

# Frequently Asked Questions (FAQs)

## Incorporating changes to the LGPS from 1 April 2008

Before contacting the Fund regarding your annual benefits statement 2009, please ensure that you read all of the content of this document as it may cover your query.

### Which regulations are changing in the Scheme?

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 166/2007). The regulations came into force on 1 April 2008 and form part of the statutory framework of the LGPS in England and Wales from April 2008 onwards.

### What do these regulations actually mean for Scheme members?

The changes to the LGPS will only affect members who are currently paying into the LGPS or employees who start to pay into the LGPS in the future. They will not have any effect on any pensions that are already in payment from the Fund, or any benefits that have been built up by members who have left before 1 April 2008 and are deferred members.

### So what are the current issues I need to consider?

The main features of the 2008 Scheme as described in the regulations are:

- Only employees with a contract of employment of more than three months' duration will be able to be members of the LGPS.
- Employee contributions will be set according to bands of previous year's full-time equivalent pay – the contribution rates for Scheme members will vary between 5.5% and 7.5%. Here are the pay bands from April 2009:

Band	Range rate	Contribution
1	£0-£12,600	5.5%
2	£12,601-£14,700	5.8%
3	£14,701-£18,900	5.9%
4	£18,901-£31,500	6.5%
5	£31,501-£42,000	6.8%
6	£42,001-£78,700	7.2%
7	More than £78,700	7.5%

There is transitional protection for those currently paying 5% contributions.

- For membership from 1 April 2008, pension accrues at the rate of 1/60th of final pay per year.
- Unreduced benefits payable early on redundancy or efficiency grounds from age 55 (with protection for existing members aged 50 or over, leaving before 31 March 2010).
- Benefits payable early on voluntary retirement from age 55 or 50 where protection applies subject to employer consent if under 60 (and also to actuarial reduction reflecting the period to normal retirement date, if appropriate).
- There will be opportunities to request the administering authority to pay part or all of accrued benefits (if an employer has previously agreed to this) where reduced hours of working or grade is agreed with the employer from age 55 (or from age 50 where protection applies), ie, flexible retirement. Actuarial reductions may apply.
- Immediate unreduced benefits payable on ill-health, if unlikely to obtain other gainful employment within a reasonable period.
- Where three months' membership has been attained, benefits will be increased depending on the degree of incapacity on a three-tier basis. If the member is likely to obtain gainful employment by age 65, extra membership of 25% of the period to age 65 is awarded. If not, then extra membership of 100% of the period to age 65 is awarded. If you are likely to be capable of obtaining gainful employment within three years of leaving, no enhancement is awarded. The payment of these benefits will be stopped after three years, or earlier if you are in gainful employment or become capable of getting such employment. Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months.

### I have looked at my previous annual benefits statement and my projected lump-sum is a lot less.

This is because from the 1 April 2008 the LGPS changed and membership accrued after 1 April 2008 does not count towards to your lump-sum retirement grant. All membership prior to 1 April 2008 is banked

and calculated on an 80th basis and is used in the calculation of your annual pension and lump-sum retirement grant. However, membership accrued after the 1 April 2008 will calculate towards your annual pension only but is based on a higher accrual rate of 60th. You will be given the opportunity to convert your higher annual pension in exchange for a higher lump-sum – every £1.00 you give up will provide you with an extra £12.00 lump-sum.

#### **Example of a member retiring on their normal retirement date with 40 years' membership and a final pay of £18,000**

##### **Old Scheme:**

1/80th pension + 3/80th lump-sum  
 $40/80 \times £18,000 = £9,000$  pension per annum  
 $3 \times £9,000 = £27,000$  tax-free lump-sum

##### **New Scheme:**

1/60th pension (no obligation to take tax-free cash)  
 $40/60 \times £18,000 = £12,000$  pension per annum

##### **Mixed benefits:**

1/80th + 1/60th side by side (20 years under each regime)  
Retire with 40 years and final pay of £18,000 =

$20/80 \times £18,000 = £4,500$

$20/60 \times £18,000 = £6,000$

Total pension = £10,500

plus a lump-sum (from the 80th Scheme) of  
 $3 \times £4,500 = £13,500$

To increase the lump-sum to £27,000 you need to commute part of your annual pension at 12:1 ratio  
 $£13,500 / 12 = £1,125$ .

