

Local Government Pension Scheme

New Scheme Update – March 2008 - Proposals

The new Local Government Pension Scheme (LGPS) opens for business on **1st April, 2009**. The current scheme will be closed and all existing members will be subject to the new scheme from **1st April, 2009**.

The **draft** terms of the new scheme have been agreed following extensive negotiations between Unions, Employers and Government.

A final consultation on the **draft** proposals is under way and if you wish to comment you must do so by contacting the **Scottish Public Pensions Agency before 27th March, 2008**.

The proposals represent a significant makeover for the Scheme, so please read on as the **proposed changes** will affect both your **take home pay** and **scheme entitlement**.

The main features of the new scheme are as follows:

- LGPS to stay a Final Salary Scheme
- Benefits up to **1st April, 2009** to be based on **1/80ths** of pay with a fixed **3/80ths** lump sum
- Benefits from **1st April, 2009** to be based on **1/60ths** of pay with no automatic lump sum
- **Tiered Employee Contributions** (see next page for more information)
- 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 increased to **3 times pay**
- Pensions for unmarried partners
- Long term spouse and childrens' pensions
- Flexible retirement options
- Topping up options – AVC's and Buying Additional Pension

Your **take home pay** is likely to be affected by the introduction of **tiered contributions**. The section below gives more information on this topic:

Tiered Employee Contributions

- Current scheme members mostly contribute 6% of pay
- Members employed in a manual capacity from before 1/4/1998 pay 5%
- Under the new proposals, contributions will be paid on a “tiered” basis so that members will pay a progressively higher contribution depending on their salary level, as follows:

Pensionable Earnings	% Rate
On earnings up to and including £18,000	5.5%
On earnings above £18,000 up to £22,000	7.25%
On earnings above £22,000 up to £30,000	8.5%
On earnings above £30,000 up to £40,000	9.5%
On earnings above £40,000	12%

(So if your salary is £25,000, you will pay 5.5% on the first £18,000, then 7.25% on the next £4,000 and then 8.5% on the remaining £3,000).

- If you are part time, your rate of contribution will be based on your full time equivalent earnings (FTE). So if your FTE is £25,000 but you only earn £12,500 through working 50% of full time hours, your rate will not be 5.5%, but a mixture of 5.5%, 7.25% and 8.5%. In other words, the contribution will be calculated as if you were full time, and then adjusted to reflect your actual working arrangement.
- The table below shows the average rate of contribution you can expect to pay depending on your annual salary.

Full time Pensionable Annual Salary	Average Contribution Rate	Full time Pensionable Annual Salary	Average Contribution Rate
£10,000	5.50%	£55,000	8.56%
£15,000	5.50%	£60,000	8.85%
£20,000	5.67%	£65,000	9.09%
£25,000	6.14%	£70,000	9.30%
£30,000	6.53%	£75,000	9.48%
£35,000	6.96%	£80,000	9.64%
£40,000	7.27%	£85,000	9.78%
£45,000	7.80%	£90,000	9.90%
£50,000	8.22%	£100,000	10.11%

(n.b, from 6th April, 2008, tax relief on your pension contributions will be at the rate of 20% or 40% depending on your level of taxable earnings).

Retirement Benefits - Case Study

Scheme Member Details

Age 65 on	-	31/3/2019
Total membership	-	30 years
Membership at 31/3/2009	-	20 years
Membership from 1/4/2009 to 31/03/2019	-	10 years
Final Pensionable Pay	-	£25,000

Calculation of Retirement Benefits – Current Scheme

Annual Pension

$$30 \text{ years} \times 1/80^{\text{th}} \times £25,000 = £ 9,375$$

Lump Sum

$$30 \text{ years} \times 3/80^{\text{th}} \times £25,000 = £ 28,125$$

$$\text{Capital Value} = £200,892$$

(Your maximum tax free lump sum is 25% of the Capital Value)

Calculation of Retirement Benefits – New Scheme

Annual Pension

$$20 \text{ years} \times 1/80^{\text{th}} \times £25,000 = £ 6,250$$

$$+ 10 \text{ years} \times 1/60^{\text{th}} \times £25,000 = £ 4,167$$

$$= £ 10,417$$

Lump Sum

$$20 \text{ years} \times 3/80^{\text{th}} \times £25,000 = £ 18,750$$

$$\text{Capital Value} = £205,363$$

(Your maximum tax free lump sum is 25% of the Capital Value)

More information about the new scheme is available on the SPPA website at www.sppa.gov.uk/pension_reform/localgov.htm