UPDATED JUNE 2008**

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### ***First of all what is the Local Government Pension Scheme?***

It is one of the largest pension schemes in the Country in England alone it has 1.6 million contributing members and a million pensioners and another million ex-contributors with deferred benefits.

It is a 'statutory' Public Service scheme. This means all the benefits and terms of the scheme are set out in Regulations that are passed through Parliament. The Regulations apply to all employers participating in the Scheme. There are a few areas of local discretion but all the core benefits of the scheme have to be paid in accordance with the Regulations. Irrespective of where you work or who you work for.

### ***Is it just for Local Government Employees?***

No. Local Government Employers have to participate in it but about 20% of the membership are from Higher Education, Police staff, the Environment Agency and private contractors. It is a national and an industry wide scheme.

### ***Is it funded?***

Yes, unlike most other Public Service Schemes including the NHS and the Teachers there are real funds backing up a high proportion of the benefits. In England & Wales the fund is divided into 89 separate funds and the combined market value of the funds in March 2007 was one hundred and twenty two billion pounds!

### ***Are the benefits safe?***

Because it is a 'statutory' scheme you are entitled to the benefits you have earned in the Regulations. It does not depend directly on the value of any fund.

Ultimately the tax payer is responsible to pay the benefits in the Regulations. Benefits are regarded as more secure than in the private sector.

Any changes to benefits and contributions require a period of consultation before Regulations are laid before Parliament.

### ***What type of Pension Scheme is it?***

UNISON fought long and hard to ensure that the Local Government Pension Scheme remains a good final salary pension scheme open to new members after 1 April 2008. This means that you will get the pension based on a proportion of your earnings near to retirement which is normally the pensionable pay you have earned in the last 12 months before you leave. The proportion of the pay you receive is based on your length of pensionable service.

### ***Who can join the scheme?***

Anyone can join the pension scheme while they are working with an employer that is participating in the scheme. The only exception is some contractors who have admission agreements which allow just the staff they take over to belong to the Local Government Pension Scheme and not new employees.

From 1 April 2008 there will be an additional requirement in that you cannot join the scheme unless your contract of employment is more than 3 months duration. If however, you have a succession of short contracts then as soon as you have completed 3 months you should be allowed to join the scheme. If you are a member of the current scheme you will be allowed to remain in the scheme after 1 April 2008.

### ***How long is it before I qualify for any benefit under the scheme?***

Once you have completed 3 months service you qualify for benefit. You cannot have a refund of your contributions and will start to earn pension in the scheme. You are eligible for certain benefits from day one such as the lump sum that will be payable if you were to die in service.

### ***Do I join the scheme automatically?***

Yes, your employer should put you in the scheme immediately on joining service. You do have the option to opt out of the pension scheme at any time and cease contributions. If you do so, then you will be entitled to the benefit you have earned up to the date you stop paying.

### ***What age can I join the pension scheme?***

You can join the pension scheme at any time up to age 75.

### ***Are there any limits to the amount of pension I can earn in the scheme?***

For nearly every member the answer will be no unless they are earning very high salaries. From April the Revenue will allow a Life Time Allowance for an individual to save towards their retirement of £1.65 million and an individual will be able to earn pension up to the value of the annual allowance of £225,000 in the next tax year!

### ***Is there any limit to the number of years I can earn in the scheme?***

No, since April 2006 the former maximum number of years before the age of 60 of 40 years and maximum of 45 years before the age of 65 has been removed. In theory you could join the scheme at the age of 16 and assuming no future changes to the Regulations you can earn service up to the age of 75 i.e. 59 years!

## ***What do we mean by the 'New Local Government Pension Scheme' (LGPS)?***

Simply those new Regulations will come into force from 1 April 2008 that change the way benefits will be calculated for future service. This guide sets out the new benefits package.

### ***Does it affect all the current members of the Scheme?***

The new Regulations will apply to all members paying contributions at 1 April 2008. It will not change the benefits of those who are already receiving pensions or those who have left service with deferred pensions before 1 April 2008.

### ***How is my pension calculated?***

All the benefits you earn up to 1 April 2008 will be based on a build up rate of  $1/80^{\text{th}}$  of your pensionable pay for each year of service with an additional lump sum of  $3/80^{\text{th}}$  x your pensionable pay. From 1 April 2008 the build up rate will be  $1/60^{\text{th}}$  x your pensionable service with a choice to exchange part of this for a lump sum. The following example illustrates how benefits will be calculated in the scheme for those with pre 2008 service.

