

WEST MIDLANDS



PENSION FUND

the

reliable source

December 2008



How the new Scheme works

Although the changes mentioned in last year's annual statement have now come into effect from 1 April, previous pension rights – up to and including the 31 March 2008 – will remain unaltered and will be 'banked' in the form under which they were built up (ie, service up to 31 March 2008 attracts a pension and tax-free lump-sum).

Remember you can obtain details of how much benefits are worth by using our online calculator which is available at:

<http://www.wmpfonline.com/calculator.htm>

Example of pension and lump-sum option calculation for membership after 31 March 2008.

On retirement at age 65, a Scheme member has 20 years' total membership and has a final pay of £15,000

Their annual pension is: $20 \text{ years} \times 1/60 \times £15,000 = £5,000$

If they decide to give up £1,000 pension for a cash lump-sum, then their reduced annual pension is: $£5,000 \text{ less } £1,000 = £4,000$

And they will get a tax-free lump-sum of: $£1,000 \times 12 = £12,000$

If the same employee had worked half time

(20 years at half-time = 10), their annual pension would be: $10 \text{ years} \times 1/60 \times £15,000 = £2,500$

If they decide to give up £500 pension for a cash lump-sum, then their reduced annual pension is: $£2,500 \text{ less } £500 = £2,000$

And they would get a tax-free lump-sum of: $£500 \times 12 = £6,000$



Here is an example of how benefits are worked out if you have membership up to and after 31 March 2008

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 pay on retirement is £20,000

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

Their annual pension is:
 $8/80\text{th} \times £20,000 = £2,000$

Plus an automatic tax-free lump-sum: $3 \times 8/80\text{th} \times £20,000 = £6,000$

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

Their annual pension is:
 $24/60\text{th} \times £20,000 = £8,000$

To give total benefits of:

An annual pension
 $£2,000 \text{ plus } £8,000 = £10,000$

Plus a tax-free lump-sum = £6,000
 The option may also exist to give up pension for tax-free cash.



Civil partnerships

The Civil Partnership Act came into force on 5 December 2005 allowing same sex couples to gain legal recognition for their relationship, affording the same benefits as married couples. If you want to know more, specific information is on the Fund's website.

Rejoining the LGPS

If you rejoin the LGPS at some point in the future with a different fund, you should inform them about your valuable benefits within the West Midlands Pension Fund. If you have received this statement but are no longer contributing to the Scheme, we may not have been told by your employer that you have left the LGPS. Please contact us to provide us with the necessary details in order that we can verify them with your ex-employer and advise you of the value of your benefits accordingly.

New LGPS online video

Fund officers have worked in association with the Local Government Employers (LGE) organisation, to produce a Scheme video. The video covers the main benefits of the Scheme and how the Scheme operates from 1 April 2008 (these topics also form the basis of this newsletter, so you do not need to see the video to be brought up to date with the developments of the Scheme).

The video has three main parts:

- Why the Scheme is changing.
- An overview of the main changes.
- Questions and answers for existing members.

The Fund has made this video available, via download, on its website wmpfonline.com as well as providing copies to employers to post on intranet sites.



Frequently asked questions

Has the Fund lost any money which has been invested in the Icelandic banks?

No Fund assets in Icelandic banks

We are able to confirm the Fund has no funds deposited in any of the Icelandic banks that have been subject of the recent turmoil within the region. Recent news coverage has been dominated by reports of councils across the country having money in failed Icelandic banks, following the collapse of the country's economy. Members can be assured that this is not the case for the West Midlands Pension Fund.

Has the bank crash affected our pensions?

The question asked of many pension funds recently, in view of the recent turbulence within the financial markets and the huge fall in share values, is: "Does this have any bearing on pensions already in payment or those that are due to come into payment in future years?"

The simple answer is no; benefits remain unaffected. The benefits that you as members of the Local Government Pension Scheme (LGPS) receive are determined nationally by regulation and so a reduction in Scheme assets in the form of a reduction in the value of assets held would not affect any payments made by the Fund.

It should be remembered that the Fund, as part of its approach to risk management, has a well-diversified investment strategy, holding many other asset classes in addition to equities (shares). Although the equity markets have experienced significant losses, these events are not unique and share prices are expected to recover over the long-term.

The Fund does not expect any long-term effects other than possibly new regulations or codes of conduct for some City institutions to ensure they act more responsibly, which should only be of benefit to the pensions industry.

It is also important for members of the Fund to remember that pensions paid by virtue of LGPS membership are ultimately guaranteed by Government, regardless of market movements.

