

WEST MIDLANDS



PENSION FUND

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March 2008

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The 'new look' LGPS 1 April 2008

The new Scheme benefits have now been laid before Parliament and will become effective on the 1 April 2008.

Much has been written on the subject of these changes to the LGPS, but remember the LGPS remains a high quality, final salary pension scheme, to which your employer makes a substantial contribution and the accrual rate (the way in which your pension builds up) has been improved.

Here's a summary of the improvements which have been made to the LGPS:

- Pension now based on 1/60th for membership from April 2008 (any membership before April 2008 is guaranteed in value and remains at 1/80th pension and 3/80ths lump-sum).
- Pensions for nominated cohabiting partners introduced (based on post-April 1988 membership). To qualify, a member must have been a contributing member on or after 1 April 2008.
- Death in service benefits increased to three times pay.
- Tiered ill-health benefits, with members incapable of any work before age 65 being awarded membership to age 65.
- Revised contribution rates to reflect better value benefits for the lower paid.
- Membership available after age 65, up to a maximum of age 75, for those people who remain in local government employment.
- Flexible retirement provisions improved (subject to a reduction in hours worked and/or rate of pay and employer agreement).



New contribution rates apply from April 2008

Previously, the standard contribution rate for LGPS membership was 6% (some manual workers had protection at 5%). With effect from 1 April 2008, all members will be allocated a contribution rate based on the table opposite. This is seen as an attempt at balancing out the cost of the Scheme and making it more affordable to those members who are lower paid, while at the same time taking account of the cost of benefits for those who earn more.

For former manual workers who currently pay a protected contribution rate of 5%, equalisation of contribution rates will take place over three years until April 2011 as follows:

2008/09	5.25%
2009/10	5.5%
2010/11 (or lower, in accordance with the corresponding pay band from the table opposite)	6.5%

Annual pay	Contribution rate (%)
Up to £12,000	5.5
£12,000.01 - £14,000.00	5.8
£14,000.01 - £18,000.00	5.9
£18,000.01 - £30,000.00	6.5
£30,000.01 - £40,000.00	6.8
£40,000.01 - £75,000.00	7.2
Over £75,000	7.5

Example 1

Christopher, whose annual rate of pay in April is £18,907 per year, works full time. Currently, he pays 6% of his pay, which equates to around £94 per month (before tax). From 1 April 2008, he will pay 6.5% of his pay (£102 per month, before tax).

In summary, Christopher's contributions will increase from 6% to 6.5%.

Example 2

Jeana decides to reduce her hours to 18.5 rather than the 37 she currently works. At present, Jeana earns £16,536 (her whole-time equivalent) – when she is part-time, she will earn half this amount (£8,268). However, her contributions, which are still based on the whole-time equivalent, will now be 5.9% of her pay rather than the 6.0% she currently pays.

In summary, although Jeana will reduce her full-time pay, to determine the percentage Jeana pays (5.9%), consideration would be given to the whole-time equivalent she could earn, although contributions will only be paid on Jeana's actual earnings.

Example 3:

Joan works part-time as a receptionist at a leisure centre, working 15 hours a week out of a maximum of 37. Her annual rate of pay (gross for the year) on 1 April 2008 is £6,000, but her whole time equivalent pay is £14,800 per year. ($37 \div 15 \times £6,000$).

Under existing regulations, her contributions would be based on 6% of £6,000 per year, or £30 per month. From April, the full-time pay sets her contribution rate at 5.9%. So, from April 2008, she will pay 5.9% of her actual part-time pay, which amounts to £29.50 per month.

In summary, Joan will pay 5.9% rather than the 6% she currently pays.

Example 4:

Tony is a former manual worker paying a protected 5% contribution, as Tony earns £27,500 a year his contributions will rise from £26.37 (5%) per week to £27.69 (5.25%) in 2008/09. Ignoring increases in pay or changes to the banding structure, this would then equate to £29.01 (5.50%) in 2009/10 and £34.28 (6.5%) 2010/11.

In summary, ignoring potential increases in pay, Tony's contributions would rise from £26.37 to £27.69 per week from 1 April 2008.

