

Changes to the Local Government Pension Scheme

BACKGROUND

Changes to the Local Government Pension Scheme (LGPS) were laid in the Scottish Parliament on 6 June 2008. The new regulations come into force on 1 April 2009.

Consultation on the new proposals took place between 30 July 2007 and 31 October 2007. These proposals were jointly developed over a number of months by a tripartite group representing the Scottish Government (former Scottish Executive), COSLA (Employers Representatives) and relevant Unions.

Following this consultation a Heads of Agreement document was agreed between all parties and a further consultation on the regulations for the new LGPS for Scotland took place between 14 February 2008 and 17 March 2008.

Full details of the Consultations and the Heads of Agreement documents and the new Regulations are available on the Scottish Public Pensions Agency's website www.sppa.gov.uk under Pension Reforms and Taxation.

All employees in service on 1 April 2009 will transfer to the new scheme.

Members of the LGPS include all Music Instructors and Librarians and due to historical reasons may also include some Educational Psychologists and those in education management adviser and assistant adviser roles, including some Quality Improvement Officers and Education Support Officers.

MAIN FEATURES

Retention of Final Salary Scheme

Agreement has been reached that the scheme will remain a defined benefit final salary scheme. This means benefits are based on your final salary and the number of years you have been a scheme member.

Accrual Rate Change

The accrual rate in the existing scheme guarantees a pension based on 1/80^{ths} and lump sum based on 3/80^{ths} of final pensionable salary and years of pensionable service. The new scheme has

an accrual rate of 1/60th but with no automatic lump sum. There is a facility to commute part of your pension to receive a tax free lump sum. The new accrual rate is an improvement on the current facility.

Example

A member with a final pensionable salary of £35,000 and with 20 years service.

Current Scheme Pension: £8,750 (£35,000/80 x 20)
 Current Scheme Lump Sum: £26,250 (£35,000 x 3/80 x 20)

New Scheme Pension: £11,666.67 (£35,000/60 x 20)

Or alternatively with maximum commutation on a £1:£12 rate.

New Scheme Pension: £7,500.67 (£11,666.67 - (£11,666.67 x 35.71%))
 New Scheme Lump Sum: £49,992 ((£11,666 x 35.71%) x 12)

Or taking the same pension as available under the pre 2009 scheme.

Pension: £8,750
 Lump Sum: £34,992 ((£11,667 - £8,750) x 12)

Members who have service before and after the 1 April 2009 will have their benefits calculated in two parts. Early service will be calculated using the 1/80^{ths} scheme, service after 1 April 2009 calculated using the 1/60th scheme.

Working after Normal Pension Age

Members working after their normal pension age will have their benefits enhanced in accordance with guidance issued by the scheme actuary.

Contributions can be made to the scheme until the day before a member’s 75th birthday.

Contribution Rate

The existing contribution rate is set at 6%. From 1 April 2009 there will be a tiered contribution rate in accordance with the following table:-

Band	Range	Contribution Rate
1	Earnings up to and including £18,000	5.5%
2	Earnings above £18,000 and up to £22,000	7.25%
3	Earnings above £22,000 and up to £30,000	8.5%
4	Earnings above £30,000 and up to £40,000	9.5%
5	Earnings above £40,000	12%

Existing manual workers will not retain their protected 5% contribution rate.

The salary to be used is the pensionable salary in the preceding year.

The ranges will increase each year as if they were pensions to which the Pensions (Increase) Act 1971 applied and rounded down to the nearest £100.

On a pensionable salary of £35,000 contributions would be as follows:-

Salary up to £18,000 x 5.5% = £990.00

Salary between £18,000 and £22,000 x 7.25% = £290.00

Salary between £22,000 and £30,000 x 8.5% = £680.00

Salary between £30,000 and £35,000 x 9.5% = £475.00

Contribution rate is therefore £2,435/£35,000 = 6.96%

If there is a permanent material change to a member's contract which affects pensionable pay in the course of a financial year the employer may determine that a different contribution rate should apply and should inform the member of the rate and the date from which it would be applied.

