



London Borough of  
**Redbridge**



# Changes to The Local Government Pension Scheme April 2006



**lgps** look forward  
with confidence

# Changes to the Local Government Pension Scheme in England and Wales

You may have seen information in the media recently or received information from a union about changes the Government recently made to the Local Government Pension Scheme (LGPS) and will naturally be concerned about how these changes to the Scheme may affect you.

This leaflet explains what the changes mean for you and the reasons for the changes.

## Why have changes been made?

On average, people are living longer and receiving their pensions for longer. This is great news but it means that the cost of the LGPS has risen.

The Government has therefore made changes to ensure that the scheme can remain affordable whilst still providing a good level of pension benefits for current and future employees.

Also, the tax rules that govern pension schemes have changed from 6 April 2006, allowing the LGPS to relax many of the contribution and benefit limits that previously applied.

## What are the changes?

### 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 to what is known as the 85 year rule are being made.**

#### What is the 85 year rule?

The 85-year rule decides if your benefits should be reduced or not **if you chose to retire early**. If you do not satisfy the 85-year rule, then your benefits are reduced if voluntarily drawn before age 65.

#### How do I know if I will satisfy the 85-year rule?

If you decide to retire before age 65 and your age plus membership (each in whole years) at the time you start drawing your pension add up to at least 85 years there would be no early retirement reduction applied to your benefits. *If you work part time, your membership counts towards the 85-year rule at its full calendar length.*

## Why has the 85-year rule been changed?

The Government's legal advice is that the '85 year rule' will be in breach of Age Discrimination legislation which comes into force 1 October 2006. For this reason **the 85-year rule has been removed, but only in respect of benefits you build up in the future. The pension rights you have banked up to 30 September 2006 (or up to 31 March 2013 if you will be aged 60 or over by then)** will not be affected and will continue to be calculated in the same way as if the changes had not been made.

## What does this mean to me?

If you retire before age 65 the benefits you build up in the Scheme after 30th September 2006, or after 31st March 2013 if you will be aged 60 or over by then, may be paid at a reduced rate to reflect the fact that you will be drawing them early.

The change to the 85 year rule will not affect you if you draw your pension at age 65, if you are retired on the grounds of permanent ill health at any age, 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 continue to be paid at an unreduced rate. The benefits of pensioners and deferred pensioners who left before 1st October 2006 will also not be affected.

As you can see, you may not be affected by the change but if you are you have full protection for the benefits you have built up in the Scheme to 30th September 2006 (or 31st March 2013 if you will be 60 or over by then).

**Only employees joining the Scheme after 30th September 2006 will be wholly affected by the change.**

The flowchart at the back of this leaflet should help you to understand how the changes affect you.

## Here is an example of the effect of the change to the 85-year rule

**A man aged 46 on 1 October 2006 with continuous membership from age 20 retires at age 60 in 2020, having satisfied the 85-year rule.**

**His final years' pay is £18000.**

### He would have:

- 26 years' membership (1980 to 2006) protected
- 14 years' membership (2006 to 2020) subject to reduction

### Annual Pension:

$26/80 \times £18000 = £ 5850$

$14/80 \times £18000 = £ 3150$

**Less 33% of £3150 = £ 1040**

Total = **£7960**

### Lump Sum:

$3 \times 26/80 \times £18000 = £ 17550$

$3 \times 14/80 \times £18000 = £ 9450$

**Less 11% of £9450 = £ 1040**

Total = **£25960**

**If, rather than retiring at age 60, he carries on working to age 65** he will build up 5 more years of membership (total of 45 years) and his benefits will not be reduced for early payment.

