

**QUESTIONS ON THE
LOCAL GOVERNMENT PENSION SCHEME (LGPS)**

Focus on the main proposals in the Draft England and Wales LGPS (Amendment) (3) Regulations 2005	
<p>1. How likely is it that the proposals in the draft Regulations will actually happen?</p>	<p>Only when a Regulation has been signed and laid before Parliament is it law. The proposals could be altered before the final Regulations are laid. Consultation on the draft's proposals ends on 28 February 2006. It is important that UNISON branches respond to the consultation.</p>
<p>2. What are the main proposed changes?</p>	<ul style="list-style-type: none"> • Abolish the rule of 85 for benefits earned after the 1 October 2006 • Protection limited to those born on or before 31 March 1953. • To allow members the option of taking more of their retirement benefit in the form of a cash lump sum by exchanging pension for cash at retirement up to a maximum of 25% of the value of their benefits (see Questions 4 and 5).
<p>3. Will the proposals allow greater flexibility?</p>	<p>Yes, the main proposals allowing members increased flexibility are:</p> <ul style="list-style-type: none"> • Members will be able to join the pension scheme up to the age of 75. • There will be no limit on how much service can be earned. • The 15% limit on member contributions will be removed, allowing members to pay more into additional voluntary contributions or added years. • With employer consent a member aged 60 who reduces their hours or grade would be able to remain in employment and draw their pension.

<p>4. What is the proposal to take extra benefit as cash?</p>	<p>The revenue will allow from April 2006 members to take up to 25% of the value of their retirement benefit as a tax free cash sum when they retire.</p> <p>The proposals will continue to require members to take part of their retirement benefits as a lump sum. The lump sum that members have to take now is equivalent to 3 times their pension. Members will have the right to elect to increase this amount up to the maximum allowed by surrendering more of their pension up to the 25% limit.</p> <p>The exchange will be £12 cash for each £1 pa pension given up. (12 to 1)</p>
<p>5. How is the additional lump sum calculated?</p>	<p>The calculation is extremely complicated. It is based on 25% of the value of the retirement benefits after commutation to cash. It probably requires an algebraic formula!</p> <p>To give you some idea: a member who retires with a pension of £4,000 pa and a cash lump sum of £12,000 under the current rules could increase their lump sum to £21,600 by reducing their pension to £3,200 per annum based on an exchange rate of 12 to 1.</p>
<p>6. Is it a good deal and how much will it save the scheme?</p>	<p>Unless you have a special need for extra cash or your life expectancy is less than average, then it is not likely to be a good deal to exchange pension for cash based on the current exchange rate of 12 to 1. This is because actuaries assume that for members retiring at 60 a pension will be paid for around 19 not 12 years.</p> <p>This means that there are likely to be sizeable savings to the pension scheme depending on how many members take up the option and how much they elect to take as a cash sum. If everyone elected to take the maximum pension then the cash saving to the fund in the long term would be sufficient to give life time protection for the rule of 85 and perhaps some more benefit improvements as well.</p>

<p>7. Why is the Government so intent on removing the Rule of 85?</p>	<p>The Government published a Green Paper at the end of 2002 stating its intention to increase the normal retirement age to 65 for all public service schemes. Effectively the Rule of 85 means that a high proportion of the members of the LGPS can retire without employers consent at 60 and get an unreduced pension. In other words, there is effectively a normal retirement age of 60.</p> <p>The immediate reason for the Government trying to remove the rule with effect from 1 October 2006 is that it believes that a benefit based a service qualification and age will not be legal under anti-ageism legislation that will come into force as a result of the European Equal Treatment Directive. UNISON disagrees and the UK legislation has not been published yet!</p>
<p>8. I have heard that other public service schemes have agreed principles that could include lifetime protection.</p>	<p>Yes, Alan Johnson, Secretary of State for Work and Pensions, on 18 October 2005 made an agreement covering teachers', civil servants' and the NHS pens</p> <ol style="list-style-type: none"> (1) Existing scheme members to suffer no detriment in normal retirement age or benefits. (2) Workforces should be fully informed and there should be enough time for initial discussions ending March 2006. (3) For new staff there would be a new scheme providing defined benefit (e.g. either final salary or career average) index linked to price inflation after retirement with normal retirement age increased to 65 but with flexibility. <p>Uniformed police and armed forces scheme members also have full protection and improvements to their future scheme.</p>
<p>9. So why are members of the LGPS excluded from these principles?</p>	<p>The LGA and Government claim that it is because the LGPS is a funded scheme with real money (assets) and real deficits and Council Tax would have to rise to pay for it. The current deficit of £26 billion across the 89 funds is being paid back. We say that LGPS investments save the Government and taxpayer money.</p>

