

To all Pension Fund Members

About this Newsletter

This is the 2006 newsletter for members of the Local Government Pension Scheme (**LGPS**) in the Falkirk Council Pension Fund. It contains information about:

- Abolition of the Rule of 85
- Taxation Changes
- Flexible Retirement
- Other Recent Scheme Changes
- New Look Scheme for the Future
- Discretionary Benefits
- Pension Fund Investment

Abolition of Rule of 85

The Scottish Executive, the body responsible for making the rules of the LGPS, have announced the abolition of the Rule of 85 with effect from 1st December, 2006.

This follows many months of deliberation and, more recently, a Judicial Review which determined that the rule contravened Age Discrimination legislation.

The Rule of 85 lets scheme members retire from age 60 without penalty provided the total of the member's age and membership adds up to at least 85. The abolition of the rule of 85 means that the normal retirement age for all members will now be age 65.

In response to representations against the removal of the rule of 85, the Scottish Executive has agreed that:

- members born before 1/4/1960 will be protected provided they retire on or before 31/3/2020, and
- members born on or after 1/4/1960 will be protected until 31/3/2008.

The net result of these changes is that:

- New members from 1/12/06 will suffer a penalty reduction to benefits if retiring before age 65
- Existing members born before 1/4/60 and retiring before 31/3/20 will have their benefits calculated as if the rule of 85 had not been abolished.
- Existing members born on or after 1/4/60 will have membership rights protected until 31/3/08. A penalty reduction will then be applied to any post 31/3/08 benefits taken before age 65.

Here is an example of how a member born on 1/4/1968 will be affected. Let us assume the member joined the LGPS on 1/4/1998 and so would have completed 30 years membership on reaching age 60.

Under the former rules, the member would have satisfied the rule of 85 at age 60 and would have been able to retire then with a pension and lump sum of 30/80^{ths} and 90/80^{ths} of annual pay respectively.

Under the new rules, the 10 years membership to 31/3/2008 will be protected, but the rest of the membership will attract a penalty reduction if the benefits are taken before age 65. Assuming benefits *are* taken at age 60, they would be calculated as follows:

Pension - 10/80^{ths} + [20/80^{ths} – 25%] x Annual Pay

Lump Sum - 30/80^{ths} + [60/80^{ths} – 12%] x Annual Pay

Taxation

Important changes to pensions and taxation came into effect on 6/4/06 (A-Day). For scheme members who are higher earners, these include a tax charge if:

- the value of retirement benefits is more than the “**lifetime allowance**” (£1.5m in 06/07), or
- the annual rise in the value of pension benefits exceeds the “**annual allowance**” (£215k in 06/07)

Individuals at risk of breaching the **lifetime allowance** can protect their pre A-Day rights by notifying HM Revenue and Customs (HMRC) by **5th April 2009**.

Flexible Retirement

It is now possible for LGPS members to receive their retirement benefits and continue to work in the same job. To qualify, a scheme member must be

- aged 50 or more;
- reduce his or her hours or grade; and
- have employer's consent to both the revised working arrangements and the release of scheme benefits.

Scheme Changes

The following changes have been made to the Scheme from 6th October, 2006:

- Membership of more than 40 years at age 60 can now be counted towards scheme benefits
- Membership of more than 45 years at age 65 can now be counted towards scheme benefits
- Contribution holidays for members with more than 40 years local government membership have been ended since membership over 40 years can now be counted.
- Contributions of up to 100% of salary can be invested directly in the Scheme or in the Scheme's AVC facility. The previous rule limiting contributions to 15% of earnings has been removed.
- Members now wishing to buy additional years of membership will be limited to a maximum of 6 years 243 days.
- Except where a child is permanently incapacitated, any child's pension coming into payment after 5/4/2006 must cease when the child attains age 23.
- Employees over age 65 are now able to join the Scheme.
- Members who work on after age 65 can now stay in the Scheme and build up more pension rights. Where a member does this, the membership up to age 65 will attract a "bonus" increase when the member finally retires.
- Members cannot remain in the Scheme after age 75.

IMPORTANT – TAX FREE LUMP SUMS

- Members who are retiring can now take up to 25% of their pension rights in the form of a tax free lump sum. Under former rules, the standard lump sum paid by the Scheme amounted to around 15% of the total pension rights, so being able to take 25% as cash means that a substantially higher lump sum is available. The larger lump sum is paid for by the member giving up annual pension at the rate of £1 of annual pension for each £12 of lump sum.
- Members who pay Additional Voluntary Contributions (AVC's) through the scheme and who are now retiring may elect to take up to 100% of their accumulated AVC Fund value as a tax free lump sum, **provided they draw the AVC at the same time as their main LGPS benefits**. The amount taken as cash will count towards the 25% limit on tax free lump sums, set by HM Revenue and Customs, so taking the AVC as cash may allow more of the LGPS rights to be taken as pension.

New Look Future Scheme

The Scottish Executive has previously stated that it wishes to replace the existing LGPS. A consultation on the format of the new Scheme is likely to be held in mid-2007 with the new scheme coming into effect before April, 2009. A similar consultation has already taken place in England and Wales where it is proposed that the new scheme will have the following features:

- final salary scheme, based on "60ths"
- tiered contributions to help low earners to join
- normal retirement age of 65
- tiered ill health benefits linked to level of incapacity

Discretionary Benefits

The Local Government Discretionary Payments legislation allows additional benefits to be granted where the reason for leaving is redundancy or efficiency.

For employees under age 50, the discretionary benefit is lump sum compensation. For those who have reached age 50, the discretionary benefit is either lump sum compensation or compensatory added years.

The Scottish Executive has indicated that these provisions may need to be reviewed pending the outcome of a UK wide review of teachers' severance arrangements. However, in order to comply with the new Age Equality legislation, the Discretionary Payments regulations have been changed so that lump sum compensation can now be awarded regardless of the age of the employee.

Fund Investment Report

A copy of the Pension Fund Investment Report for 2005/06 is enclosed with this Newsletter.

The current Fund value is approximately £900 million.

Contact Information

Web Site:	www.falkirk.gov.uk
E-mail:	pensions@falkirk.gov.uk
Telephone:	01324 506316 (Benefits) 01324 506338 (Investments)
Fax:	01324 506303
Address:	Pensions Section Falkirk Council PO Box 14882 Municipal Buildings Falkirk FK1 5ZF