<b>Service before and after 1 April 2008</b>				
<b>Example with final pensionable pay of £20,000 – retiring after 20 years service with 10 years in current scheme and 10 years in new scheme</b>				
	<b>Pension</b>		<b>Lump Sum</b>	
<b>Pre April 2008</b>	$10/80 \times £20,000 =$	£2,500pa	$10 \times 3/80 \times £20000 =$	£7,500
<b>Post April 2008</b>	$10/60 \times £20,000 =$	£3,333pa		
<b>Total benefit</b>		£5,833pa		£7,500

**Member could commute further pension for cash up to the 25% limit of the value of their benefits**

### ***Is the Pension I earn after 1 April 2008 better or worse than the pension I have earned before that date?***

The new formula gives you greater flexibility as to how much if any benefit you want to take as a cash lump sum and as better value for money than the pension you earn before 1 April 2008. The following example shows a comparison. If you want an idea of what you would get simply substitute the £20,000 in the example for your current pensionable pay and this will show you the pension you will earn in the new scheme for one year's service and how much it will cost to provide a similar lump sum to the one in the current scheme.

**Benefit earned for each year of service  
Current vs new scheme where pensionable pay is £20,000**

	Current scheme	New scheme	
		No pension commuted for cash	Pension commuted to allow same lump sum
<b>Pension calculation</b>	$£20,000 \times 1/80$	$£20,000 \times 1/60$	$£750 \div 12 = £62.50$ $£333.33 - £62.50$
<b>Pension</b>	= £250 pa	= £333.33 pa	= £270.83 pa
<b>Lump sum calculation</b>	$£20,000 \times 3/80$		
<b>Cash Lump Sum</b>	= £750	No lump sum	and £750

**In the new scheme you could receive the same lump sum as in the current scheme, plus a pension that is 8.3% higher**

***How do they calculate how much pension I have to give up to get extra cash?***

Regardless of age of retirement there is a standard exchange rate of £12 cash for each £1 pa pension given up.

***How much can I take a tax free cash lump sum?***

Since April 2006 you can take 25% of the value of your benefits at retirement as a cash lump sum by giving up pension. The calculation is complex and is different to benefits earned before April 2008 and after April 2008. Each would have to be calculated separately.

The examples below are just to give a rough guide as to what to expect. Before making any decision you must get a proper quote from your employer's pension department.

### Benefits earned after April 2008

Using the above example the pension earned for one year in the new scheme is £333.33 so the member could exchange a maximum of 25% for cash of the value. The calculation is based on a formula of multiplying the pension by 30 then dividing by 7.

The maximum cash lump sum

$$£333.33 \times 30 = £9,999.9$$

$$£9,999.9 \div 7 = \quad \quad \quad \mathbf{£1428}$$

The pension is reduced

$$£1428 \div 12 = £119.$$

$$£333 - £119 = \quad \quad \quad \mathbf{£214p.a.}$$

### Benefits earned before 1 April 2008

The calculation is even more complex because you already get part of your benefits as a tax free cash sum.

Using the example above the pension earned in the current scheme is £250 per annum plus a lump sum of £750. The member can increase the amount taken as a cash sum above the £750 that the member already has to take as cash, to 25% of the value of the benefit.

As a rule of thumb you can get a rough idea by multiplying the pension by 21 then ÷ by 4.

The overall value of the benefit is around

$$21 \times £250 = £5250$$

The maximum cash lump sum

$$£5250 \div 4 = \quad \quad \quad \mathbf{£1,312}$$

The pension is reduced

$$£1312 - £750 = £562$$

$$£562 \div 12 = £47$$

$$£250 - £47 = \quad \quad \quad \mathbf{£203 p.a.}$$

### ***How do I decide how much to take?***

This is financial advice and if you are unsure you should Independent Financial Advice. You should remember that the pension you receive is Index Linked to the Retail Prices Index so it will go up and you may hopefully live for a long time after retirement.

### ***How my pension is calculated if I work part time?***

Your final pay for pension purposes will be the pay you would have received if you had worked whole time. Your pensionable service for the period you work part time will be reduced by the proportion of your part time hours to the whole time hours.

If your whole time pensionable pay is £20,000 and you decide to work half time for one year then the pension you earn for the year would still be based on whole time pensionable pay of £20,000 but the year of half time service would be reduced to 6 months to reflect the fact you are only working half hours.

### ***How is my pensionable pay calculated?***

As under the current scheme it is all you're salary wages, fees and other payments and any other payments specified in your contract as being pensionable.

Pensionable pay does not include overtime that is not required by your contract of employment and the other main exclusions are traveling and subsistence allowance.

