

The Local Government Pensions Committee  
Secretary: Mike Walker

## **CIRCULAR**

Please pass on sufficient copies of this Circular to your Treasurer/Director of Finance and to your Personnel and Pensions Officer(s) as quickly as possible

### **No. 192 - January 2007**

## **COMMUNICATING THE CHANGES TO THE LGPS IN SCOTLAND**

### **Purpose of this Circular**

1. This Circular has been issued to provide administering authorities in Scotland with a Newsletter which they may wish to utilise to help inform active Scheme members of the changes made to the LGPS in Scotland by the Local Government Pensions Scheme (Scotland) Amendment (No. 2) Regulations 2006 [SSI 2006/468] and the Local Government Pension Scheme (Scotland) Amendment (No. 3) Regulations 2006 [SSI 2006/514].
2. Employing Authorities should not issue the Newsletter "Changes to the Local Government Pension Scheme in Scotland" to their employees without checking first with their Scottish administering authority as the administering authority may already have a plan in place for communicating the changes to the Scheme.
3. The Newsletter does not apply to employees in England and Wales.
4. The LGPC has also updated the leaflet "Your LGPS benefits and tax changes" for employees in Scotland. This leaflet covers the changes to the tax rules that govern pension schemes and their impact on the LGPS and now includes additional information for high earners. The leaflet on the tax changes is available on the Local Government Employers' website at <http://www.lge.gov.uk/lge/core/page.do?pageld=58020>

5. Regulation 4 of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 [SI 1996/1655] requires the pension fund administering authority to notify all scheme members and beneficiaries (except those deferred members and pension credit members for whom no current address is held) of any changes to the scheme rules which may materially affect them. This should be done either before the change takes effect or, in any event, not later than 3 months after the effective date of the change. The notification must be accompanied by a written statement that further information about the scheme is available, giving the address to which enquiries should be sent.
  
6. Administering authorities in Scotland are asked to copy this Circular to employers in their Fund (other than to Local Authorities to whom this Circular has been sent), or bring the Circular to the attention of employers by directing them to the Circular on the LGPC website at <http://www.lge.gov.uk/lge/core/page.do?pageld=58678> or, in some other way, bring the main messages in this Circular to the attention of the employers in their Fund.

Irene Wass  
Communications Manager – Pensions  
January 2007

## **Distribution sheet**

Chief executives of local authorities  
Pension managers (internal) of administering authorities  
Pension managers (outsourced) and administering authority client managers  
Officer advisory group  
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Trade unions  
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## **Website**

Visit the LGE's website at: [www.lge.gov.uk/](http://www.lge.gov.uk/)

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## Information for current members of the LGPS in Scotland. Please check with your Pension Fund Administering Authority before using this document

### Changes to the Local Government Pension Scheme in Scotland

You may have seen information about changes recently made to the Local Government Pension Scheme (LGPS) in Scotland and will naturally be concerned about how they may affect you.

This leaflet explains what the changes mean for you and the reasons for the changes.

#### Why have changes been made?

A number of changes have been made to ensure the LGPS in Scotland complies with Age Discrimination legislation. Also, the tax rules that govern pension schemes changed from 6<sup>th</sup> April 2006, allowing the LGPS to relax many of the contribution and benefit limits that previously applied.

#### What are the changes?

##### ➤ *Phasing out the 85-year rule*

The normal retirement age for scheme members is already age 65 but employees can voluntarily retire from age 60 onwards (or from age 50 and before age 60 with their employer's consent).

**This is not changing but changes to what is known as the 85-year rule have been made.**

##### **What was the 85-year rule?**

The 85-year rule is only relevant if you were a member of the Scheme immediately prior to 1<sup>st</sup> December 2006. It was a rule that decided if your benefits should be reduced or not **if you chose to retire early**. If you did not satisfy the 85-year rule, then your benefits would be reduced if voluntarily drawn before age 65.

