



Your Pension

Number 2: July 2012

Your Local Government
Pension Scheme Newsletter

Working together for you

Welcome to Your Pension where you can find out the latest news on your LGPS pension. This newsletter focuses on the very latest on the Pension Reform and includes:

- Details of the updated proposals for the LGPS
- The differences between the old and the new proposed LGPS
- How the proposals affect you
- The next steps

LGPS pension update

Public service pensions will be changing in the future now the Government have agreed to the recommendations made in the Hutton Report. The good news is that some flexibility has been given to the LGPS to shape the pension scheme for its members, providing the Scheme cost does not exceed a certain amount of money. The Local Government Association (LGA) has worked with unions to put a proposal together to provide the best possible benefits package for you, within the allowable cost. On 31 May the proposals were communicated and the unions will now consult with their members and the LGA will consult with employers on the proposals.

More details on the Hutton recommendations can be found at www.lgps.org.uk but read on to find out more about the proposal and how it might affect you.

The proposal

This is what is being proposed for LGPS from April 2014:

- A pension calculated using Career Average Earnings (CARE) with 1/49 of your annual salary for each year that you work.
- A pension that increases each year to ensure that it maintains its value.
- A Normal Pension Age the same as State Pension Age.
- An average contribution rate of 6.5% with contributions for the lowest paid remaining largely the same and the highest paid contributing more.
- A 50/50 option for members who have already opted out (or who are considering opting out).
- Scheme members who are outsourced to private contractors will be able to stay in the LGPS.
- Protection for all Scheme benefits built up before April 2014.
- Anyone over age 55 in April 2012 will not be put in a worse position.
- If you are in the LGPS for less than two years, you will be entitled to a refund of your contributions.

The key differences between the old LGPS and the new proposed LGPS

How your retirement income will be calculated

Current LGPS Scheme	LGPS 2014 proposal	The impact
<p>Final Salary Your pension is based on the number of years you have been in the pension scheme and your final pay at retirement.</p> <p>For each year you have been a member of the scheme you get a proportion of your final pay at retirement.</p>	<p>Career Average Revalued Earnings (CARE) Your pension is based on your earnings in each year that you contribute to the scheme.</p> <p>An amount is added to your pension each year until you retire so that it maintains its value. The amount is calculated using the Consumer Price Index (CPI).</p>	<p>This change will produce a better pension for a significant number of Scheme members. Individual cases may differ due to career profiles but a CARE arrangement suits those with limited opportunity for promotion.</p>
<p>Pensionable pay When calculating your benefits your Pensionable pay is used. This excludes non contractual payments such as overtime and additional hours worked over your contractual hours.</p>	<p>Actual Pay Pensionable pay will include non contractual payments such as overtime and additional hours worked over your contractual hours.</p>	<p>All of your pay would be taken into account rather than just your basic pay when calculating your pension benefits. So for example if you do work extra hours, you will pay contributions on all the pay received but it will now also be used to calculate your pension.</p>
<p>A pension calculated on 1/60 of your final salary You get a pension based on 1/60 of your final salary at retirement for each year of membership (pro rata for part time members).</p>	<p>A pension calculated on 1/49 of your pay each year You will be credited with 1/49 of your pay each year which is then revalued, to help keep up with the rising cost of living in the future.</p>	<p>This is a significant improvement in the pension calculation.</p>

How much will you pay?

Current LGPS Scheme	LGPS 2014 proposal	The impact
Scheme contribution rates average 6.5% on full time equivalent pay, depending on your salary.	Scheme contribution rates will still average 6.5% but be based on actual pay, depending on your salary.	Contributions have remained largely the same for the majority of people as pension is calculated on actual pay. People who earn over £85,000 or more will have to contribute a higher amount. Please see table below Some, particularly those that work part time may even pay less.

Current LGPS scheme

	% contribution
Up to £13,500	5.5%
£13,501 to £15,800	5.8%
£15,801 to £20,400	5.9%
£20,401 to £34,400	6.5%
£34,001 to £45,500	6.8%
£45,501 to £85,300	7.2%
More than £85,300	7.5%

LGPS 2014 proposal

	% contribution	% contribution after tax relief*
Up to £13,500	5.5%	4.40%
£13,501 to £21,000	5.8%	4.64%
£21,001 to £34,000	6.5%	5.20%
£34,001 to £43,000	6.8%	5.44%
£43,001 to £60,000	8.5%	5.10%
£60,001 to £85,000	9.9%	5.94%
£85,001 to £100,000	10.5%	6.30%
£100,001 to £150,000	11.4%	6.84%
More than £150,000	12.5%	6.88%

* Please note that the contributions after tax relief are approximate and the actual amount you pay will depend on your personal circumstances.

Example – how the new pension is calculated



Your pension at retirement will be calculated as: $1/49 \times \text{Pensionable pay} = \text{pension each year}$. (This is then increased each year up to retirement.)

Joanna earns £20,000 a year and in her current scheme she would receive £333 of pension for each year she works. Under the new scheme she will have more pension when she retires. Her new pension would be calculated as: $1/49 \times £20,000 = £408$ of pension for each year she works.

Example – how much the new pension costs



Samir works part time and earns £9,000 a year, so his gross contribution to the Scheme from April 2014 would be 5.5% (£41.25 a month). But after tax relief, his actual contribution will be around 4.4% (£33 a month).

Using his actual pay, Samir will pay additional contributions for any extra hours he works. The extra pay will also count towards providing extra pension when he retires.

Flexible payment option

Current LGPS Scheme	LGPS 2014 proposal	The impact
No flexibility on contributions and if members opted out of the Scheme they lost the additional benefits provided in the Scheme for their dependants.	A new 50/50 option allows members to reduce their contributions and still keep additional benefits such as death benefits.	You can use the 50/50 option if you want to reduce your contributions but still keep your other benefits. You would get less of a pension with this option, so you would need to plan carefully to make sure you have enough money in retirement.

At retirement

Normal Retirement Age (NRA) Normal Retirement Age is age 65.	The Normal Retirement Age (NRA) will be equal to your State retirement age, but subject to a minimum of age 65.	If retirement is taken before the NRA then your pension will be reduced to take account of the early payment. Likewise it will be increased if retirement takes place after your NRA. Your other benefits such as redundancy and ill health will remain unchanged.
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Taking your benefits before retirement

You are entitled to benefits from the Scheme once you have completed 3 months' membership.	If you leave the Scheme with less than 2 years' membership you will receive a refund of your contributions unless you choose to transfer them to a new employer's pension arrangement.
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Next steps

Although there is a general acceptance to the proposals, there is still a lot that needs to be discussed. The unions will now discuss the proposed changes with their members, and the LGA will also consult with employers. When we receive any further news we will keep you updated.

Helping us to define your future communications

We have grouped together with a number of boroughs to provide you with regular information to help you with your pension.

We hope that you found this newsletter helpful and relevant to you. Please do let us know if there is anything you would like to see in future editions or if you have any feedback.

You can contact us in a number of ways and we look forward to hearing from you:

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Disclaimer: Nothing in this update can override the provisions of the Local Government Pension Scheme regulations or related legislation.