New options for increasing your pension

The LGPS 2014 introduces a new way of increasing benefits – Additional Pension Contributions (APCs). Whilst these are similar in many ways to Additional Regular Contributions (ARCs) under the 2008 Scheme there are some very important differences. APCs can be paid as regular contributions over a number of years (minimum 12 month contract) but they can also be purchased as a lump sum. The maximum additional pension that can be purchased initially (from 1 April 2014) is £6,500 although this value will increase each year in line with CPI. You may choose to make a one off contribution or to pay regular additional contributions in order to buy a set amount of additional annual pension. The cost (a cash amount **not** a percentage of pay) is determined by your age, term of payment and the amount you wish to purchase. APCs are deducted from your gross pay which means that they will attract tax relief. You can elect to terminate an APC contract at any time with a proportion of the additional pension purchased to date being added to your Pension Account. **Please note that you can only purchase additional pension through APCs if you are in the main section of the scheme.**

APCs can also be paid by members of the **main** and 50/50 sections of the LGPS to recover amounts of lost pension relating to unpaid absences. This facility is known as Shared Cost Additional Pension Contributions and could cover absences such as periods of additional child related leave, or authorised absence.

All existing Additional Voluntary Contribution, Added Years, Additional Regular Contribution, Preston part time buy-back, and Additional Survivor Benefit Contributions contracts which are in force immediately prior to 1 April 2014 will continue from April 2014 on the terms of the original contract.

Where can I find out more?

- Visit the Croydon Council Website at - www.croydonpensionscheme.org
- View the LGPS 2014 Website at - www.lgps2014.org - The website includes videos, explaining how the Scheme works. It also includes examples of how different members could be affected – to help you to understand how the changes could affect you – and a comparison of how the new Scheme is different to the old arrangement. So please visit the site to find out more about LGPS 2014.
- Visit us at our pension open days – date to be confirmed
- Email us at – Pensions@croydon.gov.uk

Contact details

We hope you've found this newsletter helpful and please feel free to contact us if you have any questions using the details provided below:

Pensions Team,
11th Floor Zone A,
Bernard Weatherill House,
8 Mint Walk,
Croydon CR0 1EA

Pensions@croydon.gov.uk

020 8760 5768 Ext. 62892

www.croydonpensionscheme.org

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FutureView

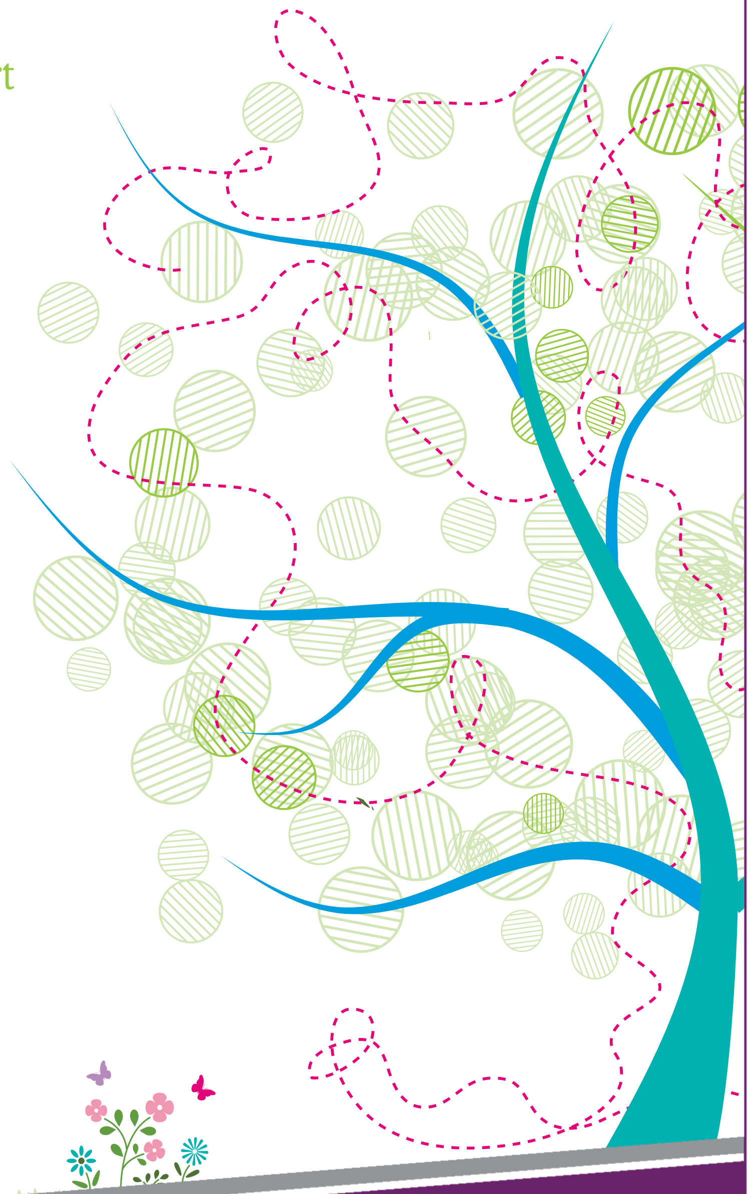
Welcome to a special issue of FutureView, which helps you to understand the changes that are happening to your pension as part of the introduction of LGPS 2014.