We hope that the above reassures those members that had contacted us about the press speculation. The Fund's full statement on this issue can be seen on the Fund's website at the following address: <http://www.wmpfonline.com/pdfs/creditchunch.pdf>

I've heard that the new LGPS no longer protects members if their pay has been reduced. Surely, this puts members in a worse position than they were in before with the protection?

Best of the last three-years

You can choose to have your pension based upon your pensionable pay for any of the last three years ending with the anniversary of your retirement (if that is higher than your final year's pay). If you are likely to retire more than three years after the reduction, then this protection will not apply to you.

Best three-year average in the last ten years

From 1 April 2008, if you downgrade or move to a job with less responsibility with your employer, you may choose to have your pension benefits calculated on an average of your pay in any three consecutive years, within the last ten years before retirement, ending on 31 March. The reduction in pay must take place on or after 1 April 2008. The protection does not apply if the reduction is because a temporary increase in pay ceases to be paid. This protection only applies if you have been continuously employed by the same employer who you worked for when the reduction happened, or you have been involved in a TUPE transfer of employment to another employer.

Certificate of protection

If your pay was reduced or restricted beyond your control before 1 April 2008, then your employer could have issued you with a certificate of protection. If you then left the LGPS within ten years of the reduction or restriction in your pay, then your final pay will be worked out as the best year's pay in your last five years, or the average of the best

consecutive three years in the last 13 years after allowing for inflation. With effect from 1 April, employers can no longer issue certificates for changes that occur after this date – although certificates, in respect of changes prior to this date, can be issued up to 12 months after the change occurred so, technically, could still be issued up to 30 March 2009.

Nomination forms

Do I need to complete a nomination?

You are strongly advised to complete one if you have not previously done so. In the event of your death, the Fund will make a payment to your nominated person(s) as quickly as possible.

Without a nomination form (<http://www.wmpfonline.com/pdfs/forms/nomform.pdf>), 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 processes. Completing a nomination form avoids any unnecessary delays at what can be a stressful time.



A lump-sum equal to three times your final year's pay is payable if you die in service. The Fund has discretion to whom this amount is paid, 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 another form and this will automatically replace the previous form.

What is the difference between a nomination form and the form which allows me to nominate a cohabiting partner for a survivor's pension?

Firstly, the nomination form covers the lump-sum death grant element

only of LGPS benefit and applies to everyone. Pensions for nominated cohabiting partners were introduced in April 2008. To qualify, a member must have been a contributing member on or after 1 April 2008. If they are, then any service within the LGPS after April 1988 will count for a nominated cohabiting partner's pension provided the relevant form has been completed.

The following conditions must be fulfilled (these must have applied to both the member and your nominated cohabiting partner for a continuous period of at least two years on the date you both sign the nomination form):

- Both you and your nominated cohabiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, and
- You and your nominated cohabiting partner have been living together as if you were husband and wife, or civil partners, and
- Neither you or your nominated cohabiting partner have been living with someone else as if

you/they were husband and wife or civil partners, and

- Either your nominated cohabiting partner is financially dependent on you or you are financially interdependent on each other.

An LGPS member who nominates a cohabiting partner should be aware that, on the death of the member, the Fund is required to verify that the conditions for paying a survivor's pension have been satisfied.

We may do this, for example, by asking for confirmation that you lived in a shared household with shared household spending, or your partner may be asked to demonstrate that you had a bank account or mortgage in joint names. There would be a right of appeal if we decide not to pay a pension and your partner believes that he/she has an entitlement. The appropriate form to register a person for a nominated cohabiting partner's pension is available from the Fund upon request, or can be downloaded via the following address: <http://www.wmpfonline.com/pdfs/forms/cohabnomform.pdf>

You do not need to complete a nominated cohabiting partner form if you are married or are in a registered civil partnership (same sex partnership), as these matters will already be covered. Remember to let the appropriate fund know of a change in your circumstances which could affect the nomination, or if you wish to cancel it.

A-Day (refers to the 6 April 2006)

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. HM Revenue & Customs (HMRC) now allows you to take 25% of your pension pot as tax-free cash lump-sum. (For LGPS members, the lump-sum paid under the previous 1/80th and 1/60th arrangements 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.

Additional voluntary contributions (AVCs)

So, could I take all of my in-house AVC fund as a lump-sum?

