

# FALKIRK COUNCIL PENSION FUND PENSIONS NEWSLETTER MARCH 2014

## LGPS (Scotland) 2015

### The New Scottish Local Government Pension Scheme from 1 April 2015

Major changes are in the pipeline for the Local Government Pension Scheme (LGPS).

From 1st April 2015, all public sector pension schemes must conform to new standards. The framework has been set by the UK Government and within that, the terms of the new 2015 Scheme have been agreed by local authorities, the Scottish Government and the Trade Unions.

The key features of the new scheme are:

- benefits will be worked out using **career average revalued earnings** (CARE) rather than **final salary**;
- benefits will build up at a rate of **1/49th** of annual pensionable earnings;
- benefits will be **inflation proofed** in line with rises in the Consumer Prices Index (CPI);
- **normal retirement age** for each member will equivalent to his or her own **state pension age**;
- members will have the right to go **"50:50"** and pay ½ contributions in return for ½ benefits;
- accumulated benefits at 31<sup>st</sup> March, 2015 will continue to be calculated on a final salary basis;
- members who were aged 55 and over at 1st April, 2012 are **guaranteed** not to receive less under the new scheme than they would have received under the current scheme;
- earnings from **non-contractual overtime** up to the standard working week will now be pensionable; and
- there will be a **cost-control mechanism** to make sure the Scheme remains affordable to employers and sustainable into the future.

The precise detail of the new scheme, including the level of protection available to existing members, remains to be worked up by the Scottish Public Pensions Agency and will be publicised in the coming months. Many features of the current scheme will be continuing in the 2015 Scheme, including:

- the ability to give up annual pension for a **tax free lump sum** (i.e. you get £12 of lump sum for each £1 of annual pension given up);
- **death in service cover** equivalent to 3 times annual pensionable earnings;
- **survivor pensions** for spouses, civil partners and co-habiting partners;
- **tiered rates of employee contribution** to make it fairer and easier for lower paid employees to contribute;
- payment of unreduced benefits on **redundancy/business efficiency grounds** subject to a minimum age of 55 (age 50 if person was a member on 5<sup>th</sup> April, 2006); and
- payment of enhanced benefits on permanent **ill health** grounds.

Work is currently underway on a national website for LGPS (Scotland) that will help explain the 2015 changes. This will be available later this year and will include video clips covering some of the newer concepts as well as a benefits modeller.

**As the Career Average scheme only begins in April, 2015, most members will have a benefit which is a mix of Final Salary to 31/03/2015 and Career Average from 01/04/2015.**

# LGPS (Scotland) 2015

## Final Salary versus Career Average

With a Final Salary scheme, retirement benefits are based on the pay earned in the final year of your employment, hence the term Final Salary.

With a Career Average Revalued Earnings (CARE) scheme, the amount of pension earned is directly related to each year's earnings and then revalued in line with inflation.

To illustrate the difference, here is an example of someone who is retiring on 31/3/2018 at age 65 with 8 years' service. Pensionable earnings are £25,000 in 2015/16; £26,000 in 2016/17 and £27,000 in 2017/18.

<b><u>Current Scheme Basis</u></b> (i.e. final salary)	
Annual Pension	- 8/60ths x £27,000 = £3,600
<b><u>2015 Scheme Basis</u></b> (i.e. CARE)	
Annual Pension	- 5/60ths x £27,000 = £2,250 (pension earned by March, 2015)
	- 1/49th x £25,000 = £ 510 (pension earned in 2015/16)
	- 1/49th x £26,000 = £ 530 (pension earned in 2016/17)
	- 1/49th x £27,000 = £ 551 (pension earned in 2017/18)
Total Annual Pension	<b><u>£3,841</u></b>

In addition, in the 2015 Scheme example, the pension earned in 2015/16 and 2016/17 will be increased in line with inflation, so the eventual pension will be higher than the £3,841 quoted above. Note that in the same example, the 5/60ths service up to March, 2015, continues to be linked to Final Salary.

It may seem strange that the Career Average Benefit is greater than the Final Salary Benefit. However, the move to CARE is not intended to reduce member benefits, but make them fairer, so that the pension is a more accurate reflection of the contributions made by the member over their career.

## Normal Retirement Age becomes State Pension Age

A key aspect of the 2015 arrangement is that the normal retirement age for each member will be equivalent to their State Pension Age (SPA). SPA now ranges from age 60 (for females born before April, 1950) to age 68 (for persons born after March, 1978) with a further review of SPA scheduled during the next UK Parliament.

The significance of this change is that members will be expected to work longer than previously before accessing their scheme benefits. Where members choose to retire after age 60 but before normal retirement age then any penalty reduction will be based on the period from retirement to their normal retirement age.

## Cross Border Transfers from April, 2014

Unlike Scotland, where the Career Average arrangement comes into effect on **1<sup>st</sup> April, 2015**, the LGPS in England and Wales is changing to a Career Average basis on **1<sup>st</sup> April, 2014**. This has implications for members with pension rights in LGPS (Scotland) who join the LGPS in England and Wales and who wish to transfer their Scottish rights to the English and Welsh Scheme.

At present, there are no rules or arrangements in place which will allow Final Salary benefits in Scotland to be converted into Career Average benefits in England and Wales.

Whilst this is an issue that Central Government will be seeking to address urgently, it would seem inevitable that there will be delays in finalising cross border LGPS transfers from April 2014.

## LGPS (Scotland) 2015 – A final word.....for now

Despite the forthcoming changes, the LGPS will remain one of the best pension schemes in the UK.

Benefits will continue to be guaranteed by statute and protected against inflation.

You will continue to get tax relief on your contributions and for every £10 you contribute, your employer will be contributing around £30.