### His benefits would then be:

#### Annual pension:

$45/80 \times £18000 = £ 10125$

#### Lump Sum

$3 \times 45/80 \times £18000 = £ 30375$

## Tax Simplification Changes

These changes take effect from 6 April 2006. They result from a simplification of the tax rules that govern pension schemes and introduce greater flexibility and choice for scheme members:

- **Flexible retirement for employees 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 lower grade and draw your pension benefits whilst continuing in employment and building up further benefits in the Scheme – enabling you to ease into retirement. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction; this is an employer discretion.
- **Exchanging part of your pension for extra lump sum** – if you draw your benefits after 6 April 2006 you can take up to 25% of the capital value of your pension benefits as a lump sum<sup>1</sup>. The current lump sum automatically paid on retirement roughly equates to 15% of the capital value. Any amount you take above the current lump sum 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.
- **Taking AVCs as cash** - if you pay additional voluntary contributions (AVCs) via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax free lump sum provided you draw it at the same time as your LGPS pension benefits and, when added to the LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund)<sup>1</sup>.
- **Removal of limit on employee contributions** - the 15% limit on a scheme member's contributions has been removed so you can pay more into the Scheme or into the Scheme's additional voluntary contribution arrangement to get bigger benefits from the Scheme<sup>2</sup>.
- **There are also changes to the scheme that affect high earners** – information about these is in the leaflet "Your LGPS benefits and tax changes" which is available at <http://www.lge.gov.uk/pensions/content/guides.html>

<sup>1</sup> or, if lower, 25% of the Lifetime Allowance (LTA in 2006/07 is £1.5 million) less an adjustment for the value of any other pension benefits you may be drawing

<sup>2</sup> Councillors who are members of the Scheme cannot purchase extra scheme membership but can pay extra into the Scheme's AVC arrangement.

## Other changes to the LGPS that come into effect from 6th April 2006

- you can join the scheme and remain in the Scheme up to two days 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 after 5th April 2006 for non-incapacitated children who are continuing in full time education or training will have to cease by age 23.
- the extra years of membership you are able to purchase in the Scheme by paying additional pension contributions is limited to 6 2/3rd years<sup>2</sup>.
- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension is 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.
- employers can no longer reduce or waive the contributions of scheme members who have been in pensionable local government for at least 40 years and so, from 6 April 2006, if you have had your contributions waived you will have to start paying full contributions again. Your service in excess of 40 years will now count towards your pension benefits and your employer can, at their discretion, recoup the contributions you would otherwise have paid.
- the normal retirement age for councillors who are members of the Scheme has been reduced from 70 to 65.

### It's changing – but is it still a good Scheme?

Don't forget that the LGPS is still an extremely good Scheme compared to most schemes in the private sector and is a valuable part of your pay and reward package.