From 1st April 2014 your pension has started to build up in a different way, following the launch of LGPS 2014, and we help you to understand these changes inside this newsletter.

Tell us what you think

We'd like to know what you think about this newsletter and if you have any questions about the topics covered in general. Please get in touch by contacting Pensions@croydon.gov.uk

Read on to find out about what's new in LGPS 2014!



April 2014

CROYDON
www.croydonpensionscheme.org

What's new in LGPS 2014?

From 1 April 2014, you will have been automatically entered into the new LGPS 2014 Scheme, along with all members of the Croydon Pension Fund and any other LGPS schemes.

The new LGPS 2014 Scheme is still a generous pension arrangement, and it's important to remember the scheme is still a defined benefit scheme.

Any benefits that you built up in the LGPS before 1 April 2014 are also protected. This means that the membership you built up before 1 April 2014 will continue to be based on your final year's pay when you leave and these benefits retain their Normal Pension Age - which for almost all members is age 65.

As a member of the Scheme, you will also still benefit from the extensive range of death benefits and cover during periods of reduced pay sick leave and periods of relevant child related leave.

So what's new?

While not everything is changing, there are some key differences in LGPS 2014 that you should be aware of. Perhaps the biggest change is that from 1 April 2014 the way you build up pension in the LGPS is different - it will be worked out in a new way using your pay (which now also includes non-contractual overtime) each scheme year rather than your final salary.

LGPS 2014 also now offers you more flexibility about when you can take your pension, with the option to take it at any age from 55 to 75. In the new scheme your Normal Pension Age (NPA) is linked to your State Pension Age (SPA): Take your pension before your NPA and it will normally be reduced; take your pension after your NPA and it'll be increased.

What's more, you also now have more flexibility about the amount you pay to be a member of the Scheme with the introduction of a new '50/50 option'. This allows you to pay half your contributions and build up half of your normal pension during the period of time you are in that section.

We've given more information on the highlights of the changes below.

How is my pension calculated?

From 1 April 2014 the LGPS will continue to be a defined benefit pension scheme (i.e. the way in which benefits are calculated will continue to be defined in legislation) but instead of benefits building up on a final salary basis they will build up on a Career Average Re-valued Earnings (CARE) basis. This means that the pension you are entitled to is based on your actual pensionable pay received in each Scheme year (1 April to 31 March) instead of being based on the pay you received at the point you leave the Scheme or retire.

Each year you will receive 1/49th of your actual pensionable pay and this will be added to your 'Pension Account' with an inflationary increase (currently Consumer Price Index (CPI)) being added each year so that it keeps its value from the point the pension is earned to the point from which it becomes payable.

Did you know?

While you're a member of the LGPS you'll receive 1/49 of your pensionable salary each year. A calculator is now available online at www.lgps2014.org to see how much this will give you when you retire.

Pensions build up

Depending on how long you have been a member, your pension could now build up at three different rates:

1: If you were a member up until 31 March 2008, you would have built up an LGPS pension at the rate of 1/80th of final pay for each year of Scheme membership. Attached to this would have been an automatic tax-free lump sum equal to three times the value of the annual pension.

2: If you were a member from 1 April 2008 to 1 April 2014, an LGPS pension built up at a rate of 1/60th of final pay for each year of Scheme membership with no automatic tax-free lump sum, but with the opportunity to convert part of the annual pension into tax-free cash if you wanted.

3: For the time you are a member from 1 April 2014, the rate at which an LGPS pension will build up will be equal to 1/49th of the actual pensionable pay received in each Scheme year.

So depending on when you joined, you could have a pension based on three different Pension Build Up Rates:

Membership from	Membership to	Pension Build Up Rate	Automatic Lump Sum
LGPS start date	31 March 2008	80th	Yes
1 April 2008	31 March 2014	60th	No
1 April 2014 onwards	onwards	49th	No

Please note that although there has been no automatic lump sum entitlement since 1 April 2008, you can elect to exchange some of your annual pension to purchase a tax-free lump sum (or increase your existing lump sum). For every £1 of pension you give up you will get £12 of tax-free lump sum (subject to HM Revenue and Customs limits). This option is still available under the LGPS 2014.

