

Local Government Pension Scheme - Update

New Scheme – Key Features

A new version of the Local Government Pension Scheme (LGPS) comes into effect on 1st April, 2009. On that date, the current scheme will be closed and all existing members will become subject to the new scheme.

The content of the new scheme has been agreed following extensive negotiations between Unions, Employers and Government.

The new scheme represents a significant makeover for the LGPS, so please read on as the changes will affect both your take home pay and scheme entitlement.

The main features of the new scheme are as follows:

- Benefits to remain based on final salary
- Benefits to remain guaranteed by Government
- Annual pension to equal 1/60th of pay for each year of membership
- Optional tax free lump sum
- Contribution rate to be set according to your level of earnings (see next page for more about this)
- Minimum retirement age to increase from 50 to 55 from April, 2010, but pre 5/4/2006 members to retain possibility of retirement from age 50 on redundancy or business efficiency grounds
- Two tier Ill Health provisions, but pre 1/4/2009 members to be no worse off than under the existing ill health provisions
- Death in Service Lump Sum equal to 3 times pay
- Survivor Pensions for spouses, civil partners and nominated unmarried partners
- Flexible retirement options
- Topping up options – AVC's and Buying Additional Pension

Tiered Employee Contributions

IMPORTANT - Please pay particular attention to these changes as they will affect your take home pay.

Contributions to the LGPS are currently 5% or 6% of pay. From 1/4/2009 the contribution rate will vary depending on your level of pay.

To check how you will be affected, have a look at the table below. (Remember if you are part time then it is your full time equivalent pay that will be used to determine your contribution rate).

For example, if your full time rate of pay is £16,000 per year, then your new contribution rate will be 5.5%. Alternatively, if your pay is £30,000 then your contribution rate will be 6.5%.

Your employer will use your annual salary in March each year to determine your contribution rate for the whole of the following pay year. In other words, your pay at 31/3/2009 will be used to determine your contribution rate for the whole of 2009/10.

From	To	Contribution rate
£0	£18,529	5.5
£18,530	£19,687	5.6
£19,688	£20,999	5.7
£21,000	£22,264	5.8
£22,265	£23,137	5.9
£23,138	£24,081	6.0
£24,082	£25,106	6.1
£25,107	£26,222	6.2
£26,223	£27,441	6.3
£27,442	£28,780	6.4
£28,781	£30,169	6.5
£30,170	£31,228	6.6
£31,229	£32,363	6.7
£32,364	£33,584	6.8
£33,585	£34,901	6.9
£34,902	£36,326	7.0
£36,327	£37,872	7.1
£37,873	£39,555	7.2
£39,556	£40,645	7.3
£40,646	£41,538	7.4
£41,539	£42,471	7.5
£42,472	£43,448	7.6
£43,449	£44,470	7.7
£44,471	£45,542	7.8
£45,543	£46,666	7.9
£46,667	£47,848	8.0
£47,849	£49,090	8.1

From	To	Contribution rate
£49,091	£50,399	8.2
£50,400	£51,780	8.3
£51,781	£53,239	8.4
£53,240	£54,782	8.5
£54,783	£56,417	8.6
£56,418	£58,153	8.7
£58,154	£59,999	8.8
£60,000	£61,967	8.9
£61,968	£64,067	9.0
£64,068	£66,315	9.1
£66,316	£68,727	9.2
£68,728	£71,320	9.3
£71,321	£74,117	9.4
£74,118	£77,142	9.5
£77,143	£80,425	9.6
£80,426	£83,999	9.7
£84,000	£87,906	9.8
£87,907	£92,195	9.9
£92,196	£96,923	10.0
£96,924	£102,162	10.1
£102,163	£107,999	10.2
£108,000	£114,545	10.3
£114,546	£121,935	10.4
£121,936	£130,344	10.5
£130,345	£139,999	10.6
£140,000	£151,199	10.7
£151,200	£157,000	10.8

Retirement Benefits

A key feature of the new scheme is that retirement benefits will be based on "60ths" of pay with an optional lump sum. This contrasts with the existing scheme where benefits are based on "80ths" of pay but with a fixed lump sum of "3/80ths".

The changes mean that:

- Members who join on or after 1/4/2009 will have their benefits based entirely on 60ths.
- Members who have joined before 1/4/2009 will have their benefits based on a mixture of 60ths and 80ths.

The net result is that members will have slightly improved benefits under the new arrangements. This is illustrated in the example below.

Scheme Member Details

Age 65 on	-	31/3/2019
Total membership	-	30 years
Membership at 31/3/2009	-	20 years
Final Pensionable Pay	-	£20,000

Calculation of Retirement Benefits – Current Scheme

Annual Pension	-	30 yrs x 1/80th x £20,000	=	£ 7,500
Lump Sum	-	30 yrs x 3/80th x £20,000	=	£ 22,500
Capital Value of Rights			=	£160,714

Calculation of Retirement Benefits – New Scheme

Annual Pension	-	20 yrs x 1/80th x £20,000	=	£ 5,000
	+	10 yrs x 1/60th x £20,000	=	£ 3,333
			=	£ 8,333
Lump Sum	-	20 yrs x 3/80th x £20,000	=	£ 15,000
Capital Value of Rights			=	£164,280

The formula for calculating the capital value is as follows:
[(120 x Annual Pension) + (10 x Lump Sum)] / 7

The calculation above shows that the value of the rights under the new scheme is greater than under the old scheme (£164,280 against £160,714).

Here is a further example of a benefit calculation under the new scheme.

Scheme Member Details

Age 65 on	-	31/3/2029
Total membership	-	40 years
Membership at 31/3/2009	-	20 years
Final Pensionable Pay	-	£30,000

Calculation of Retirement Benefits – Under Current Scheme Rules

Annual Pension	- 40 yrs x 1/80 th x £30,000	=	£ 15,000
Lump Sum	- 40 yrs x 3/80 th x £30,000	=	£ 45,000

Calculation of Retirement Benefits – Under New Scheme Rules

Annual Pension	- 20 yrs x 1/80 th x £30,000	=	£ 7,500
	+ 20 yrs x 1/60 th x £30,000	=	£ 10,000
Total Annual Pension		=	£ 17,500
Lump Sum	- 20 yrs x 3/80 th x £30,000	=	£ 22,500

If this member wants to receive their “old scheme” lump sum of £45,000, then they need to increase their new scheme lump sum by £22,500. This is done by giving up part of the pension. The conversion rate is £12 lump sum for every £1 pension.

Extra Lump Sum needed		=	£ 22,500
Pension given up	- (£22,500 / 12)	=	£ 1,875
Final Annual Pension	- (£17,500 - £1,875)	=	£ 15,625
Final Lump Sum	- (£22,500 + £22,500)	=	£ 45,000

It may be possible for an even larger lump sum to be taken, again at the expense of a smaller pension. The maximum amount that can be taken as a tax free lump sum is 25% of the capital value of the pension rights. In this case, the capital value of the new scheme benefits is £332,143.

Maximum Lump Sum	- (£332,143 x 25%)	=	£ 83,035
Additional Lump Sum	- (£83,035 - £22,500)	=	£ 60,535
Pension given up	- (£60,535 / 12)	=	£ 5,045
Final Annual Pension	- (£17,500 – £5,045)	=	£ 12,455
Final Lump Sum	- (£22,500 + £60,535)	=	£ 83,035

More information about the Local Government Pension Scheme is available on the Falkirk Council website at www.falkirk.gov.uk/pensions