##### **How do I know if I would have satisfied the 85-year rule?**

If you decide to retire before age 65 and your age plus membership (each in whole years) at the time you start drawing your pension would have added up to at least 85 years there would have been no early retirement reduction applied to your benefits. *If you work part time, your membership counted towards the 85-year rule at its full calendar length.*

##### **Why has the 85-year rule been changed?**

The Scottish Ministers consider that the '85-year rule' will be in breach of Age Discrimination legislation. For this reason, **the 85-year rule has been removed from 1<sup>st</sup> December 2006, but only in respect of benefits you build up in the future.**

##### **What protections are there for existing members?**

**There are protections for employees who are members of the scheme prior to 1<sup>st</sup> December 2006.** The pension rights existing members bank up to 31<sup>st</sup> March 2008 (or up to 31<sup>st</sup> March 2020 if you will be aged 60 or over by then) will not be affected and will continue to be calculated in the same way as if the changes to the 85-year rule had not been made.

## What does this mean for me?

If you are a member of the Scheme immediately prior to 1<sup>st</sup> December 2006 and voluntarily retire before age 65 the benefits you build up in the Scheme after 31<sup>st</sup> March 2008, or after 31<sup>st</sup> March 2020 if you will be aged 60 or over by then, will be paid at a reduced rate to reflect the fact that you will be drawing them early.

The change to the 85-year rule will not affect you if you draw your pension at age 65, if you are retired on the grounds of permanent ill health at any age, or if you are retired on or after age 50 on the grounds of redundancy or efficiency of the service. Pension benefits in these circumstances continue to be paid at an unreduced rate. The benefits of pensioners and deferred pensioners who left before 1<sup>st</sup> December 2006 are also not affected.

If you voluntarily choose to draw your benefits before age 65 and you cannot get 21 years membership in the Scheme before age 65 the removal of the 85-year rule will not affect you.

**Your benefits would have been reduced anyway under the old rules - you will receive the same benefits as before.**

As you can see, you may not be affected by the change but even if you are affected you will, if you are in the scheme immediately before 1<sup>st</sup> December 2006, have full protection for the benefits you build up in the Scheme to 31<sup>st</sup> March 2008 (or to 31<sup>st</sup> March 2020 if you will be 60 or over by then).

**Only employees joining the Scheme after 30<sup>th</sup> November 2006 will be wholly affected by the change.**

The flowchart at the back of this leaflet should help you to understand how the changes affect you.

## Here are examples of the effect of the change to the 85-year rule

**A man who will be aged 38 on 1<sup>st</sup> April 2008 with continuous membership of the LGPS from age 20 retires at age 60 in 2030, having satisfied the 85-year rule. His final years' pay is £18000.**

He would have:

- 18 years' membership (1990 to 2008) protected
- 22 years' membership (2008 to 2030) subject to reduction for retiring before age 65

### Annual Pension:

18/80 x £18000	= £ 4050
22/80 x £18000	= £ 4950
Less 24% of £4950	= <u>£ 1188</u>
Total	= <b>£7812</b>

### Lump Sum

3 x 18/80 x £18000	= £12150
3 x 22/80 x £18000	= £14850
Less 12% of £14850	= <u>£ 1782</u>
Total	= <b>£25218</b>

**If, rather than retiring at age 60, he carries on working to age 65 he will build up 5 more years of membership (total of 45 years) and his benefits will not be reduced for early payment.**

His benefits would then be:

### Annual pension:

45/80 x £18000	= <b>£ 10125</b>
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### Lump Sum

3 x 45/80 x £18000	= <b>£ 30375</b>
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**A woman with continuous membership of the LGPS from age 35 retires at age 60 on 31<sup>st</sup> March 2018. Her final years' pay is £18000.**

**As she is aged 60 by 31<sup>st</sup> March 2020 and satisfies the 85-year rule when she starts to draw her pension, all her membership is protected.**

On retirement at age 60 she would have 25 years' membership (1993 to 2018) protected

**Annual Pension:**

25/80 x £18000 = **£ 5625**

**Lump Sum**

3 x 25/80 x £18000 = **£16875**

**If she carries on working to age 63 in 2021** she will build up 3 more years of membership but the benefits for her 1 year of membership after 31<sup>st</sup> March 2020 will be subject to a reduction.