<p>10. Is the increase in deficit due to the retirement age being retained at 60 for most members in the LGPS?</p>	<p>No. Most of the deficit is down to other reasons including historically low, or in some cases, no employer contributions and past inflated investment returns. Government interference in tampering with the funding of the scheme and removing some tax reliefs has also played a part in creating the current deficits.</p>
<p>11. I have heard my Council Tax is going up. Some say it is because the government caved into the unions and restored a retirement age of 60 for most scheme members.</p>	<p>No, Council Tax is unlikely to go up in April 2006 because the Rule of 85 was not removed in April 2005.</p> <p>So far only one fund plans to increase contributions from 1 April 2006 to cover the cost of revocation from 1 April 2005 to 1 October 2006.</p> <p>Where council tax is increasing due to pension costs rising this is likely to be mainly down to past deficits caused by past under funding.</p>

SO WHAT WOULD THESE CHANGES MEAN TO ME?

<p>12. The LGPS already has a Normal Retirement Age of 65 so why the fuss?</p>	<p>Since the 1970's, members who had 25 years qualifying service could retire from age 60 without employer consent or early payment reduction. This rule was extended by the rule of 85 in 1998 to allow the same principle to apply for those allowed by their employer to go before age 60.</p>
<p>13. What is the Rule of 85?</p>	<p>If age and total membership in whole years amounts to 85 at date of retirement then there is no early payment reduction.</p> <p>Total membership includes:-</p> <ul style="list-style-type: none"> • Any period that contributions have been paid excluding any period for which a refund of contributions was taken on leaving the scheme, and any added years the member may have purchased. • Any period of illness or injury and maternity leave where any pay is received • The period from the date of leaving the scheme to the date pension commences (see example in question 30).
<p>14. How will this affect members?</p>	<ul style="list-style-type: none"> • Many more will qualify to retire at 60 on a unreduced pension than one would expect • Most early leavers will qualify to draw unreduced pension at 60 • Actual service counts for part-time workers, including paid maternity leave and sick leave - so many will qualify at 60 for an unreduced pension (see example in question 27).

<p>15. So if the Rule of 85 is abolished how will it affect those who would have been covered?</p>	<p>Benefits earned after 1 October 2006 would be reduced if the member could not stay in employment until age 65, unless retired by the employer on redundancy/efficiency after the minimum payment age - currently 50 or they retire on the grounds of ill health at any age. (There are no proposals in the draft Regulations to increase the minimum retirement age from 50 to 55 although all schemes will be required to do this by 2010)</p>
<p>16. Is the Rule of 85 discriminatory and if so what is coming in its place?</p>	<p>Because the rule of 85 is based on service qualification the government is using forthcoming anti-ageism legislation as an excuse to remove it. Legal advice differs. Even if it has to be removed in the future for legal reasons, it could be replaced with lower early retirement reductions or a lower retirement age for all.</p> <p>Abolishing the rule without any alternative is likely to have a disproportionate affect on the low paid, part-time, mainly women members, they will either have to work to 65 due to the high early retirement reductions, or suffer the reductions and risk retiring into poverty.</p>
<p>17. My employer never allows people to retire early anyway so what is the change?</p>	<p>No change -voluntary early retirement before age 60 has always required employer consent. Members will still be able to retire on pension without employer consent from age 60. The issue is that if a member with long service goes before 65 in the future the pension is likely to be much reduced for 'early payment'.</p>
<p>18. I have decided with my employer that I can retire at 57. Can this still happen?</p>	<p>Yes, you can still retire with employer consent any time after the minimum pension age with an immediate pension. The employer will still have the discretion to waive any early retirement reduction.</p>
<p>19. What about those who have already left or retired?</p>	<p>Those already on pension or who have left with deferred benefits before any change will not be affected.</p>
<p>20. I want to work until at least the age of 65. Will these regulations affect me?</p>	<p>No. If you retire at or after age 65, regardless of length of service there is no early retirement reduction. Currently if you are allowed to stay on after 65, your benefits will be increased by a late retirement factor.</p>

