

WEST MIDLANDS



PENSION FUND

# The new Local Government Pension Scheme – it's got to be worth taking a 'new look'

(including the most frequently asked questions)



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# A 'new look' Local Government Pension Scheme (LGPS) from 1 April 2008

The LGPS is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the Scheme – and to which your employer makes a significant contribution.

As part of a general review of public sector pension schemes, the Government has introduced changes to the LGPS for employees in England and Wales from 1 April 2008.

More of us living longer and so receiving our pensions for longer, which means the cost of providing pensions has risen. Also, the nature of the workforce has changed, with more Scheme members working part-time and looking to achieve a better work-life balance.

As a result, the LGPS has been updated to reflect the work patterns and needs of a modern workforce, and to ensure that the new look LGPS is affordable whilst still providing an excellent level of pension benefits.

**If you're already paying into the LGPS on 31 March 2008 and you continue to have a contract of employment on 1 April, you are automatically transferred to the new Scheme.**

Let's take a look at how the main changes affect you if you are an existing member being moved over to the new look LGPS.

## New contribution rates

In the new Scheme, instead of most people paying a standard contribution rate of 6%, there are different contribution rates for different pay bands. These new rates have been designed to give more equality between the cost and benefits of Scheme membership.



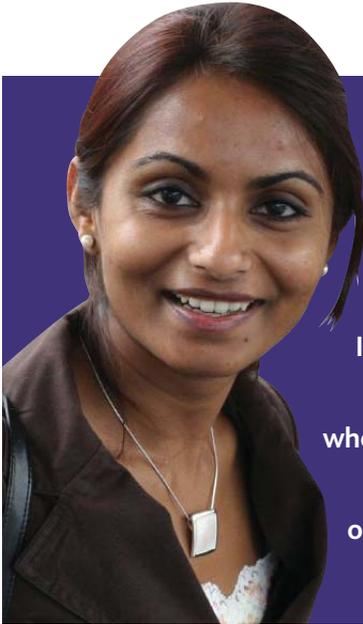
The new rates are between 5.5 and 7.5% of your pensionable pay. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole-time pay rate for your job, although you will only pay contributions on the pay you actually earn.

The pay bands will be adjusted each April in line with the cost of living.

**Here are the pay bands from April 2008:**

<b>If your whole-time equivalent pay rate is:</b>	<b>Your contribution rate will be:</b>
Up to £12,000	<b>5.5%</b>
More than £12,000.01 and up to £14,000.00	<b>5.8%</b>
More than £14,000.01 and up to £18,000.00	<b>5.9%</b>
More than £18,000.01 and up to £30,000.00	<b>6.5%</b>
More than £30,000.01 and up to £40,000.00	<b>6.8%</b>
More than £40,000.01 and up to £75,000.00	<b>7.2%</b>
More than £75,000	<b>7.5%</b>



Let's take a look at someone who works full-time at a pay rate of £20,000.

They'll pay 6.5% of their pay – that's around £108 a month – in contributions.

If they were working half time, they'd still pay the 6.5% rate. That's because the whole-time rate for their job is still £20,000, but their contributions would be based on their part-time earnings, so they'd have £54 deducted.

If you pay tax and national insurance, you'll get tax relief on your contributions and pay a lower rate of national insurance, so the actual cost to you is less.

If you're currently paying a protected rate of 5%, the rate you pay will be increased on a phased basis from 1 April 2008, bringing it into line with all other Scheme members by 1 April 2011.

**If you are currently paying a protected rate of 5%**

<b>From:</b>	<b>Your contribution rate will be:</b>
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

## How are my benefits worked out?

**The new LGPS is still a final salary scheme.** This means that your benefits are normally based on your final year's pay and the number of years you have been a member of the Scheme.

### **How your benefits are worked out when you retire changes from 1 April 2008**

For each year you have built up in the Scheme to 31 March 2008, you will receive a pension of 1/80th of

your final year's pay plus an **automatic tax-free lump-sum** of three times your pension.

For each year you build up from April 2008, **your pension will be at the increased rate of 1/60th** of your final year's pay. There will be no automatic lump-sum for membership built up after March 2008, but you do have the option to get a tax-free lump-sum in exchange for some of your pension.