How your pension builds up in LGPS 2014

From 1 April 2014, the LGPS is a career average scheme, which means each year in the new scheme your pension will be worked out based on your pensionable pay in that year. That pension is then added to your Pension Account. Inflation is then added to the pension you've built up in your account so it keeps its value.

Care Scheme example:

A member earns **£24,500** in 2014/2015. Their State Pension Age will be reached on 31 March 2019. Based on the new pensions build up rate of **1/49th** their annual pension will be calculated as follows:

£24,500 / 49 = £500

Assuming that CPI is **3%** this annual pension amount for year 1 will be increased as follows:

£500 x 1.03 = £515

This pension will then be increased by CPI every subsequent year, assuming CPI to be **3%** every year, and a **£500** increase in pensionable pay each year as follows:

Year 2 (2015/2016)	£24,500 / 49	=	£500	+	£515	x	1.03	=	£1,045.45
Year 3 (2016/2017)	£25,000 / 49	=	£510.20	+	£1,045.45	x	1.03	=	£1,602.32
Year 4 (2017/2018)	£25,500 / 49	=	£520.41	+	£1,602.32	x	1.03	=	£2,186.41
Year 5 (2018/2019)	£26,000 / 49	=	£530.61	+	£2186.41	x	1.03	=	**£2,798.53**

Assuming the member retires on 31 March 2019 on reaching their State Pension Age (SPA), their annual pension would be **£2,798.53**. Under the LGPS 2008 regulations the equivalent pension would have amounted to **£2,166.67**.

What will I pay under LGPS 2014?

The rate of contribution you pay from 1 April 2014 is based on your actual pensionable pay. There are nine different contribution rates ranging from 5.5% to 12.5% - see the table below. Your employer will assess the rate of your contributions for each employment based on your actual pensionable pay.

Pensionable Pay

Your actual pensionable pay is the amount of pay on which you pay pension contributions. From 1 April 2014 the definition of pensionable pay has been amended to include non-contractual (as well as contractual) overtime and any additional hours worked in excess of your contractual hours. If you are part time your pensionable pay will no longer be uprated to a full-time equivalent value.

Pay Bands Contribution Rate

	Pay Bands	Contribution Rate
1	£0 - £13,500	5.5%
2	£13,501 - £21,000	5.8%
3	£21,001 - £34,000	6.5%
4	£34,001 - £43,000	6.8%
5	£43,001 - £60,000	8.5%
6	£60,001 - £85,000	9.9%
7	£85,001 - £100,000	10.5%
8	£100,001 - £150,000	11.4%
9	Over £150,000	12.5%

From 1 April 2014 higher paid employees may pay more and part time employees may pay less when compared to the scheme before April 2014.

Assessing your rate of contributions

Your salary might change during the year so that you fall into a different contribution band. This will be reviewed on a monthly basis by checking your pensionable pay against the bands. So please check your payslips on a regular basis to ensure you are paying the correct band of contributions. The salary bands may increase annually in line with inflation. This will be decided by the government. **If you work part time your contribution rate will be assessed based on your actual part time equivalent pensionable pay and not the full-time equivalent as in the previous scheme.**

Greater flexibility in the new Scheme

There are two sections in the scheme from 1 April 2014 – the **main** section and the 50/50 section. The MAIN section of the scheme is the section you will be placed in automatically from 1 April 2014. In that section, you pay normal contributions and get the normal pension build up. The 50/50 section is a new option. You will be able to elect to move to this section if you wish. If you do so, you will then pay half contributions but, whilst you are in the 50/50 section, you will only be building up half the normal pension. If you have more than one employment you can elect for the 50/50 option in one, some or all your employments.

Regardless of the section you are in, you get full life assurance cover and you are fully protected under ill-health retirement regulations.

How long can you remain in the 50/50 section?

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your employer is required to re-enrol you back into the **main** section of the scheme every three years from your auto re-enrolment date, or from the point your pay reduced to **nil** pay as a result of long-term sickness. Your employer will tell you when this is if you are in the 50/50 section of the scheme. If you wish to continue in the 50/50 section at that point you would need to make another election to remain in that section. You can choose to revert back to the **main** section of the scheme at any time by completing a form obtained from the Pensions Section and you will then start to build up full benefits in the **main** section from your next available pay period.

When can I retire under LGPS 2014?

Your Normal Pension Age (NPA) is simply the age when you can retire and take the pension you have built up in full. However, you will have increased flexibility from April 2014 over when you can retire and take your pension. You will be able to choose to retire and draw your pension at any time between age 55 and 75 providing that your Local Government employment has ceased. If you choose to take your pension before your NPA, it will be reduced, as it's being paid earlier.