Your annual pension is reduced from £10,500 per annum to £9,375 with a tax-free lump-sum of £27,000

**As you will see from the above example, the benefits paid under the new Scheme appear better than the old Scheme.**

## **Has the death in service cover improved?**

Yes, the death grant for death in service increased from two times' actual pay to three times' actual pay from 1 April 2008.

## **Is my partner entitled to receive a survivor pension?**

Yes, a survivor pension will become payable to a spouse, civil partner, nominated cohabiting partner immediately after your death and will be paid for the rest of their life from the day after.

You can nominate a cohabiting partner, of either opposite or same sex, to receive a survivor's pension on your death, providing your relationship meets certain conditions laid down by the LGPS.

## **I've heard I can now take more of my benefits as tax-free cash. Is this true?**

The position on tax-free cash has changed dramatically from 1 April 2006. HM Revenue & Customs now allows you to take 25% (a quarter) of your pension pot as tax-free cash lump-sum. For LGPS members, the standard lump-sum paid is well within this limit. This gives you some flexibility if you wish to boost your lump-sum. You can do this by either converting some pension into lump-sum, or by drawing AVCs as a lump-sum.

## **PENSION BENEFITS**

### **Can I increase my lump-sum by giving up part of my pension?**

Yes. For every £1 of pension that you give up, you can take an additional £12 of tax-free lump-sum, subject to the overall HMRC limits. Details will be provided to you upon your retirement. To work out how much, roughly, you could take as a lump-sum, take your initial pension amount and multiply it by five, take off the lump-sum already quoted and what's left is the approximate additional lump-sum you may be able to have. Remember, you can also use any AVC funds you may have towards your overall tax-free lump-sum limits.

### **Could I invest now in AVCs/FSAVCs and take all of my AVC/FSAVC fund as a tax-free lump-sum?**

Yes. Subject to the HMRC limits, you can take all of an AVC (25% of an FSAVC) investment as tax-free cash. You may wish to ask your FSAVC provider for more details when seeking details of your FSAVC fund value about the options available to you. These options will only apply when your LGPS benefits are due for payment. You can, of course, elect to take a maximum of 25% of the AVC/FSAVC value as cash and take the remainder as an annuity paid by the AVC/FSAVC provider, or other annuity provider of your choice. You can also elect to take all of your AVC fund as an annuity.

## **RETIREMENT**

### **Do I have to retire at age 65?**

LGPS members can now remain in the LGPS provided their employers agree until age 75 and continue to accrue membership.

### **What's all this about flexible/early retirement? Can I now retire at age 40?**

Despite the idea appealing to most of our members, you can't retire at age 40. The earliest that you can retire is age 55 under a flexible retirement scheme that your employer has to sanction. Provided your employer has agreed, you can reduce your hours or move to a lower grade (or a combination of the two),

and draw your pension benefits while carrying on working and you will still build up benefits in your 'revised' job. Remember, though, that if you claim benefits before age 65, these benefits will be reduced, unless your employer agrees to stand the cost of the reduction on your behalf.

New members, from 1 October 2006, will have a reduction applied to their benefits if they choose to retire before age 65. This ruling means that all existing active Scheme members, at 30 September 2006, will continue to accrue membership under the terms of the 85-year rule until 31 March 2008, the day before the new LGPS arrangements came into effect on 1 April 2008. Those existing members at 30 September 2006 (retiring from age 60, but before 65) who satisfy the 85-year rule when they retire, will have their benefits accrued up to 31 March 2008, paid unreduced. Benefits accrued after 31 March 2008, will be reduced based on the shortfall to age 65. Those who do not satisfy the rule (who retire from 60, but before 65) will have their pre-1 April 2008 membership reduced, based on the years they are short of the 85-year rule and membership after 31 March 2008 reduced, based on the shortfall to age 65.

There is protection for existing active Scheme members at 30 September 2006, who will be 60 and would otherwise have satisfied the 85-year rule by 31 March 2016. Those aged 60 who do not satisfy the 85-year rule until after age 60 (but do so before age 65, who retire before age 65) will have the benefits accrued up to 31 March 2016 reduced, based upon the years they are short of the 85-year rule, with benefits from 1 April 2016 reduced, based on the shortfall to age 65. Existing active Scheme members at 30 September 2006 (who will be 60 and would otherwise have satisfied the 85-year rule between 1 April 2016 and 31 March 2020, who choose to retire before 65) will have their pension (that portion accruing after 1 April 2008) reduced according to a tapered reduction, rather than the full reduction as determined by the Scheme's reduction factors. The Government actuary's department has also supplied new Scheme reduction factors which are lower as a result of increases in life expectancy.