Make sure that you have taken independent financial advice and considered the alternatives before opting to leave the Scheme.

## Auto Enrolment

The UK Government's Workplace Pensions Initiative – Auto Enrolment – has had a significant impact on Falkirk Council Pension Fund during 2013. A number of fund employers including Clackmannanshire, Falkirk and Stirling Councils, SEPA and SCRA have all implemented auto enrolment, resulting in around 1,000 non scheme members being enrolled in the scheme and starting to accumulate pensions savings.

Where a member opts to leave the Scheme within 3 months of being enrolled, then their membership is cancelled and a refund of contributions will be processed by the member's employer. Where a member opts out having completed 3 months service, then the membership stands and it will be for the Pensions Section at Falkirk Council to provide the member with his or her leaver options.

**Please note that even if you opt out of the Scheme, your employer may be obliged to re-enrol you from time to time. In accordance with the auto enrolment rules, Opting Out request forms may only be obtained from the Pensions Section, Falkirk Council or by downloading the form from [www.falkirkpensionfund.org/about-us/forms-and-publications.aspx](http://www.falkirkpensionfund.org/about-us/forms-and-publications.aspx).**

## Pensions and Tax – Issues for High Earners

High earners and those with significant earnings growth in a given tax year can find themselves liable to a Lifetime Allowance tax charge or an Annual Allowance tax charge. The allowances are as follows:

- Lifetime Allowance** the amount of pension pot you can build up in your lifetime before you become liable for a tax charge.
- Annual Allowance** the amount by which your pension pot can grow annually before you are liable to pay a tax charge.

From tax year 2014/15, the Lifetime Allowance is reducing from £1.5m to £1.25m and the Annual Allowance is reducing from £50k to £40k.

If you exceed the Annual Allowance, you will be notified of this prior to October of the following tax year. If your tax charge is less than £2k, then you must pay the charge directly to HM Revenue (HMRC). If the charge is £2k or more then you can ask the Scheme to pay the full amount to HMRC. This is called a "Scheme Pays" election and will result in a reduction to your scheme benefits when they come into payment.

With regard to the Lifetime Allowance, you can apply to HMRC for the protection of a higher lifetime allowance threshold. Details of protections (including Fixed Protection 2014 and Individual Protection 2014) can be found on the HMRC website at: [www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm](http://www.hmrc.gov.uk/pensionschemes/pension-savings-la.htm).

Please note that applications for Fixed Protection 2014 must be received by HMRC by no later than **5<sup>th</sup> April, 2014** and applications for Individual Protection 2014 by no later than **5<sup>th</sup> April 2017**.

## Revised Member Contribution Rates

The pay bands used to determine members' rates of contribution are revised annually by the Scottish Public Pensions Agency. The rates from April 2014 can be found at: [www.falkirkpensionfund.org/paying-in/membership-and-contributions/contribution-rates.aspx](http://www.falkirkpensionfund.org/paying-in/membership-and-contributions/contribution-rates.aspx).

## Additional Voluntary Contributions – New Provider

Falkirk Council has recently appointed Prudential to be a joint AVC Provider, along with our existing Provider Standard Life. Watch out for more information regarding this development on [www.falkirkpensionfund.org](http://www.falkirkpensionfund.org). Remember AVCs are a tax efficient way of topping up your benefits and can be used to provide additional pension and, in most cases, additional tax free lump sums.

## Aggregation - Linking Old LGPS Rights with New Ones

Have you changed jobs in the LGPS or moved from one employer to another?

If so, you might have left some pension rights behind with your old employer in the form of a deferred benefit.

You may have simply forgotten to combine your rights or you may have deliberately kept your rights separate if you moved to a job with a lower salary. Either way, you now only have **12 months** from re-joining the scheme in which to make an election to combine your rights.

### Stats Corner

Pensions Increase April 2013	2.2%
Pensions Increase April 2014	2.7%
Fund Active Members @ 31/12/2013	13,780
Fund Pensioner Members @ 31/12/2013	8,630
Fund Deferred Members @ 31/12/2013	5,275

### CONTACT DETAILS

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## PENSION FUND ACCOUNTS 2012/13

The full Annual Report and Accounts is available from:

[www.falkirkpensionfund.org/about-us/forms-and-publications.aspx](http://www.falkirkpensionfund.org/about-us/forms-and-publications.aspx)

### How the Fund was invested at 31st March 2013

Fund Manager	Mandate	£million
Aberdeen Asset	Global Equities	208.6
Baillie Gifford	Bonds	136.1
Baillie Gifford	Diversified Growth	127.5
Legal & General	Passive Equities	302.9
Newton	Global Equities	213.0
Schroder	UK Equities	226.3
Schroder	Property	100.2
SL Capital/ Wilshire/M&G	Private Equity/ Credit Markets	95.1
Grosvenor Capital	Infrastructure	33.1
Other Net Assets	Misc. Incl. Cash	20.3
<b>Fund Value at 31st March 2013</b>		<b>1,463.1</b>

### How the Fund has changed in 2012/13

	£million
<b>Fund Value at 31<sup>st</sup> March 2012</b>	1,252.0
<b>Plus: Money In</b>	
Employer Contributions	52.5
Member Contributions	16.6
Transfers in from other schemes	4.4
<b>Less: Money Out</b>	
Pension Payments	39.7
Retirement Lump Sums	13.1
Refunds and Transfers out	4.0
Administration Costs	0.4
<b>Plus: Investment Returns</b>	
Investment Income	21.4
Change in Investment Value	177.5
Investment Management Fees	(4.1)
<b>Fund Value as 31st March 2013</b>	<b>1,463.1</b>

Issued by Chief Finance Officer, Falkirk Council