

To all Pension Fund Members

## About this Newsletter

This is the 2005 newsletter for members of the Local Government Pension Scheme (LGPS) in the Falkirk Council Pension Fund. It contains information about:

- Proposed Abolition of the Rule of 85
- Taxation Changes
- Recent Scheme Changes
- Civil Partnerships
- National Fraud Initiative
- Pension Fund Investment

## Abolition of Rule of 85

The Government has been reviewing UK pension arrangements for a number of years prompted by evidence of increased life expectancy and concern that we are not saving enough for our retirement.

In the public sector, pressure for reform of pension schemes has grown due to Government concern at the cost burden falling on taxpayers. Media coverage has also highlighted a disparity between the high quality pension arrangements still available in the public sector and the less secure arrangements common in the private sector.

So far, the Government has pledged to retain the LGPS as a final salary pension scheme, provided it remains **affordable and sustainable**.

In general terms, the LGPS has a normal retirement date of 65, but members can access unreduced benefits from age 60, if the total of their age and scheme membership adds up to at least 85. (This is called the "Rule of 85").

The Government has stated that in order to comply with age discrimination legislation the rule of 85 will have to be abolished by October, 2006.

A committee, chaired by the Deputy Prime Minister, John Prescott, and comprising Government, Employers and Unions, is trying to negotiate an agreement. A crucial aspect of their discussions will be the extent to which the **future** pension position of existing members is to be protected, particularly in the light of the recent Government decision to protect in full the pension position of NHS employees, Teachers and Civil Servants.

Unless there is protection, the abolition of the "Rule of 85" means that **future** pension rights will only be payable in full at age 65, although there will be an option to take reduced benefits from age 60.

Further information will be made available in due course.

## Taxation Changes

Key changes are being made on 6<sup>th</sup> April, 2006 ("A Day") to the system of taxation applying to UK pension schemes. The main features are as follows:

- Tax relief will be given on contributions up to 100% of salary (i.e. the current rule limiting contributions to 15% of pay is to be removed)
- a tax charge will be levied if the total of all pension rights exceeds the **lifetime allowance** (LTA) of £1.5m - to assess the LTA you multiply your prospective annual pension by 20 and add on any tax free lump sum)
- a tax charge will be levied if the rise in pension rights exceeds the **annual allowance** of £215k
- Individuals at risk of breaching the **lifetime allowance** will be able to protect their pre A-Day rights by registering a claim with Her Majesty's Revenue and Customs (HMRC) by **5th April 2009**.
- Minimum pension age to be raised from 50 to 55
- Scheme members will be allowed to draw retirement benefits and continue working in their same job

Only very high earners with long service (or with pension rights held outwith the LGPS) will be at risk of breaching the LTA. **You could still be affected if you are a low earner just now but later become a high earner.**

Only long serving members whose annual pay has gone up by at least £30k will be at risk of breaching the annual allowance.

Some of the new facilities outlined above (e.g. contributions above 15% of pay; extension of flexible retirement) will only be available if the LGPS rules are specifically amended to allow this.

## Scheme Changes

Amidst the sound and fury of negotiations about the future of the Scheme, the following changes have actually been made from 30<sup>th</sup> June, 2005:

- It will be mandatory for annual benefits statements to be issued to all active and deferred scheme members from 2006/07.
- A funding strategy statement is to be in place by 1<sup>st</sup> April, 2006. This is to ensure the scheme has a formal approach to recovering any funding deficit.
- AVC benefits no longer have to be taken at the same time as main scheme benefits, but may be delayed until not later than age 75.
- It is no longer allowed to convert AVCs into main scheme credits unless the AVC's were paid or transferred in prior to 30/6/2005.
- Members with AVC entitlements are now allowed to buy retirement annuities from the Fund at rates determined by the Government Actuary.
- Members ceasing one scheme employment but continuing another can elect to have the membership from the 1st employment transferred to the ongoing employment, subject to an adjustment being made to the transferred membership to take account of salary differences between the two employments.
- Paternity leave and adoption leave are now treated in the same manner as maternity leave (i.e. contributions are automatically payable in respect of paid leave and optionally payable in respect of unpaid leave).

### **IMPORTANT**

- Members who have previously retired on ill health grounds will no longer be entitled to enhanced benefits if re-employed, and then retired on ill health grounds for a second time. **Members have until 31/12/2005 to give written notice that they do not wish this provision to apply to them.** Notices should be sent to Falkirk Council at the address below.
- Members who have retired and again become subject to the scheme in a new employment will no longer be allowed to have a combined benefit based on their pay in the second employment. Instead they will receive separate benefits. **Members have until 31/12/2005 to give written notice that they do not wish this provision to apply to them.** Notices should be sent to Falkirk Council at the address below.

## Civil Partnerships

The Civil Partnership Act 2004 allows same sex partners to register a civil partnership from 5/12/2005. As a result, the LGPS is being amended so that a survivor's pension will be payable following the death of a scheme member who is in a civil partnership.

Initially, only membership from 6/4/1988 is to be taken into account when calculating the survivor's pension. However, the Scottish Executive intends to consult on arrangements to allow membership from April, 1972 to be taken into account.

The civil partner provisions will apply to all scheme members who register a civil partnership, whether they are active, deferred or pensioner members.

## National Fraud Initiative

Retired members will recall being advised of the Council's participation in the National Fraud Initiative (NFI). This is an ongoing data matching process designed to help with the detection of fraudulent payments from the public purse.

Following a recent audit, it emerged that four pensions were being paid inappropriately. Unfortunately, it has been necessary to pass details to the Police in two of the cases.

More positively, however, NFI has allowed us to pay scheme benefits to the dependents of 6 former scheme members who had died without our being informed.

## Fund Investment Report

A copy of the Pension Fund Investment Report for 2004/05 is enclosed with this Newsletter.

An improvement in market conditions has seen the value of the Pension Fund increase by 13% to £700 million by 31<sup>st</sup> March, 2005. The fund value at 31<sup>st</sup> October, 2005 is approximately £750 million.

### Contact Information

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