### How does the 85-year rule affect me? (see appendix A)

### How much will my benefits be reduced if I retire before age 65 and do not satisfy the 85-year rule?

#### Early retirement factors

No. of years paid early	Pensions reduction		Lump-sum reduction
	Men	Women	
0	0%	0%	0%
1	6%	5%	2%
2	11%	10%	5%
3	16%	15%	7%
4	20%	19%	9%
5	24%	23%	12%

The issue of the protections previously agreed is currently undergoing a further consultation exercise with the intention that protection will be provided until 2020. Further information, as it is received, will be made available to members.

### When can I get my state pension?

The state pension age is 65 for men and 60 for women. However, from the year 2020, the Government will have equalised the state pension age for both men and women at 65. The increase in the state pension age for women will be phased in gradually from the year 2010 as shown below:

Date of birth	State pension age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	Between 60 & 61
6 April 1951 - 5 April 1952	Between 61 & 62
6 April 1952 - 5 April 1953	Between 62 & 63
6 April 1953 - 5 April 1954	Between 63 & 64
6 April 1954 - 5 April 1955	Between 64 & 65
After 5 April 1955	65

The state pension age for men and women will increase to 66 between April 2024 to April 2026, to 67 between April 2034 and 2036 and 68 between April 2044 and April 2046.

### MARITAL STATUS/CIVIL PARTNERSHIP

#### What if I've just got married/civil partnership and changed my name. Do I need to tell you?

Obviously, we need to address your statement correctly at all times. To do this, please keep us informed of your personal circumstances. As the benefits shown in this statement reflect your status, if you have written to inform us of any change in your status, providing we have seen documentary evidence, your records will have been updated to reflect this. If your circumstances change or have changed, remember to inform us, as it may affect the value of the spouse's, civil partner's and nominated cohabiting partner's benefits shown on your statement.

### NOMINATION FORMS

#### Do I need to complete a nomination?

You are strongly advised to complete one if you haven't done so previously, in order that, in the event of your death, the Fund can make payment of your death grant to your nominated person(s) as quickly as possible. Without a nomination form, your wishes (that may have been expressed in the form of a will), will take time to process, particularly if instructions that have been left require probate or other formal documents. Completing a nomination form avoids any unnecessary delays at what can be a stressful time. A lump-sum of three times your final pay is payable should you die during active membership.

If you work part-time, your actual final pay is used in the calculation, or, if it would give a higher amount, a payment equal to any retirement grant due to you would be made. We decide who to pay this amount to, but we will always take your wishes into account. If you have previously completed a nomination form, this will stand until such a time that another form is received. If you have previously completed a form (but cannot remember who you nominated), complete and submit another form and this will automatically replace the previous form.

### **I have received a pack, but why does it not contain my annual benefits statement 2009?**

If you are an employee of Sandwell MBC or an organisation who have their payroll function with Sandwell MBC, unfortunately we are unable to provide you with an annual benefits statement 2009 due to your end of year earnings not being provided by the time the statements went to print and, therefore, you should contact your employer direct.