Yes. Subject to the limits above, you can take all of an AVC investment as tax-free cash. You can, of course, elect to take a maximum of 25% of the AVC value as cash and take the remainder as an annuity paid by the AVC provider, or other annuity provider of your choice. If you have an independent arrangement (FSAVC), you may wish to ask your provider for more details.



What are the reasons why a member would take out an AVC?

There are many reasons why a Scheme member would wish to pursue an AVC, and personal circumstances would play a large part of the decision process. Neither the Fund nor its staff are licensed to give financial advice, so we cannot advise a Scheme member whether they should or should not contribute to an AVC. However, some of the reasons members take out an AVC are:

- the Fund has put in place, as it is required to legally, an in-house AVC scheme. Prudential (the Fund's chosen provider) is the leading AVC provider to public sector pension schemes across the UK, with over 200,000 public sector employees using the AVC facility to boost their pension and/or tax-free lump-sum at retirement.
- 100% of your AVC fund can be claimed as a tax-free lump-sum. If you took this as an annuity when you retired, pension income would be taxed as earned income.
- contributions qualify for tax relief, so for every £100 that goes into

your pension, the overall cost to a basic rate tax payer is £80 – for a higher rate tax payer only £60.

- contributions are paid direct from your earnings – with immediate tax relief, so there is no need to complete HMRC forms to claim back the tax relief.
- the in-house arrangement is flexible – you can stop, start, increase or decrease contributions at any time.
- you can choose where to invest – Prudential have a large range of funds available suiting all attitudes to risk. Whichever option(s) you choose, your AVCs are invested in a fund that is largely tax-free, so they should grow much faster than they would if the fund was subject to tax (dividend income from UK equities will be subject to tax before it is credited to the fund).

For more information on AVCs contact Prudential's Pensions Connection on 0845 607 0077.

The team will be happy to help and can even complete all the paperwork over the telephone.

www.pru.co.uk/localgov

Lines are open between 9am and 7pm Monday to Friday, and 9am to 1pm on Saturdays. Calls are charged at local call rate.

What are ARCs. Are these the same as added years?

No, additional regular contributions (ARCs) were only introduced in April 2008 as part of the new regulations. As an LGPS member, you have the option of paying ARCs within the LGPS. ARCS buy extra pension (not tax-free cash) and the cost is determined by the amount of pension you wish to buy, how long you wish to pay for, and how old you are.

Buying extra pension in the LGPS

If you are thinking about paying ARCs to buy extra LGPS pension, you can ask for a quote showing how much it will cost you every month, depending on how much extra pension you want to buy and how long you want to spread payments over.

- You can buy up to £5,000 extra annual LGPS pension in blocks of £250.
- You can buy extra pension for yourself and, if you wish, for your dependants on your death.

- Additional contributions are taken from your pay, just like your basic contributions, and attract automatic tax relief.

- You can start to buy extra pension at any time up to your 64th birthday. You decide how long you want to pay for, although it must be for a number of whole years and payments must be completed by age 65.

- Your extra pension will be paid at the same time as your LGPS benefits.

- If you retire because of ill-health with enhanced membership, you will be credited with all the extra pension you planned to buy, even if you have not paid for all of it. Because of this, you may have to have a medical before you can pay contributions to buy extra pension.

- Extra pension you are buying will increase in line with the cost of living, both before and after you draw it.

AVCs/ARCs are a personal matter upon which you should seek independent financial advice.

The previous information is provided for illustrative purposes only – you should obtain further information from Prudential direct and obtain independent financial advice before reaching a decision on whether to pay AVCs. The information shown above is based on our understanding, as at December 2008, of current taxation, pensions legislation and HMRC practice, all of which are liable to change without notice. The impact of taxation (and any tax relief) depends on individual circumstances. There are also AVC arrangements that are not linked to the LGPS in any way. These are known as freestanding AVCs (FSAVCs). With FSAVCs, you choose a provider – usually an insurance company.

You may want to consider their different charges, alternative investments and past performance when you do this.

Paying into a stakeholder or personal pension plan

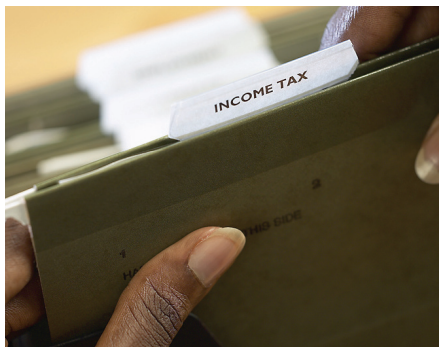
You can be a member of the LGPS and also make your own arrangements to pay contributions from the same earnings to a

personal pension plan or stakeholder pension scheme.