**Let's look at someone who has eight years' membership up to 31 March 2008 and 24 years' membership after then when they retire at age 65. Their final year's pensionable pay on retirement is £20,000.**

**Benefits based on their eight years' membership up to 31 March 2008 will be:**

**Annual pension:**  $8/80 \times £20,000 = £ 2,000$

**Plus an automatic tax-free lump-sum:**

$3 \times 8/80 \times £20,000 = £ 6,000$

**Benefits based on their 24 years' membership from 1 April 2008 will be:**

**Annual pension:**  $24/60 \times £20,000 = £8,000$

**With no automatic lump-sum**

**This gives total benefits of:**

**Annual pension:**  $£2,000 + £8,000 = £10,000$

**Lump-sum = £6,000**



But remember, it's possible to exchange some pension for extra tax-free cash.

Up to 25% of the overall value of the pension benefits can be taken as a lump-sum, with £12 lump-sum for each £1 of annual pension given up.

To summarise, any pension built up before April 2008 is still calculated at the **1/80th** rate with a lump-sum of three times pension. Only pension built up from 1 April 2008 is calculated at the **better 1/60th** rate and there is an option to take extra lump-sum in exchange for some pension.

## When can I retire?

The Scheme's normal pension age remains at 65. If you continue working beyond age 65, you can stay in the Scheme, but you must draw your benefits by age 75. Benefits drawn after 65 will be increased.

To be entitled to retirement benefits, you must have been a member of the LGPS for at least three months or have transferred in other pension rights.

### Early retirement

You can still choose to retire and draw your benefits from age 60, although they may be reduced for early payment.

The earliest age you can ask for early retirement with your employer's consent increases from 50 to 55 from 1 April 2008 for new members, but this change won't apply until 1 April 2010 if you are an existing member being moved over to the new Scheme.





### **Redundancy or efficiency retirement**

If you're made redundant or are retired on business efficiency grounds, the earliest age immediate benefits are paid also increases from 50 to 55. Again, this change occurs from 1 April 2008 for new members but won't apply until 1 April 2010 if you are an existing member being moved over to the new Scheme.

### **Flexible retirement**

Under the current Scheme, if you reduce your hours or grade and your employer agrees, you can draw **all** of the benefits you have built up at

that point in time. You can still draw your pay on the reduced hours or grade, and even continue paying into the Scheme, building up further benefits.

Under the new Scheme, if you take flexible retirement, instead of having to draw **all** of the benefits you have built up prior to taking flexible retirement, you can, if your employer agrees, draw **some or all** of your benefits.

If you take flexible retirement before 65, your benefits may be reduced for early payment.

The earliest age for flexible retirement increases from age 50 to 55 from 1 April 2008 for new members, and from 1 April 2010 if you are an existing member being moved over to the new Scheme.

### **Ill-health retirement**

The new Scheme introduces better targeted benefits if you are unable to work because of serious illness.

If you have to leave work at any age due to permanent ill-health, the new Scheme provides a tiered ill-health retirement package. This gives graded levels of benefit based on how likely you are to be capable of gainful employment after you leave.

If you have at least two years in the Scheme and you have no reasonable prospect of being capable of gainful employment before age 65, ill-health benefits in the new Scheme are based on your membership built up to date of leaving **plus all** your prospective membership from leaving to age 65. In other words, your pension will be based on the membership you would

have had if you had stayed in the Scheme until age 65.

If you have at least two years in the Scheme and you are unlikely to be capable of gainful employment within a reasonable period of leaving, but you may be capable of gainful employment at some date in the future before age 65, ill-health benefits in the new Scheme are based on your membership built up to leaving **plus 25%** of your prospective membership from leaving to age 65.

There are protections for existing Scheme members who will be aged 45 or over on 31 March 2008, to ensure they receive no less than they would have done under the current Scheme.

The Government is currently consulting on the nature of the ill-health benefit payable if you leave because you are permanently unable to do your LGPS job and have less than two years' membership in the Scheme or if you leave because you are permanently unable to do your

LGPS job but could immediately or within a reasonable period undertake other gainful employment.

## Improved death benefits

Provided you pay into the LGPS on or after 1 April 2008, there are improvements to the Scheme's benefits if you die.

The death-in-service tax-free lump-sum, known as a 'death grant', increases from two to three times your annual pensionable pay. If you're part-time, the benefit is three times your actual part-time pay.

If you leave with deferred benefits and die before receiving them the death grant increases from three to five times your deferred annual pension; and for the death of a pensioner, it increases from five to ten times the annual pension being paid, less the amount of pension already paid out.

Remember, you can say who you would like any death grant paid to by completing a form available from the Fund. It's important you keep this form up to date but, whilst taking your wishes into account, your Fund will make the final decision on whom the death grant is paid to.