If you take your pension later than your NPA, it's increased because it's being paid later. The amount of any reduction or increase will be based on how many years earlier or later than your NPA you draw your benefits.

When can I claim my Pre April 2014 pension benefits?

The NPA for benefits built up before 1 April 2014 will continue to be linked to your NPA as defined in the 2008 Scheme (which could be age 60, 65 or somewhere between 60 and 65). It is important to note that your pre 1 April 2014 benefits **cannot** be drawn earlier than your post 31 March 2014 benefits.

Retiring after your NPA

If you are employed beyond your NPA, you can still remain in the LGPS and build up additional annual pension. If you retire after your NPA your pension will be enhanced to reflect its late payment. For benefits built up from 1 April 2014 the age from which those benefits can be withdrawn **without penalty** is your Normal Pension Age (NPA) which is linked to your State Pension Age (SPA). The Government has, and is likely to continue to, introduce legislation which changes the State Pension Ages for most UK citizens. Therefore, the date from which LGPS benefits built up from 1 April 2014 can be paid without penalty may change during your active membership. You can also use the Government's State Pension Age calculator to find out your State Pension Age, please visit: www.gov.uk/calculate-state-pension (Please note this calculator doesn't include proposed changes to State Pension Age.)

LGPS 2014 protections

How are my pre 1 April 2014 benefits affected by the changes?

All benefits built up before April 2014, will continue to be based on your final year's pay when you leave the Scheme as these benefits were built up in the final salary scheme. This means that all the membership you built up to 31 March 2014 will be used to calculate your final salary benefits when you leave, or retire from, your employment in the future. You will also receive a protected Normal Pension Age (NPA) for benefits built up to 31 March 2014. The protected NPA is age 65 (except for a very small number of members with an earlier protected age of 60). The protection means that if you retire and draw your benefits at your protected Normal Pension Age, the pension you have built up in the scheme before 1 April 2014 will be paid in full. Please note you cannot take your benefits built up to April 2014 separately from the benefits you build up from April 2014. All of your pension would have to be drawn at the same time if retiring voluntarily.

Rule of 85

If you have Rule of 85 protection this will continue to apply. It protects some or all of your benefits from the normal early payment reduction and will automatically be applied. To have Rule of 85 protections you must have been a member of the LGPS on 30 September 2006. **It is important to note that if you retain protections under LGPS 2008 in relation to the Rule of 85 you only do so from age 60. The Rule of 85 does not apply at all if you voluntarily retire before the age of 60.**

Further protections - the underpin

The underpin refers to the protections afforded to Scheme members who were born before 1 April 1957 (perceived to be the date at which a member would have been within 10 years of retirement (age 65) on 1 April 2012). The underpin applies to any Scheme member who:

- Was an active member of the Scheme on 31 March 2012;
- Was within 10 years of their Normal Pension Age (NPA) on 1 April 2012;
- Retires at NPA or continues working beyond NPA;
- Hasn't had a disqualifying break in public service of more than 5 years; and
- Has not already drawn any benefits before NPA from the 2014 scheme.

The underpin provides for a calculation to be undertaken at NPA to check that the pension a Scheme member builds up at NPA (or would have built up had they been in the **main** section throughout) is at least equal to that which would have built up had the Scheme not changed on 1 April 2014 and if the benefit calculated is less than equal, the difference will be added to the member's Pension Account.

Pre and post 2014 calculation example

Susan joined the LGPS as a full-time employee on 1 April 1998. She leaves the LGPS on 31 March 2015. Her final pay at 31 March 2015 is £24,000. For the purposes of this example we are assuming she claims her pension from her NPA. Her pension will be calculated in three parts as follows:

Pre-2014 Protected Annual Pension	
01/04/1998-31/03/2008 (pre April 2008 membership)	10 years X £24,000 ÷ 80 = £3,000
01/04/2008-31/03/2014 (post April 2008 membership)	6 years X £24,000 ÷ 60 = £2,400
LGPS 2014 Annual Pension	
Annual Pension (01/04/2014 - 31/03/2015)	£24,000 ÷ 49 = £489.80
TOTAL ANNUAL PENSION AT 31/03/2015	**£5,889.80**

As Susan joined the LGPS prior to 1 April 2008 she is also entitled to an automatic tax-free lump sum retirement grant. The lump sum will be calculated based on her final pay at her date of leaving.

Lump Sum Retirement Grant (based on pre April 2008 membership only)	
01/04/1998 - 31/03/2008	10 years X £24,000 x 3 ÷ 80 = £9,000
TOTAL LUMP SUM RETIREMENT GRANT @ 31/03/2015	**£9,000**

In this example Susan's Annual Pension would amount to **£5,889.80** with a tax-free lump sum of **£9,000**