### ***How is final pensionable pay calculated?***

The final pay used to calculate your benefits is normally the pensionable pay you have earned during your final year of service. If you are part time final pay is the whole time equivalent. If your pensionable pay has gone down shortly before you leave or retire then instead of the last 12 months you can pick one of the two immediately preceding years to be your final pay period for calculation purposes.

### ***If my pay goes down is there any other protection?***

Yes, if your pay has reduced because you are downgraded or take a job with less responsibility then unless your pension comes into payment because of flexible retirement, your final pay can be the average of any three consecutive 'financial' years that fall within the last ten years of your service counting back from the day you actually retire. (Financial year is a year ending as at 31 March).

The final pay used in the average would then be increased by cost of living increases from the date it was paid to the date of retirement.

***I was off sick in the last 12 months of my service and my pay was reduced to one half in the last few months, will this effect any final pay for pension purposes?***

No. Any reduction because you are off sick is disregarded so it is based on what you would have earned. This also applies if, you are on paternity, maternity, adoption or reserve forces leave.

If you are absent for any other reason without pay the pensionable pay you would have received will only count if you continue to pay your contributions.

***What contributions do I pay after 1 April 2008?***

Your contribution will depend on your pensionable pay in the scheme year, the higher your pay the higher the contribution rate. There are seven bands shown below. Your contributions are tax free so if you were in the 6.5% contribution the amount you would pay after tax relief would be 5.2%.

<b>Band</b>	<b>Range</b>	<b>Contribution rate</b>
1	£0-£12,000	5.5%
2	£12,001-£14,000	5.8%
3	£14,001-£18,000	5.9%
4	£18,001-£30,000	6.5%
5	£30,001-£40,000	6.8%
6	£40,001-£75,000	7.2%
7	More than £75,000	7.5%

***The bands will go up in line with prices from April 2009.***

*Appendix 2 gives a further breakdown of how this will affect the contribution rates*

**How will the employer decide which band I should go in?**

It should be based only on your pensionable pay. If you are not paying contributions on it then it should not count. If your pay increases during the year then it is up to the employer to decide whether their payroll is up to altering the band you are in. They should publish a policy on this so everyone is treated the same. Our understanding is that an employer decides not to change a member's contribution band during the year; they cannot claim back any shortfall.

***How does the bands going up in line with the cost of living work?***

If the retail prices index goes up 3% then all the bands would go up by 3%. For example the first band would go up from £12000 to £12,360. If your pay increased from say £11500 pa to £12250 pa before the end of the scheme year then even if the employer pushed you into the next band for this scheme year, you would go back be paying 5.5% in the first band starting from the next scheme year because your pensionable pay is below £12360 threshold.

### ***I am currently paying a protected rate of 5%, what will I pay?***

Your contributions will be increased from the 5% rate to the appropriate band over a phased period from 1 April 2008 to 1 April 2011. See the attached table.

<b><i>If you are currently paying a protected rate of 5%</i></b>	
From:	Your contribution rate will be
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5% or (if lower) the relevant rate from the pay band table
1 April 2011	The relevant rate from the pay band table

### **I have been off sick for 7 months and I am now on half pay how does this effect my contributions and benefits?**

Your contributions will be the same contribution rate based on the contribution band you were on when you started your absence but only payable on the pensionable pay you actually receive.

While you are receiving half pay your pensionable pay and service will continue to build up ignoring any reduction in pay. If you receive no pay it would not count towards your pensionable service and you would not pay any contributions.

### **I am on maternity leave how am I affected?**

During the period that you are on statutory maternity leave you will pay contributions on the pay you receive. During the statutory leave period any period of reduced or no pay counts for benefit purposes as if contributions had been paid in full.

If your leave is longer than the statutory period and you go onto unpaid leave contributions you can continue to pay contributions at the level you were paying on the pay received before the maternity leave began. If you stop you can elect to pay back contributions when you return.

The same principle applies to statutory paternity and adoption leave.

### **I have gone on strike for 6 days how am I affected?**

Days on strike do not count for contributions or benefits unless you elect to pay 16% of the pensionable pay lost during the strike.

You should seek advice before paying; normally the loss will be minimal. For example if you went on strike for 6 days and your pensionable pay was £20,000 you would loose  $£20,000 \times 6/365 \div 60 = £5.47$  p.a. unless you pay the extra contributions.

## **What happens if I take a career break with the agreement of my employer?**

You have to pay the contributions at the same rate and on the pay you were receiving before the break started for the first month of your absence. Then you have a choice to either continue paying your contributions or stop. If you stop then if you return you will have the option to apply to pay back the unpaid contributions up to a maximum absence period of 36 months.