Retirement age of the LGPS

The normal retirement age (NRA) for the LGPS is 65.

Members still have the option to choose to retire from age 60, although benefits may be subject to reduction unless:

- You joined the Scheme before 1 October 2006 and have full or partial protection against reduction because of the 85-year rule.
- Your employer decides to waive any reduction.
- You are retired on grounds of ill-health, redundancy or efficiency.

From April 2008, for members joining the new-look Scheme, the minimum age will increase to 55. For members who joined the Scheme before 1 April 2008, the minimum age will increase to 55 from April 2010.



Additional voluntary contributions (AVCs)

AVCs still form a very attractive proposition for those wishing to increase their retirement benefits with funds accumulating a lump-sum, and subject to certain limits, this can be taken as 100% tax-free cash at retirement.

You are currently able to contribute up to 50% of your pay in any tax year to an AVC, while also benefiting from tax relief on these contributions.

Targeted ill-health benefits

At this stage it is still unclear how the full range of ill-health benefits will apply under the new look Scheme, as we await the outcome from the consultation on a further element, Tier 3.

It is anticipated that Tier 3 will deal with those members certified as being immediately capable of some other 'gainful employment' (i.e. working at least 30 hours per week for a minimum of 12 months).

The benefits payable are expected to be based on the amount of accrued benefits built up to the date of leaving the LGPS, but payable only until further employment is obtained.

As the results of the consultation on this amendment have yet to be published, as a consequence, no further amendments to the LGPS have been made. However, Tiers 1 and 2 have been defined and put in place from 1 April 2008.

Tier 1

Where immediate benefits can be paid to a member who is permanently unable to carry out their job, and if a member is medically certified as incapable of gainful employment before age 65, the Fund will pay an ill-health pension with benefits based on the membership the Scheme member has built up to that point. The Fund will also add a period of enhancement equal to the member's potential membership up to age 65.



Tier 2

Where immediate benefits can be paid to a member who is permanently unable to carry out their job and is certified as incapable of any alternative gainful employment within a reasonable period of time, but is likely to do so before age 65, the Fund will pay an ill-health pension with benefits based on the membership the Scheme member has built up to that point.

The Fund will also add a period of enhancement equal to a quarter of their potential membership to age 65 (for members who at 1 April 2008 were aged 45 or over, the enhancement under the 'old' rules, where greater, would be applied instead).

In the case of part-time service, the period of enhancement at Tier 1 or Tier 2 is calculated in accordance with the same conditions as if the member had remained in part-time service until normal retirement age.

On a contract of three months or less?

From 1 April, membership of the new look Scheme will be available, provided members do not have a contract of employment of less than three months, but do have a 'mutuality of obligation'. This means that if an employer offers work, and the employee is obliged to take it, a 'mutuality of obligation' exists.

Cohabiting partner's benefits

Members are now able, subject to certain criteria, to nominate a cohabiting partner to receive a survivor's benefit upon their death. Appropriate forms will be made available shortly via the Fund's helpdesk (see the reverse for contact details) or it can be downloaded via the Fund's website at wmpfonline.com. A member must be a contributing member on or after 1 April 2008 in order to nominate a cohabiting partner.

Option introduced to give up part of the pension

Pensions now build up at the rate of 1/60th with an option of a lump-sum rather than the previous 1/80th, with an automatic lump-sum of 3/80ths. Some of the 1/60th pension can then be converted into lump-sum if you wish. You can now, subject to certain limits, give up part of your pension to provide you with a bigger lump-sum. Let's look at how this works in practice.

Although an automatic lump-sum will not be generated in respect of membership from 1 April 2008, members will be able to give up some of the combined pension and take a lump-sum, at the rate of £1 of pension for each £12 of lump-sum, subject to a maximum of 25% of the capital value (as determined by HMRC) of your benefits. The benefits you have already built up in the LGPS will not be affected. We will simply add the new value of the benefits from 1 April 2008 to the value of the old ones.



Example:

Isaac is a member of the LGPS and at 31 March 2008. He has 10 years' membership and has a pensionable pay figure of £25,000

Benefits based on membership up until 31 March 2008 would be.