<p>21. I have heard that the proposals have the same protections that were set out in the original Amendment Regulations that were revoked. What are they?</p>	<p>Yes, those who are 60 after 31 March 2013 will still be eligible to qualify for the rule of 85 on benefits earned up to 30 September 2006.</p> <p>Those who are 60 on or before 31 March 2013 will still be eligible to qualify for the rule of 85 on benefits earned up to 31 March 2013. If they continue to contribute to the LGPS after the age of 60 any benefits earned after 31 March 2013 that they draw before the age of 65, will be reduced by an early retirement factor.</p>
<p>22. What if I am made redundant at or after the age of 50?</p>	<p>Good news - there are no proposals to increase the minimum retirement age at the present time. Until the date of any change, if you are made redundant over the age of 50, you will be entitled to an immediate pension from that date, without any early retirement reduction regardless of the service you accrued. As now, if you are under 50, you will not get an immediate pension if you are made redundant, although your employer will still be able to exercise discretion to bring the pension into payment early.</p>
<p>23. When is this likely to change and what will happen if I fall on the wrong side of the date of the change? When will I be able to get my pension?</p>	<p>Under the Finance Act 2004 all pension schemes have to increase the minimum retirement age from 50 to 55 by 1 April 2010. If you fall on the wrong side of the date then your former employer can only exercise discretion to bring it into payment after the age of 55. You will be able to elect to draw it from 60 but there may be some early retirement reductions. As now, you will be able to get the early payment of your deferred benefits at any age if you become incapable of undertaking the duties of your former employment on the grounds of permanent ill health.</p>

<p>24. What happened to the employers' proposals to increase employee contributions by 1% to cover the cost of Revoking the Amendment Regulations?</p>	<p>The trade unions have negotiated this proposed change away. Proposals to allow members to commute more of their pension as lump sum has deferred any decision to increase employee contributions at the present time. It is likely that cost pressures on the scheme will mean that if benefits were to be improved or even maintained at their current level, there would be further proposals to increase employee contributions. This would almost certainly include discussion as to whether there should be a single rate of contribution for all members or whether there should be variable contribution rates dependant on the level of pay.</p>
<p>25. What factors will be used to reduce early retirement benefits and are they likely to change?</p>	<p>Early retirement factors are likely to be actuarially reviewed to take in to account changes in life expectancy. Currently for members who retire 5 years before age 65 (without qualifying for the rule of 85), the pension would be reduced by 33% for men 27% for women and the lump sum would be reduced by 11% for both sexes.</p>

