lgps
look forward with confidence

Falkirk Council

Pensions Newsletter

DECEMBER 2010

Long term reform needed concludes Hutton report

Public Sector Pensions need "long term structural reform" if they are to meet the needs of a modern flexible workforce whilst remaining "affordable, sustainable, adequate and fair to both taxpayers and employees".

That was the recent conclusion of Lord Hutton, chair of the Independent Public Service Pensions Commission, in his interim report on public sector pension arrangements.

The Commission, set up by the Coalition Government is due to issue its final report in Spring 2011.

The implications for the Local Government Pension Scheme (LGPS) could be:

- Higher Employee Contributions
- Later Retiral Ages
- End of Final Salary Status

According to Lord Hutton the main reasons for reform are increasing costs, improving life expectancy and the need to reduce the level of risk being shouldered by the taxpayer. He is also of the view that the Scheme is currently a barrier to greater private sector involvement in public sector activities.

On a more positive note, Lord Hutton sees no reason why funded schemes such as the LGPS should suddenly be "de-funded". He also indicates that pension provision should not become a "race to the bottom" and that public service pensions should provide an adequate level of retirement income for workers with some degree of certainty.

View the Hutton Report at www.hm-treasury.gov.uk/d/hutton_pensionsinterim_071010.pdf

Inside this issue:

Contribution Rate Review

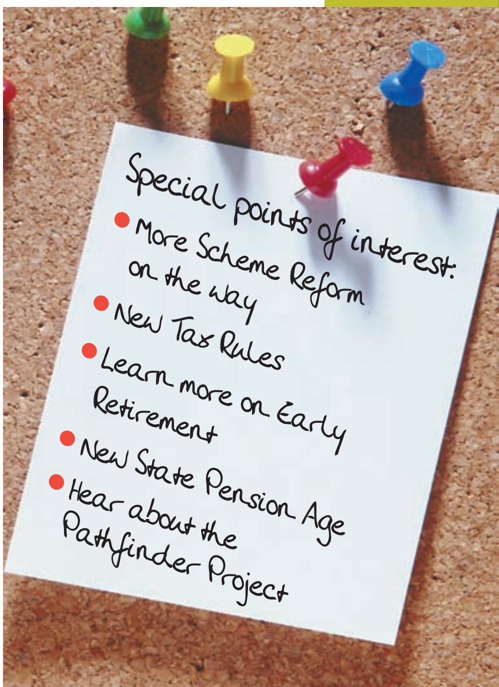
The rate of contribution that you pay to the LGPS is based on your level of pay.

The rate is assessed on 31st March every year, which means your (Full-time Equivalent) annual rate of pay on 31/03/2011 will be used to work out your contribution rate for 2011/12.

You will be able to check your contribution rate when you get your first payslip for pay year 2011/12.

The Government have still to confirm the contribution bandings for 2011/12 but these are expected to be announced before the year end.

The new contribution bandings will be posted on www.falkirk.gov.uk/pensions when they become available



A Very Taxing Experience

Are you taking up a promoted post soon? If so, *make sure you read this article, as an unexpected tax demand could be landing on your doormat.*

The "out of the blue" tax bill could arise if your pension rights exceed new limits set recently by the Government to come into effect from April 2011. You could also be affected if you are already earning over £100k a year.

Back in 2006, HM Revenue and Customs (HMRC) introduced the concepts of **Lifetime Allowance (LTA)** and **Annual Allowance (AA)**.

The **LTA** is the amount of pension pot you can build up during your lifetime before you are required to pay a tax charge.

The **AA** is the amount by which your pension pot can grow annually before you are liable to pay a tax charge.

Both the **LTA** and **AA** tax charges are payable on top of any income tax that might be deducted from your pension.

Historically, the lifetime and annual allowance limits have been high enough to avoid local government employees being affected. However, this is likely to change as HMRC have announced that they intend to:

- Reduce the **LTA** from £1.8m to £1.5m from April 2012.
- Reduce the **AA** from £255k to £50k from April 2011.

The reduction in the **LTA** to £1.5m will still only affect a small number of individuals (i.e. those earning at least £112k p.a.).

By contrast, the reduction in the **AA** could affect a larger number of individuals especially if they have a significant increase in pay and/or pay a large amount of AVCs.

To complicate matters, Government have said that if you exceed the £50k allowance, one year, you can offset against the excess any unused allowances from the previous three years.

If all this seems a bit daunting, don't despair, the Pensions Section will notify you if you exceed the £50k allowance (subject to your employer providing us with the necessary information).

The new **AA** limit applies from tax year 2011/12, so the first notice of excess pension growth would be sent in autumn 2012 in time for the completion of self assessment returns.

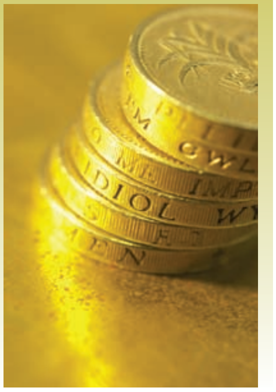
You can view a worked example showing the calculation of annual pensions growth and the impact of the annual allowance at www.falkirk.gov.uk/pensions in the "What's New" section.

Whilst the Pensions Section is happy to discuss individual circumstances with scheme members, tax is ultimately the responsibility of the taxpayer and anyone seeking formal advice about these proposals should take independent financial advice.