## **If I want to pay any missing contributions that arise because of, extended maternity leave, a strike or a career break how do I go about it?**

You must contact your employer in writing electing to pay back the contributions that you would have paid, within 30 days of you returning to work or ceasing employment, or such longer period that your employer agrees.

## **How will the new option to buy extra pension be different?**

The option will be replaced from 1 April by the option to buy up to £5000 pa extra pension in multiples of £250pa by making Additional Regular Contributions (ARC). It is more flexible but is likely to cost more because the cost of pensions has increased recently. Also the contribution rate will be reviewed periodically and changed if the cost of the pension changes so the contribution could increase in the future.

## **How do I find out the cost?**

Get a quote from your employer's pension department. You can decide over how many years you want to pay to buy the extra pension up to a maximum period equal to your potential service to normal retirement age. The intention is that you start contributions as soon as it is agreed and the cost will depend on age at starting, how long you want to pay and whether or not the pension you are buying includes cover for partner and dependants. So for example a male starting at age 45 would pay based on current factors £51.19 per month to buy an extra pension of £250 p.a. with dependents cover, payable from normal retirement age if the payment was only over 5 years. If it was spread over the years to normal retirement date the monthly contribution would be £20.03.

## **Can the employer refuse the application?**

Like the old added years the employer can ask for medical evidence and if not satisfied that the member is in reasonable health refuse the application. The reason is that if a member retires on ill health or dies in service the ARC is deemed to have been paid in full and the additional pension credited in full when calculating benefits.

## **Can I just pay Additional Contributions?**

Yes it doesn't have to be linked to any fixed pension. You can pay up to 50% of your pay in a tax year to buy extra benefits when you retire into the provider that has been chosen by your LGPS fund. You do not need the consent of your employer but you don't know for certain what the benefits will be because this will be based on the cost of pensions when you retire. Benefits paid even on death in service or ill health retirement will be based only on the value of your contributions at the date you ceased paying. You have the choice to buy extra pension in the LGPS with some or all of the fund you have built up with additional contributions at retirement.

## **Which is best?**

If you need help to make a decision then only an Independent Financial Advisor is authorised in law to give you that advice. Remember the contributions to ARC and additional contributions are tax free and the benefits usually cannot be paid until you retire.

## **When can I retire from the scheme?**

The normal retirement age is 65. This is the same as it was before 1 April. If pension commences at that age then regardless of your service your pension will be unreduced for early payment.

## **When can I retire without my employer's consent?**

Members have the same right as they did before 1 April 2008 to retire (or commence their deferred pension if they have already left service) from any time after age 60.

## **Can I retire before age 60?**

Yes you can retire from any age if you qualify for ill health retirement when you leave service.

If you are made redundant or retired in the efficiency of the service by your employer then your pension comes into payment without any early payment reduction if you have reached the minimum retirement age when you are dismissed.

You can request early retirement at any time after your minimum retirement age. You will need your employers consent.

## **What is the minimum retirement age?**

If you were in service at 31 March 2008 it is age 50 until 31 March 2010. If you apply for early retirement or are made redundant after that date the minimum retirement age will be age 55.

If you joined the scheme after 31 March 2008 it will be age 55.

## **If I leave before my minimum retirement age when can I take my pension?**

If you are leaving for any reason other than ill health retirement the pension can come into payment from your minimum retirement age but before the age of 60 it will require the consent of your former employer.

## **If I retire before age 65 will my benefits be reduced for early payment?**

This depends on the reason why you retire. If it is ill health retirement or on redundancy above the minimum retirement age your pension will be that earned to the date of leaving unreduced for early payment.

If you retire voluntarily before age 65 then unless your employer agrees to pay the cost of removing the early retirement factor it is likely your pension will be reduced for early payment.

## **What if I satisfy the rule of 85?**

If you have service before 31 March 2008 then you may qualify for transitional protection if you qualify for the rule of 85 at retirement. You qualify if your service plus age equals at least 85 in whole years when you draw your pension.

It may be a cost on the employer if they agree for you to go early because the early reduction factor would only count back from the date you qualify for the rule of 85. For example if you were a man allowed to retire at age 55 and you qualify for the rule of 85 at age 58 then the early retirement factor would only be 3 years i.e. 16% as opposed to over 40% if the counted back from age 65.

## **What are the transitional protections?**

All benefits earned before 1 April 2008.

If you are 60 by 31 March 2016 all benefits earned to that date

If you are 60 between 1 April 2016 and 31 March 2020 the reduction on benefits earned after 1 April 2008 will be tapered.