If you pay into a personal pension plan or stakeholder pension scheme, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment. This will be used to provide you with a pension and you may be able to take up to 25% out as a cash lump-sum.

You may want to get independent financial advice before making a decision about paying extra. You will need to pay any charges made for the advice yourself.





Tax regime for pension benefits

The HMRC regime operating from 6 April 2006 will mean that the total value of your benefits will alter according to the amount of tax-free cash (lump-sum) taken and annual pension received. The old rules of how much you can put into a pension scheme and how much you can get out tax-free have changed. The value of your pension pot can be calculated at a specific point in time (known as a benefit crystallisation date), and this is a requirement if you have more than one set of pension rights. As different benefits come into payment, the value of the different pension pots is added to your overall lifetime allowance (LTA). The maximum LTA allowable under current HMRC rules is £1.65m for 2008/09.

I'm never going to get near to a pension of £1.65m – what's the point?

Although the current LTA is £1.65m, this is the value of your pension benefits overall – your pension has to be multiplied by 20. This then has the value of your lump-sum added to it to give an overall value. Even the average local government pension of just over £3,800 a year can be worth in the region of £88,000 when valued this way.

What happens when I retire from the LGPS. Do I need to work out if I am near to the LTA?

As your administrators, we will work out the value of your benefits as you retire, which is why we will ask you to provide us with details of any pension benefits that you are already receiving.

Primary and enhanced protection

This protects the value of your pension already accrued up to 2006, if it looks like you will go over the LTA limits. APSS200 forms to register for protection must be completed and returned to HM Revenue & Customs, no later than 5 April 2009. The relevant forms are available at: <http://www.hmrc.gov.uk/pensionschemes/protection.htm>

Divorce



What happens to my benefits if I get divorced or my civil partnership is dissolved?

Your ex-wife, ex-husband or ex-civil partner will cease to be entitled to a widow's, widower's or civil partner's pension should you die before them. Any children's pension paid to an eligible child in the event of your death will not be affected by your divorce or dissolution.

If you have nominated your ex-wife, ex-husband or ex-civil partner to receive any lump-sum death grant payable on your death, your nomination will remain in force until you change it. If you wish to

change your death grant nomination contact the Fund for a form at:

<http://www.wmpfonline.com/pdfs/forms/nomform.pdf>

The court may, however, issue an earmarking order stating that all or part of any lump-sum death grant is payable to your ex-spouse or ex-civil partner.

If your LGPS benefits are subject to a pension sharing order or earmarking order issued by the court following divorce or dissolution of a civil partnership, your benefits will be reduced in accordance with the court order.

Disclaimer

This booklet cannot cover every personal circumstance and does not cover rights that apply to a limited number of employees – for example, those whose total pension benefits exceed the lifetime allowance (£1.65 million in 2008/09), or whose pension benefits increase in any tax year by more than the annual allowance (£235,000 in 2008/09), those to whom protected rights apply, or those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership.

The information contained in this booklet and accompanying information is based on the Local Government Pension Scheme Regulations 1997 (effective from 1 April 1998) and other relevant legislation, such as The Local Government Pension Scheme

(Administration) Regulations 2008 and the Local Government Pension Scheme (Benefits,

Membership and Contributions) Regulations 2007, other relevant legislation, and overriding HMRC provisions. It is for general use and cannot cover every personal circumstance – nor does it cover specific protected rights that apply to a very limited number of employees.

In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this information does not confer any statutory rights and is provided for information purposes only. If you feel that your own personal circumstances are not covered, you should contact the Fund at the first available opportunity, to discuss this further. This statement has been issued by the West Midlands Pension Fund ('the Fund') whose contact details also appear on the back page of this publication. The administering authority for this Fund is Wolverhampton City Council.

Are you having difficulty contacting the Fund?

Immediately following the issue of any large mailing, we receive a significantly increased volume of telephone calls. We have a number of lines available to take your calls, but if you cannot get through first time, please try again later.

Remember you can contact us in a number of other ways which are shown at the bottom of the page.



Contact details

Write to us at:
West Midlands Pension Fund
PO Box 3948
Wolverhampton
WV1 1XP

Telephone our Helpdesk on:
0300 111 1665

Fax us on:
0845 230 1565

Minicom/Typetalk:
01902 554607

Visit our website at:
wmpfonline.com

Email us on:
PensionFundEnquiries@wolverhampton.gov.uk

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