Pensions Increase (RPI-R.I.P.)

Public sector pensions are increased each April in line with the rise in the cost of living.

At present, the April increase each year is based on the annual rise in the Retail Price Index (RPI) at the previous September. The Government have announced that from April 2011, the increase will instead be based on the annual rise in the Consumer Price Index (CPI).



Both RPI and CPI measure the cost of goods and services. However, RPI includes housing costs such as mortgage payments and council tax. Generally, CPI is around 1.5% per year less than RPI which means that, in future, increases to pensions will be a bit less than would have been previously anticipated. Based on CPI, it is expected that the pension increase in April 2011 will be 3.1%.

Severance and Your Pension

The current economic climate means that a number of employees are being offered severance packages. In such cases, LGPS benefits are paid immediately if a scheme member:

- *Is* made Redundant (compulsory or voluntary) or is retired on Business Efficiency grounds; and
- *Is* at least Age 55 (or at least Age 50 having been a member on 5th April, 2006); and
- *Has* scheme membership of 2 or more years

If you are retired on redundancy or efficiency grounds, then your benefits will be calculated on the basis of scheme membership built up at your date of leaving. There would be no penalty reduction made for the privilege of getting your benefits paid out early. Your employer would however pick up this cost ("strain contribution").

Scheme benefits would normally consist of an Annual Pension and a Tax Free Lump Sum, however as part of the retirement process you would be able to give up part of your pension for a larger lump sum. The conversion rate means that you get £12 cash for each £1 of pension surrendered. The maximum lump sum is limited to 25% of the value of your pension pot. When deciding whether to take more lump sum, you should bear the following points in mind:

- Pensions are taxable, whereas Lump Sums are tax free.
- Taking extra lump sum does not affect any dependants benefits that may become payable
- If you have underlying health problems, this could be a reason for taking a larger lump sum.
- Pensions are guaranteed to increase in line with inflation (i.e. in line with CPI).
- What return can you achieve on your lump sum?
- Will a reduced pension be enough for the rest of your retirement?

The early release of scheme benefits requires an employer to make a strain contribution to the Pension Fund. In determining whether the offer of a severance package is economically viable, the employer will take the strain contribution into account.

In certain circumstances, an employer may offer Compensatory Added Years (CAY) as part of an overall severance package. These are not pension fund benefits and, consequently, the extra pension and lump sum arising from them cannot be re-modelled to give a lesser pension and larger lump sum.

Remember the LGPS is currently a final salary scheme. This means the Pensions Section can only finalise your benefits once they have received confirmation from your employer of your Final Salary, Date of Retirement and Reason for Retirement.

Not Qualifying for Benefits?

If you are offered a severance package, but do not qualify for the immediate payment of your scheme benefits, your pension rights will either be retained in the Pension Fund to provide benefits for you in the future (this is called a deferred benefit) or you will receive a refund of contributions. In either case, you would have the alternative option of transferring your rights to another pension arrangement.

New State Pension Age

Did you know that changes to the State Pension Age (SPA) have just been speeded up?

The SPA for women is increasing to **65** from **November, 2018** and to **66** for both men and women by **April 2020**. The government is also considering the timetable for future increases to the SPA from 66 to 68.

You can check your own State Pension Age by visiting: **http://pensions.direct.gov.uk/en/state-pension-age-calculator/home.asp**

The Coalition Government have made a commitment to uprate the Basic State Pension by a triple guarantee of earnings, prices or 2.5 per cent, whichever is highest, from 2011.

Government have also announced that it plans to phase out the default retirement age (DRA) of 65 by October 2011. The DRA is the age at which employers can enforce compulsory retirement.

Remember you can top up your benefits by paying Additional Voluntary Contributions through our AVC arrangement with Standard Life, or by paying Additional Regular Contributions to the Pension Fund. The Pensions Section can give you more information about topping up.

Consolidation of Funds on the way?

As a member of the Local Government Pension Scheme in Scotland, your pension rights are administered by one of 11 local authorities - in your case, Falkirk Council.

COSLA, together with the Improvement Service of the Scottish Government is currently sponsoring the "**Pathfinder**" initiative - a research project into the management of the Scheme to determine whether it would be possible to reduce costs and maintain levels of customer satisfaction with a reduced number of pension funds. Instead of having 11 pension funds, consideration is being given to a one, two or three fund model, or the status quo.

As part of the project, the 11 funds are participating in a survey to find out what members really think about services currently provided.

It is important that your views are heard, since any consolidation of funds could mean that your pension rights will be administered centrally rather than on a regional basis as at present.

If you have not already done so, please take the time to complete the survey by visiting: **http://web.questback.com/theimprovementservice/survey**

The survey questions should take no more than three minutes to complete. Unite, the GMB and Unison Trade Unions have offered their full endorsement of this piece of work.

lgps
look forward with confidence

Falkirk Council · Pensions Section
PO Box 14882 · Municipal Buildings · Falkirk · FK1 5ZF
Telephone: 01324-506316 · Fax: 01324-506334
E-mail: pensions@falkirk.gov.uk · Web: www.falkirk.gov.uk/pensions

Printed and Designed by Falkirk Printworks Tel: 01324 501490 Fax: 01324 501491 e-mail: printworks@falkirk.gov.uk