## **Early retirement factors**

The trade unions secured long overdue improvements to the early retirement factors for those retiring from 1 October 2006. It means that the reduction of your pension if you leave before your normal retirement age is now significantly less. Set out below is a comparison between the old and new early retirement factors. It is very important that they are regularly reviewed to reflect changes in life expectancy. As life expectancy improves, the factors will reduce further and the trade unions have been given assurances that, as part of the new package, the factors will be regularly reviewed. Below is a comparison of the old and new factors.

Years early	Male pension		Female pension		Men & women lump sum reduction
	New	Old	New	Old	
1	6%	8%	5%	7%	2%
2	11%	15%	10%	13%	5%
3	16%	22%	15%	18%	7%
4	20%	28%	19%	23%	9%
5	24%	33%	23%	27%	12%

For example, a male who retires at 60 without qualifying for the Rule of 85 would be retiring five years early. A pension of £3,000 per annum would have been reduced to £2,010 per annum, now the pension would be reduced to £2,280 per annum.

Someone in their mid forties now could expect at least three further reviews of early retirement factors before reaching age 60. Based on current life expectancy trends there is a strong likelihood that, if they still decide to draw pension at 60, the reduction will be much less than now.

## APPENDIX 1

### EXAMPLE DEATH IN SERVICE

Male member dies April 2010 at age 45 with 25 years pensionable service.  
His final pay was £20,000.

He has nominated a cohabiting partner.

He leaves one child.

<b>Death grant</b>	
3 x £20,000 =	£60,000
<b>Pension to partner</b>  Service counts from April 1988. So service counting to date of death is 22 years.  Service enhanced by 100% between date of death and normal retirement age 65 ie 45 to 65 is 20 years. So total is 22 + 20 = 42 years.  $\frac{42}{160} \times £20,000 =$	£5250 pa
<b>Pension to child</b>  Whole service is used in this case ie service from the date of joining April 1985 to date of death ie 25 years than enhanced by 20 so the total is 45 years.  If partners pension is payable the child's pension is  $\frac{45}{320} \times £20,000 =$	£2812 pa
<b>If there is no partners pension</b>  The child's pension payable is  $\frac{45}{240} \times £20,000 =$	£3750 pa

## Employee Contribution Calculator

To show how the bands affect individuals in the table below covers the main bands 2 to 6 at intervals of £1000 with representative pay points for the other bands. Clearly a few pounds difference in pay at the threshold can make a significant difference for example some one earning £18000 would pay 5.9% but someone earning just over that would pay 6.5%.

Part time staff regarded as term time will not have their pay based on a whole time equivalent for assessing which band they are in. other part time workers will fall into the band of their whole time equivalent pay.

Pay	LGPS Benefit Regulations		
	Gross Amount	Contribution Rate	Contribution Rate after Tax Relief
£6,000	£330	5.5%	4.4%
£9,000		5.5%	4.4%
£12,000	£660	5.5%	4.4%
£13,000	£754	5.8%	4.64%
£14,000	£812	5.8%	4.64%
£15,000	£885	5.9%	4.72%
£16,000	£944	5.9%	4.72%
£17,000	£1,003	5.9%	4.72%
£18,000	£1,062	5.9%	4.72%
£19,000	£1,235	6.5%	5.2%
£20,000		6.5%	5.2%
£21,000		6.5%	5.2%
£22,000	£1,430	6.5%	5.2%
£23,000	£1,495	6.5%	5.2%

£24,000	£1,560	6.5%	5.2%
£25,000	£1,625	6.5%	5.2%
£26,000	£1,690	6.5%	5.2%
£27,000	£1,755	6.5%	5.2%
£28,000	£1,820	6.5%	5.2%
£29,000	£1,885	6.5%	5.2%
£30,000	£1,950	6.5%	5.2%
£31,000	£2,108	6.8%	5.44%
£32,000	£2,176	6.8%	5.44%
£33,000	£2,244	6.8%	5.44%
£34,000	£2,312	6.8%	5.44%
£35,000		6.8%	5.44%
£36,000	£2,448	6.8%	5.44%
£37,000	£2,516	6.8%	5.44%
£38,000	£2,584	6.8%	4.08%
£39,000	£2,652	6.8%	4.08%
£40,000	£2,720	6.8%	4.08%
£50,000	£3,600	7.2%	4.32%
£60,000	£4,320	7.2%	4.32%
£70,000	£5,040	7.2%	4.32%
£76,000	£5,700	7.5%	4.5%

Note this guide is being updated and issues including ill health retirement will be dealt with separately.

The contents and figures quoted are intended to be a general guide only. Members should always check with their LGPS pension department and ask for a quote of their own benefits and ask for any clarification and explanation before relying on any figures quoted.