EXAMPLES

These examples are based on changes occurring with effect from 1 October 2006	
<p>26. I am a male aged 29. I will reach age 60 in 2036 with 40 years service. Based on going at 60 and my current pensionable pay of £12,000 pa. How will the Government proposals affect me?</p>	<p>(a) Based on current rules £6,000 pa plus £18,000 cash sum</p> <p>(b) Based on the draft regulations benefits reduced to: £4,540 pa plus £16,540</p> <p>Note: - Benefits for 10½ years to 31 September 2006 unreduced. Plus 29½ years service after October 2006 reduced by 33% for pension 11% for cash sum.</p>
<p>27. I am a woman aged 50. I will reach 60 in 2015 with 25 years service. I have always worked half time. My part time pay is £12,500 pa and my whole time equivalent pay of £25,000 pa, giving a proportionately reduced pensionable service of 12.5 years. How will the changes affect me?</p>	<p>(a) Based on the current rules £3,906 pa plus £11,718 cash sum</p> <p>(b) Based on the draft regulations benefits reduced to: £3,548pa plus £11,280 cash sum</p> <p>Note: - Benefits arising from 16½ years before October 2006 (counting as 8¼ years for calculation purposes) unreduced. Benefits arising from 8½ years after October 2006 (counting as 4¼ years for calculation purposes) reduced by 27% pension 11% cash sum</p>
<p>28. I am a man aged 35 who is going to join the LGPS in April 2006. Based on my pensionable pay of £40,000 pa, if the rules change what benefits would I get if I retire at age 60 after 25 years service?</p>	<p>(a) Based on current rules £12,500 pa plus £37,500 cash sum</p> <p>(b) Based on the draft regulations benefits reduced to £8,458 pa plus £33,458 cash sum</p> <p>Note:- Six months benefits earned before October 2006 remain unreduced and 24½ years of benefit will be reduced by 33% for the pension and the cash sum by 11% at 60</p>

<p>29. I am a woman aged 53 at April 2006 on £15,000 with 25 years protected service by age 60 in 2013. I now wish to retire at age 62 with 27 years service in 2015 (after the end of the protections). How would the new proposals affect me?</p>	<p>(a) Based on current rules £5,062.50pa plus £15,187.50 cash</p> <p>(b) Based on the draft regulations £4,995 pa plus £15,109 cash</p> <p>Note: - Benefits earned after 1 April 2013 and taken before age 65 will be reduced. In this example 2 years benefits reduced by 18% pension 7% cash (See answer to question 21)</p>
<p>30. I am a women aged 20 and reach 60 in 2045. I am likely to leave in 6 years time on £20,000 pa with 10 years service. How would it affect me if I draw my pension at 60?</p>	<p>(a) Based on current rules £2,500pa plus £7,500 cash</p> <p>(b) Based on the draft regulations benefits reduced to £2,129.50 plus £7,046.50 cash</p> <p>Note: Despite only working 10 years the period from the date of leaving to the date of retirement counts towards the rule of 85 so most of those who leave after the October 2006 would loose out.</p>
<p>31. I am a woman aged 43. I will reach 60 in 2022 with 23 years service on £20,000 pa. How will it affect me if I go at 60?</p>	<p>(a) Based on the current rules £5,347 pa plus £15,922 cash sum</p> <p>(b) Based on the draft regulations benefits reduced to £4,547 pa plus £15,825 cash sum</p> <p>Note: Under the current rules if the member retired at 60 she would be 1 year short of the rule of 85 (age 61 plus service 24 years service = 85) therefore her pension would be reduced by 7% and her cash sum by 2%.</p> <p>Benefits arising from the 15.5 years service after October 2006 would be reduced by 27% and the cash sum by 11%.</p>

32. How can I calculate the effect on me?

Hopefully the above examples will help give you some idea. Below are the current factors in the LGPS that will be used to reduce your post October 2006 service, if you plan to retire before 65. If you are not fully covered by the rule of 85 at present (e.g. if you have less than 25 years service at 60), then all your pension and cash sum would be reduced by the appropriate factor if you retired before 65 (see question 31). If you don't qualify for the rule of 85 the reduction will be the same on both pre and post 2006 service.

REDUCTION FACTORS IN THE LGPS

Using the factors which are currently in the LGPS, the reductions for retirement before age 65 would be as follows: -

Number of years before age 65	Percentage Reduction		
	Retirement Pension		Lump sum
	Men	Women	Both Sexes
0	0	0	0
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11
4	28	23	9
5	33	27	11
6	37	31	14
7	40	35	18
8	43	39	21
9	46	42	24
10	48	45	26

NB Where the number of years before age 65 is not an exact number (i.e. 4 years and 6 months) the necessary interpolations are made in the table. For 4 years 6 months, for example, the percentage reduction would be 30.5% for a man and 25% for a woman. The lump sum percentage reduction would be 10%.

This document has been prepared by Glyn Jenkins Head of Pensions UNISON. Members should contact their employers' pension department for information about their own benefits.

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