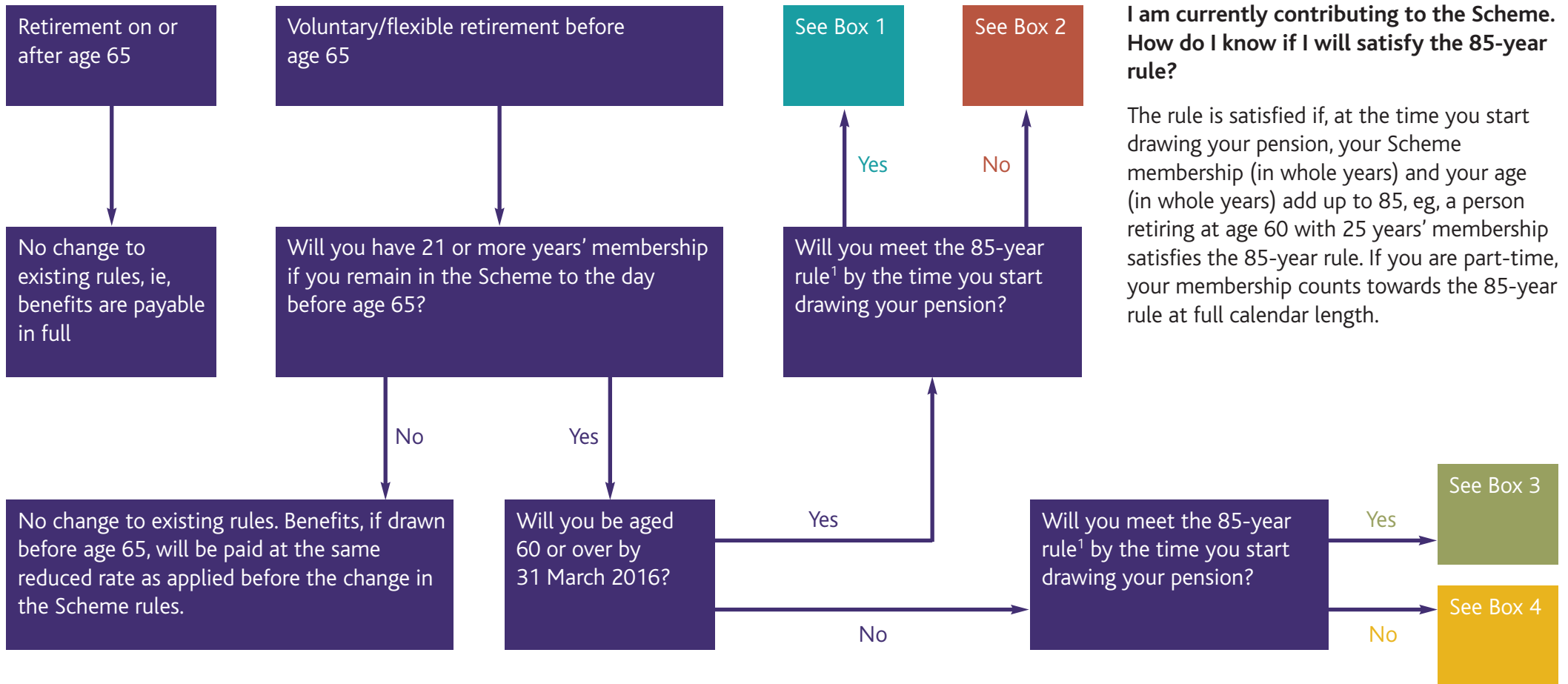
Alternatively, if you are not employed by Sandwell MBC or an organisation who has a payroll functionality with Sandwell MBC, the reason you have not received your annual benefits statement 2009 is because there is a query on your record preventing a statement being produced. In this event, you should contact the Fund on **0300 111 1665** and we will take up the issue with your employer.

## APPENDIX A

### How have the changes to the 85-year rule in the LGPS in England and Wales, which were made on 1 October 2006, affected me?

By following the flowcharts below, you will be able to see how the changes to the Scheme made on 1 October 2006 affect you if you were contributing to the Scheme on 30 September 2006:

- you voluntarily retire on or after age 60,
- you voluntarily retire on or after 50 (55 from 1 April 2010) and before age 60 with your employer's consent,
- you take flexible retirement with your employer's consent on or after age 50 (55 from 1 April 2010).



### Box 1

**None of the benefits you accrue up to 31 March 2016 will be reduced.**

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.

### Box 2

**The benefits you accrue up to 31 March 2016 will be reduced, but the calculation of the reduction will be the same as under the old rules (ie, based on the number of years you are short of meeting the 85-year rule<sup>2</sup>).**

The benefits you accrue after 31 March 2016 will be reduced, but the calculation of 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.

### Box 3

**None of the benefits you accrue up to 31 March 2008 will be reduced.**

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. If you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85-year rule<sup>1</sup> by 31 March 2020, please see note<sup>3</sup>.

### Box 4

**The benefits you accrue up to 31 March 2008 will be reduced, but the calculation of the reduction will be the same as under the old rules (ie, based on the number of years you are short of meeting the 85-year rule<sup>2</sup>).**

The benefits you accrue after 31 March 2008 will be reduced, but the calculation of 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. If you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85 year rule<sup>1</sup> by 31 March 2020, please see note<sup>3</sup>.

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

#### Notes:

<sup>1</sup> Or meet an earlier normal retirement date which some members who joined the Scheme before 1 April 1998 have under previous regulations.

<sup>2</sup> 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.

<sup>3</sup> If you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85-year rule (or meet an earlier normal retirement date which some members who joined the Scheme before 1 April 1998 have under previous regulations) by 31 March 2020, the benefits you build up between 1 April 2008 and 31 March 2020 will be reduced, but the reduction will not be the full amount.