To Scheme Members

Background

Previous newsletters have highlighted the review of the Local Government Pension Scheme (LGPS) being conducted by the Office of the Deputy Prime Minister (ODPM).

The review (known as the "stocktake") was prompted by concerns over the increasing cost of the LGPS, due to factors such as increased life expectancy, and the fact that some aspects of the scheme were no longer relevant to current working practices

Throughout the review, the Government stated that its continued support for the LGPS as a final salary scheme was conditional on it remaining **affordable and sustainable taking account of all stakeholders** (i.e. scheme members, employers and tax payers).

The outcome of the review so far is that the Scheme will keep its statutory basis. This is good news as it means that:

- you will still have access to a quality pension arrangement with salary related benefits, and
- your pension rights will continue to be in a secure environment where the risk of having to pay the benefits is borne by the employers.

However, the review makes a number of proposals, which will adversely affect the pension rights of many existing members when implemented.

These include:
- a normal retirement age of 65 for all members (including those currently with a right to receive unreduced benefits at age 60);
- raising the minimum age of retirement from age 50 to age 55; and,
- in the longer term, a radical new look version of the scheme

The Scottish Dimension

Whilst the "stocktake" has essentially been a review of the LGPS in England and Wales, Scottish Ministers have contributed to the process and have indicated that they are likely to introduce similar changes to the Scheme in Scotland with effect from April, 2006.

A consultation process is now underway in Scotland, with Scottish Ministers seeking the views of employer and employee representatives on the "stocktake" proposals.

Individual comments may be forwarded to the Scottish Public Pensions Agency (SPPA) at the address below, however members should be aware that many of the changes stem from UK Government pensions policy and are outwith the direct control of Scottish Ministers.

Policy Manager, LGPS
Scottish Public Pensions Agency
7 Tweedside Park
Tweedbank
Galashiels TD1 3TE

Key Proposals

- The Scheme Retirement Age for any new members after 31/3/2006 will be age 65. If they wish their benefits paid prior to this age (other than on ill health or redundancy grounds, etc) they will suffer a penalty.
- Those current Scheme members who can retire without penalty before age 65 (i.e. because their age and membership adds up to at least 85) will suffer a penalty to their post 31/3/2006 benefits if they retire before age 65.
- The right to retire at age 60 will be continued, but any benefits built up after 31/3/2006 will be subject to a penalty if accessed before age 65.
- Scheme members, born before 1/4/1953, who can currently retire at age 60 without penalty will continue to get unreduced benefits for all their membership provided they retire before 1/4/2013.
- From 1/4/2006, the earliest age at which scheme benefits will be paid will increase from age 50 to 55 However, this change will not apply to members born before 1/4/1955
- No change to the Ill Health provisions at present
- No change to employee contributions at present.

Reduced Benefits for Current Members

At present, members whose age and total membership add up to at least 85 years, can retire between age 60 and 65 without penalty and without needing the consent of their employer.

Broadly speaking, the SPPA proposal means that from 1st April 2006, members born after 31st March, 1953 will suffer a penalty reduction to their benefits in respect of any rights built up from 1st April, 2006 if they retire before age 65.

Here is an example of how the proposal would affect a male member aged 40 at 1st April, 2006 with 10 years membership and a Pensionable Pay of £20,000. Total membership at age 60 is 30 years, of which 20 years are after 1/4/2006

The current rules would allow this member to retire at age 60 with the following benefits:-

Pension	30/80ths x £20,000	= £7,500
Lump Sum	90/80ths x £20,000	= £22,500

The proposals would still allow the member to retire at age 60 but the benefit attributable to the period after 1/4/2006 would be subject to a penalty

Pension	30/80ths x £20,000	= £7,500
Less	20/80ths x £20,000 x 33%	= £1,650
		= £5,850
Lump Sum	3 x 30/80ths x £20,000	= £22,500
Less	3 x 20/80ths x £20,000 x 11%	= £1,650
		= £20,850

To avoid the reductions above, the member would have to continue working until age 65, at which time his benefits would be based on 35 years and thus produce a pension and lump sum of £8,750 and £26,250 respectively.

From the above example, you will see that the post April, 2006 pension and lump sum benefits have been reduced by 33% and 11% respectively. The corresponding reductions to the pension and lump sum for female employees are 27% and 11%.

The proposed change meets the Government's objectives of reducing costs; encouraging employees to work longer; and assisting employers to retain skills in the workforce over a longer period.

Scheme of the Future

The ODPM have issued a Green Paper entitled Facing the Future – Principles and Propositions for an affordable and sustainable LGPS. The purpose of the document is to stimulate debate over the content of a new version of the scheme to apply from around 2008.

The main suggestions put forward by ODPM are:

- Contribution rates to be linked to the ability to pay with the average rate being 7% of basic pay.
- Benefits to accumulate at the rate of 1.6% of pay per year of membership. Removal of 40 year limit on membership.
- Contributions and benefits to be based on basic pay only
- Provisions to allow members to access their rights at age 55 whilst continuing to work and accrue rights in the LGPS
- Ill health retirement with enhancement to be available only where an employee is permanently unfit for all employment
- Added Years and AVC provisions to be phased out
- A Money Purchase Top Up Scheme to be available as a alternative or supplement to the main scheme
- Death in Service lump sum to be increased to 3 times salary
- Pensions for partners

Fund Investment Report

A copy of the Pension Fund Investment Report for 2003/04 is enclosed with this Newsletter.

An improvement in market conditions has seen the value of the Pension Fund increase by 27% to £618 million by 31st March, 2004. The current fund value is now close to £635 million.

As a scheme member, please remember that your benefits are based on membership of the Scheme and level of pay at retirement, rather than the investment performance of the Fund.

Contact Information

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