#### The LGPS is a good quality pension arrangement and has many features:

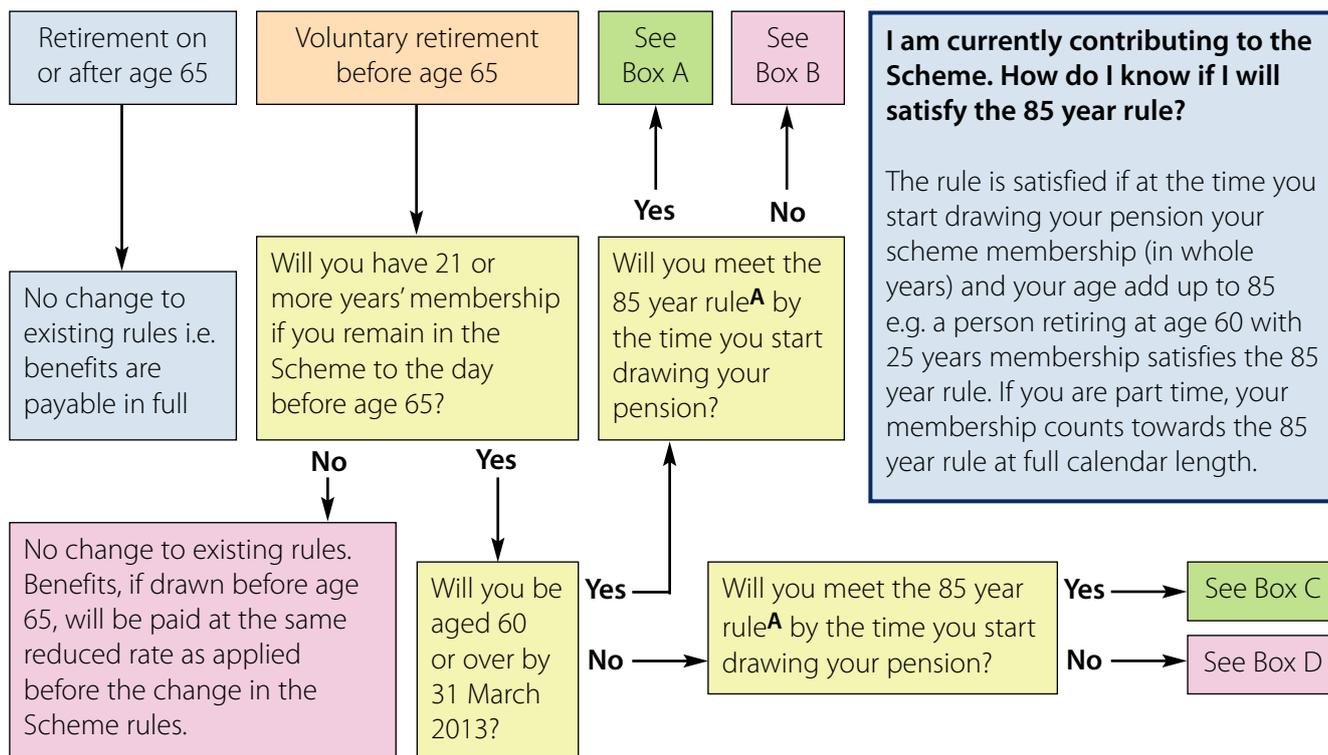
- **Employer subsidised** - Your employer, on average, pays over twice as much into the LGPS as you do.
- **A secure pension** - The Scheme provides you with a secure future income, independent of share prices and stock market fluctuations. Your pension will also receive regular cost of living increases when in payment.
- **A lump sum on retirement.**
- **Early retirement** - You can choose to retire from age 60 (or earlier with the employer's consent) and receive your benefits immediately, although they may be reduced for early payment. Unreduced benefits are payable immediately if you are made redundant or retired in the interests of efficiency when aged 50 or over.
- **Flexible retirement for employees** – You can choose to draw benefits early if your employer agrees to you reducing your hours or grade. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction.
- **Ill-health retirement** – at any age. If you ever become permanently unable to do your job, you could receive immediate ill-health benefits.
- **Death benefits** – Lump sum life cover of two years pay from the moment you join and widow's / widower's / civil partner's / children's pensions in the event of your death.

**On the Horizon** - alongside all of the above, discussions are beginning between the Government, unions and employers on a new-look local government pension scheme for 2008. Formal consultation on what the new scheme may contain is expected to begin in November 2006, with the new scheme coming into force in April 2008.

**We hope you find this information helpful.** Further information is available from your pension section at the address shown at the back of this newsletter and on [www.lgps.org.uk](http://www.lgps.org.uk)

## How will the changes to the LGPS being made on 1 October 2006 affect me?

By following the flowcharts below you will be able to see how the changes to the Scheme being made on 1 October 2006 affect you if you voluntarily retire on or after age 60, or if you voluntarily retire on or after 50 and before age 60 with your employer's consent.



A. or meet an earlier Normal Retirement Date which some members who joined the Scheme before 1 April 1998 have under previous regulations.