$10 \times 1/80 \times £25,000 = £3,125$
annual pension

$10 \times 3/80 \times £25,000 = £9,375$
automatic tax-free lump-sum

Cost sharing and the LGPS

The 1 April 2008 Regulations also introduces the idea of cost sharing to the LGPS, with action required by March 2009. Cost sharing is a way in which future increases or decreases to the cost of the LGPS can be shared between the members and the employers.

In the latest DCLG newsletter, issued in February, the DCLG have provided details of their intended

consultation document 'Sustaining the LGPS in England and Wales'. This document will be made available on the Fund's website and consultation is due to run until May. Members are, as ever, encouraged to comment on this and any further consultation exercises run by the DCLG in connection with the LGPS.

If we then add the benefits based on membership built up from 1 April 2008, assuming that Isaac is going to retire on the 31 March 2018, giving him 10 years in the new Scheme:

$10 \times 1/60 \times \pounds 25,000 = \pounds 4,166$
annual pension with no automatic lump-sum

Therefore, the total benefits automatically paid are:

**Pension $\pounds 3,125 + \pounds 4,166 = \pounds 7,291$
 Lump-sum paid $\pounds 9,375$**

Alternatively, if Isaac wanted to provide a bigger lump-sum by giving up $\pounds 2,000$ pension (this is called a 'cash commutation'), what effect would this have?

**Pension paid would be: $\pounds 5,291$
 ($\pounds 7,291 - \pounds 2,000$ given up for a bigger lump-sum)**

Lump-sum: $\pounds 9,375$ (from the old style 3/80th benefits), plus lump-sum $\pounds 24,000$ (derived from $2,000 \times 12$ cash commutation).

**Total lump-sum payable: $\pounds 33,375$
 ($\pounds 9,375 + \pounds 24,000$)**

Frequently asked questions

Q: Is there anything in the Scheme video that is not covered here?

A: No, the majority of the information contained in the video has been used to compile this newsletter – the video supplements this newsletter, but does not replace it.

Q: If the changes are coming into effect from April and I'm already a member, do they have any impact on me?

A: Yes, the changes to the LGPS affect everyone who is a member at the date they come into effect (1 April 2008). Your contribution rate may change, as will the way your future benefits are calculated.

Q: The Scheme seems to be constantly changing – is it worth me joining or being a member at all, if I don't know what I'm going to get?

A: The Scheme has evolved over time to take account of the changes to the workforce to which the Scheme is available. By its very nature, a pension scheme can take many years to develop and reflect the benefits that the workforce would like. Constraints such as the performance of the financial markets and the cost to employees and employers have to be measured against the guarantees that are given by any statutory scheme. Overall, the LGPS is one of the best public sector schemes in the UK and is backed by the appropriate trade unions in the public sector as providing excellent value for money when compared to the alternatives available. The Scheme remains a final salary pension arrangement back by statutory provisions.



Q: If I am due to leave prior to the 1 April 2008, can I complete a cohabiting partner's benefits form after I have left?

A: No, this option is only available to members of the Scheme on or after 1 April 2008. If you leave the LGPS before the 1 April, you will not qualify for this option.

Q: So, which is better: the old 80ths or the new 60ths?

A: In actual fact, the 1/60th rate produces more pension per each year of membership and, as you can now convert pension into lump-sum, this produces more tax-free cash per £1 of pension than the previous 3/80th rate.

Q: I live with my partner and I've already completed a nomination form. Do I need to complete another one for the pension aspect?

A: Yes, the existing nomination form only deals with the lump-sum element of the LGPS. The new arrangements now allow the member to nominate a cohabiting partner to receive a survivor's benefit (pension) upon their death. You should, therefore, complete a form if you wish to ensure your partner receives this benefit.

New LGPS online video

Over the past months, Fund officers have been working 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 will operate 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 have made this video available, via download on its website wmpfonline.com, as well as providing copies to employers to post on intranet sites.

Contact information

Write to us: West Midlands Pension Fund
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Helpdesk: **0300 111 1665**

Fax: **0845 230 1565**

Website: **wmpfonline.com**

Email: **PensionFundEnquiries@wolverhampton.gov.uk**

Minicom/Typetalk: 01902 554607

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