## Survivors' pensions

The LGPS already provides a pension for your husband, wife, or registered civil partner and for eligible children on your death and under the new Scheme you can now nominate a same or opposite sex cohabiting partner to receive a survivor's pension.

To nominate a cohabiting partner, your relationship has to meet certain conditions laid down by the LGPS. If you wish to make a nomination you can obtain a form from <http://www.lgpsonline.com/pdfs/forms/cohabnomform.pdf>

The survivor's pension for a Scheme member's husband or wife will be based, as now, on 1/160th of the Scheme member's final year's pay for each year of membership. Survivor pensions for civil partners and nominated cohabiting partners will be calculated on the same basis but on the Scheme member's post-5 April 1988 membership only. If you die in service, the membership used in the calculation of all survivor benefits will be the membership you have in the Scheme, as described above, plus the prospective membership between the date of death and age 65.

The amount of pension to be paid to eligible children depends on the number of eligible children and whether or not a spouse's, civil partner's or nominated cohabiting partner's pension is payable.

## Increasing your benefits

Under the new Scheme, you can pay more in contributions to buy up to £5,000 of extra annual pension in multiples of £250. You can provide extra pension for yourself and, if you wish, for extra survivor's pension on your death.

Buying extra years of membership will no longer be available in the new Scheme. If you're already paying more to buy extra years, you'll continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them.

You can still pay additional voluntary contributions – AVCs – to increase your benefits.

In the new Scheme, your employer can also augment your membership by up to ten years, grant you extra annual pension of up to £5,000 and contribute, along with yourself, to a shared cost AVC. These are all discretions that the employer can make use of if they wish.

## Reductions in pay

Your benefits in the new Scheme will normally be calculated on your final year's pensionable pay, or on one of the two previous years' pay if better. If you downgrade in your last ten years or your pay is restricted in that period you have the option to have your benefits based on the average of any three consecutive years in the last ten years (ending on a 31 March).

## More information

We hope you find this information helpful. For further information, see our contact details on the back cover.

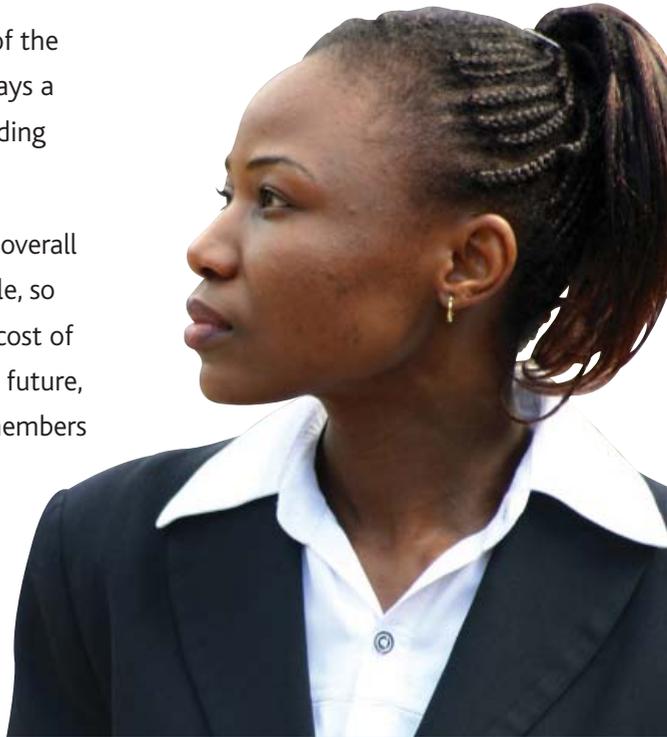
This leaflet is a brief guide on the changes to the LGPS in England and Wales from 1 April 2008. It is for general use only and does not cover every personal circumstance – for instance, it does not cover councillor members of the LGPS. In the event of any dispute as to eligibility for membership of, or benefits due under, the LGPS the appropriate legislation will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only.



## And finally...

One of the main attractions of the LGPS is that your employer pays a large part of the cost of providing the benefits.

It is, however, important that overall the Scheme remains affordable, so increases or decreases in the cost of providing the Scheme may, in future, need to be shared between members and employers. This will be in accordance with Government guidance.



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Send us a text on:  
Text WMPF + your message to 60066.  
Standard short code network charges apply.

Lines are open during the following times:  
8:30am to 5.00pm Monday-Thursday  
8:30am to 4.30pm Friday

Calls may be monitored for training purposes