Box A	Box B	Box C	Box D
<p><b>None of the benefits you accrue up to 31 March 2013 will be reduced.</b></p> <p>However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.</p>	<p><b>The benefits you have accrued up to 31 March 2013 will be reduced but the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year ruleB).</b></p> <p>The benefits you accrue after 31 March 2013 will be reduced but the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.</p>	<p><b>None of the benefits you accrue up to 30 September 2006 will be reduced.</b></p> <p>However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.</p>	<p><b>The benefits you have accrued up to 30 September 2006 will be reduced but the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year ruleB).</b></p> <p>The benefits you accrue after 30 September 2006 will be reduced but the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.</p>

Please note that no reduction will be applied to any of your benefits if you draw them on or after age 65.

B. or the shortfall to any earlier Normal Retirement Date which some members who joined the Scheme before 1 April 1998 may have had under previous regulations

## Tax Simplification Changes - "A Day"

You may have all heard the phrase "Tax Simplification" or "A Day" mentioned for the last couple of years. What is it and what does it mean to us all?

From **6 April 2006**, the legislation of Her Majesty's Revenue and Customs (HMRC) that governs pension payments and the amount that we can pay to provide our pensions has changed dramatically. There were 8 sets of tax regulations which have been replaced by a single new set of regulations.

Prior to 6 April 2006, we were limited to receive no more than 2/3 or 40/60 of our final salary as a pension. Because we also receive a tax free lump sum of 3 times the initial pension upon retirement actuarially speaking that is the same as receiving a pension of 40/60ths.

Also, the maximum that we could pay towards our pension is 15% of our pay.

From 6 April, all that has changed. We now have what is known as a **standard "lifetime allowance"**. The lifetime allowance represents the capital value of our pension benefits that can be paid without incurring an extra tax charge.

## What is the standard lifetime allowance amount?

The standard lifetime allowance has been set at **£1.5m** for **2006/07**. Rises have been set for the next 4 years as follows:

<b>2007/08</b>	<b>£1.6m</b>
<b>2008/09</b>	<b>£1.65m</b>
<b>2009/10</b>	<b>£1.75m</b>
<b>2010/11</b>	<b>£1.8m</b>

Increases beyond that will be set by Treasury Orders

## How is the value of pension benefits calculated?

To determine the capital value of each members pension benefits, the annual pension is multiplied by a factor of 20, and the lump sum retirement allowance is added.

**For example, for someone with 30 years scheme membership:**

<b>Annual pension</b>	<b>= 30/80 X £25,000</b>	<b>= £9,375 x 20</b>	<b>= £187,500</b>
<b>Lump sum retirement allowance</b>	<b>= 3 X 30/80 X £25,000</b>		<b>= £ 28,125</b>
		<b>Total value</b>	<b>= £215,625</b>

These benefits are well within the standard lifetime allowance

## Maximum annual growth rates (Annual Allowance)

However, there is a limit set on the maximum level of growth in benefits each year. This has initially been set at **£215,000** for **2006/07**. This figure is set to rise to **£255,000** by **2010**.

Employee benefit growth greater than this allowance can still be made but the employee **will be taxed 40%** on the **excess**.

To check the growth rate, a check is made at the beginning and end of a 12 month period, known as an input period. For members already in the scheme on 6 April 2006, the future input periods are likely to be 1 April to the following 31 March .

**Using the above example, lets say the members' salary increased by £3,000 during the input period and the membership is 30 years at the start**

<b>Annual pension at end of input period</b>	<b>= 31/80 X £28,000</b>	<b>= £10,850</b>
<b>Lump sum retirement allowance</b>	<b>= 3 X 31/80 X £28,000</b>	<b>= £32,550</b>

To determine the growth rate a factor of 10 is applied to the increase in the pension benefits i.e.

Increase in Pension	£10,850 less £9,375	= £1,475 X 10	= £14,750
Plus increase in lump sum	£32,550 less £28,125		= £ 4,425
Total growth rate			= £ 19,175

Well within the annual allowance

## What happens to those people whose benefits value exceeds the lifetime allowance

Where the lifetime allowances are exceeded, a charge will be applied to the excess

Benefits accrued at the rate of **25% for any pension taken, or 55% if the excess is taken as a lump sum.**

There is however 2 levels of protection that can be applied for, for those members who already exceed the lifetime allowance, and they are outlined later.