Where a member works part time the contributions will be calculated by multiplying the contributions which would have been paid had the member been full time and proportioned by the number of hours worked by the member against the full time equivalent hours.

Average Contribution Rate Examples

Contribution Rate	FTE Pay Minimum	FTE Pay Maximum	Contribution Rate	FTE Pay Minimum	FTE Pay Maximum
5.5%	Up to	£18,529	8.0%	£46,667	£47,848
6.0%	£23,138	£24,081	8.5%	£53,240	£54,782
6.5%	£28,781	£30,169	9.0%	£61,968	£64,067
7.0%	£34,902	£36,326	9.5%	£74,118	£77,142

Flexible Retirement Options

"Rule of 85" transitional protection is retained for members who joined the scheme before 1 December 2006. You must be 60 before the 1 April 2020 for this rule to apply to you. Further advice is available from the Employment Relations Department at EIS Headquarters.

A member who has reached the age of 55 can, with their employer's permission, reduce the hours they work or the grade in which they are employed and can then access all or part of the scheme benefits they have accrued. Benefits will be actuarially reduced in accordance with factors issued by the scheme actuary. Employers have discretion to waive the actuarial reduction in whole or in part.

Members over the age of 60 do not require their employer's consent to take flexible retirement.

On future retirement any benefits not taken at the outset of flexible retirement will be payable along with service accrued during the flexible retirement period.

Minimum Pension Age

All new members of the LGPS will have a minimum pension age of 55. Current members of the scheme will have a minimum pension age of 55 from 6 April 2010 although those in the scheme prior to 5 April 2006 will have a protected minimum pension age of 50 if made redundant or retire on the grounds of efficiency of the service.

III Health Retirement

There will be a new two tier provision:-

- i) where a member has no reasonable prospect of undertaking gainful employment before

- age 65 their service will be enhanced by the full period between their date of ill health retirement and their 65th birthday.
- ii) Where a member has reasonable prospects of undertaking other gainful employment before age 65 their service will be enhanced by 25% of the period between their date of ill health retirement and their 65th birthday.

There will be transitional protection for those whose service enhancement would be greater under the existing scheme. This will be reviewed after 3 years.

Gainful employment is described as - paid employment for not less than 30 hours in each week for a period of not less than 12 months.

Members who move to a lower graded post due to health problems will be able to protect their accrued benefits at the higher salary level.

Death in Service

The Death in Service Grant will increase from 2 x pensionable salary to 3 x pensionable salary. For part-timers the actual pensionable pay in part-time employment is to be used. To avoid possible inheritance tax implications members should ensure that an up to date Nomination Form is completed.

For deferred members the lump sum will be increased to 5 x pension. (A deferred member has preserved benefits in the scheme but has not reached normal pension age).

Pension Guarantee

A 10 year pension guarantee will be introduced. This means that if a member dies within 10 years of retirement, (or reaching the age of 75 if earlier), then the balance of 10 years pension will be payable to the member's estate. For example if a member receiving a pension of £10,000 dies after 3 years then £70,000 will be payable to their estate.

Short Term Pension for Survivors

The short term pension which was payable to surviving dependents equivalent to the members salary/pension at time of death will no longer be payable.

Survivors' Pensions

The current arrangements for spouses and civil partner pensions will be extended to include partners who cohabit subject to a number of tests. These tests include the scheme member being able to marry or to form a civil partnership, produce evidence of living together for 2 years and evidence that your partner is financially dependent or evidence that partners are financially interdependent. This benefit will be backdated to April 1988 with a facility to purchase service prior to this date.

Purchasing Additional Pension Benefits

A new facility to purchase additional pension of up to £5,000 per annum in blocks of £250 will be introduced.

Cost Sharing

Employers' contributions will be at least double the average employee contribution the underlying rate being 13.3%. Agreement has been reached in principle to cost share in future if the cost of the scheme changes significantly. This will be reviewed every 3 years.