**For this reason it is essential that you know what portion of the lifetime allowance is taken up by the pension benefits that they have in our pension scheme.**

Given the example of the value of benefits shown previously, the portion is :

$$£215,625 / £1.5m = 14.375\% \text{ well within limits}$$

You may also have pension benefits elsewhere and although the lifetime allowance may not be exceeded with your current employer, the total of all your pension benefits may do so.

**Her Majesty's Revenue and Customs have stated that it is for each pension scheme member to be responsible for informing it's pension scheme administrator what portions of the life time allowance are held elsewhere. If such information is not given at the time of retirement, we are to assume that ALL of the lifetime allowance is held *elsewhere* and so we tax the benefits that we hold.**

## The maximum amount that can be taken as a lump sum retirement allowance

It is possible to take up to 25% of your personal lifetime allowance as a tax free lump sum rather than just 3 times your pension. So if you look at the example already given, The total value of benefits is £215,625, therefore 25% is £53,906.25.

Working backwards, if the total value	= £215,625.00
Maximum lump sum	= £ 53,906.25
Less original lump sum	= £ 28,125.00
Balance	= £ 25,781.25

A commutation factor of 12 is applied to the pension surrendered to provide the additional lump sum, therefore the amount of pension surrendered in the above case is £25,781.25 / 12 or £2,148.44 per annum.

**This maximum figure must also include any AVC's and it is possible that the AVC pot could now all be taken as a tax free cash lump sum.**

## Maximum pension contribution that can be paid

The maximum contribution that can be paid is **100%** of pay or £3600 whichever is the greater

## Where a members personal fund exceeds the lifetime allowance

If a members personal fund value exceeds the lifetime allowance, they can apply for 2 types of protection.

- Primary Protection
- Enhanced Protection

## Primary Protection

This allows members whose benefit value is in excess of the lifetime allowance to have their value registered. So for example, if a members' personal pension fund is **£1.65m** on **6 April 2006**, that figure will be registered and the lifetime allowance in place at the time of their retirement would be uplifted to **110%**

$$\text{£1.65m} / \text{£1.5m} = 110\%$$

Therefore, if the lifetime allowance is **£1.8m** on the day the member retires, their personal life time allowance is **£1.8m x 110% = £1,980,000.**

A member must apply for primary protection before **6 April 2009.**

## Enhanced Protection

This exempts members from any lifetime allowance charge, but they would need to opt out of the pension scheme before A Day, and not accrue any further pension benefits after this date.

Again, a member must apply for protection within 3 years of A day.

If the members personal lifetime allowance (portion of the £1.5m) is **less** than the maximum **£1.5m** on **A day**, **they can only apply for Enhanced Protection.**

If the members personal lifetime allowance is **above £1.5m**, they can apply for **Enhanced protection, Primary Protection or both.**

**However–** anyone paying AVCs **Cannot** apply for either protection.

## Nomination Forms

You can nominate a beneficiary/ies of any death grant that becomes payable as a member of the Local Government Pension Scheme.

If you wish for a nomination form or have any questions regarding the information given in this newsletter , please contact your appropriate pension office.

## Pension Office Contact details:

### London Borough of Havering

Pensions Office  
4th Floor Mercury House  
Mercury Gardens  
Romford  
Essex  
RM1 3DS



Email: [pensions@havering.gov.uk](mailto:pensions@havering.gov.uk)

Tel: 01708 432978 or 432192 or 432275

### London Borough of Redbridge

Pensions Office  
Personnel Service  
Lynton House  
255–259 High Road  
Ilford, Essex  
IG1 1NF

London Borough of

**Redbridge**



Email: [pensionslgpsadmin@redbridge.gov.uk](mailto:pensionslgpsadmin@redbridge.gov.uk)

Tel: 020 8708 3236 or 3447

**A large print version of this newsletter is available. Please telephone 020 8708 3549.**