➤ **Tax Simplification Changes**

These changes take effect from 6<sup>th</sup> October 2006. They result from a simplification of the tax rules that govern pension schemes and introduce greater flexibility and choice for scheme members:

- **Flexible retirement from age 50** - rather than continuing in your job to 65 you can, with your employer's consent, reduce your hours or move to a lower grade and draw your pension benefits whilst continuing in employment and building up further benefits in the Scheme – enabling you to ease into retirement. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction; this is an employer discretion. You must have your employer's consent to draw your pension benefits on flexible retirement.
  - **Exchanging part of your pension for extra lump sum** – if you draw your benefits on or after 6<sup>th</sup> October 2006 you can take up to 25% of the capital value of your pension benefits as a lump sum<sup>1</sup>. The current lump sum automatically paid on retirement roughly equates to 15% of the capital value. Any amount you take above the current lump sum would be achieved by exchanging part of your annual pension for a one off tax-free cash payment at a rate of £12 lump sum for each £1 of pension given up.
  - **Taking AVCs as cash** - if you pay additional voluntary contributions (AVCs) via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax free lump sum provided you draw it at the same time as your LGPS pension benefits and, when added to the LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund)<sup>1</sup>.
  - **Removal of limit on employee contributions** - the 15% limit on a scheme member's contributions has been removed so you can pay more into the Scheme or into the Scheme's additional voluntary contribution arrangement to get bigger benefits from the Scheme.
- **There are also changes to the scheme that affect high earners** – information about these is in the leaflet "Your LGPS benefits and tax changes in Scotland" which is available at <http://www.lge.gov.uk/lge/core/page.do?pageld=59078>

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<sup>1</sup> or, if lower, 25% of the Lifetime Allowance (LTA in 2006/07 is £1.5 million) less an adjustment for the value of any other pension benefits you may be drawing

## ➤ **Other changes to the LGPS in Scotland**

These changes mainly take effect from 6<sup>th</sup> October 2006, although some mandatory tax changes have been backdated to 6<sup>th</sup> April 2006.

- you can join the scheme and remain in the Scheme up to two days before your 75<sup>th</sup> birthday.
- if you defer drawing your pension beyond age 65, the benefits you have built up before age 65 will be actuarially increased.
- the ability to give up part of your pension to provide a dependant's benefit over and above the standard spouse's, civil partner's or child's pension has been removed.
- children's pensions for non-incapacitated children who are continuing in full time education or training have to cease by age 23.
- the extra years of membership you are able to purchase in the Scheme by paying additional pension contributions is limited to 6 2/3<sup>rd</sup> years.
- the maximum service limit of 40 years (or, for those who joined the Scheme before 1 June 1989, the maximum of 40 years at age 60 and 45 years at age 65) has been removed.
- employers can no longer reduce or waive the contributions of scheme members who have been in pensionable local government for at least 40 years and so, from 6<sup>th</sup> October 2006, if you have had your contributions waived or reduced you will have to start paying full contributions again. Your service in excess of 40 years will now count towards your pension benefits and your employer can, at their discretion, recoup the contributions you would otherwise have paid.
- the ability to convert some or all of the tax free lump sum paid to you on retirement into additional taxable pension is removed from 1<sup>st</sup> December 2006.
- the rules governing the payment of a one off lump sum instead of a small pension or a pension payable to a Scheme member who has less than 12 months life expectancy have been amended to comply with new tax rules.

## ➤ **It's changing – but is it still a good Scheme?**

Don't forget that the LGPS is still an extremely good Scheme compared to most schemes in the private sector and is a valuable part of your pay and reward package.

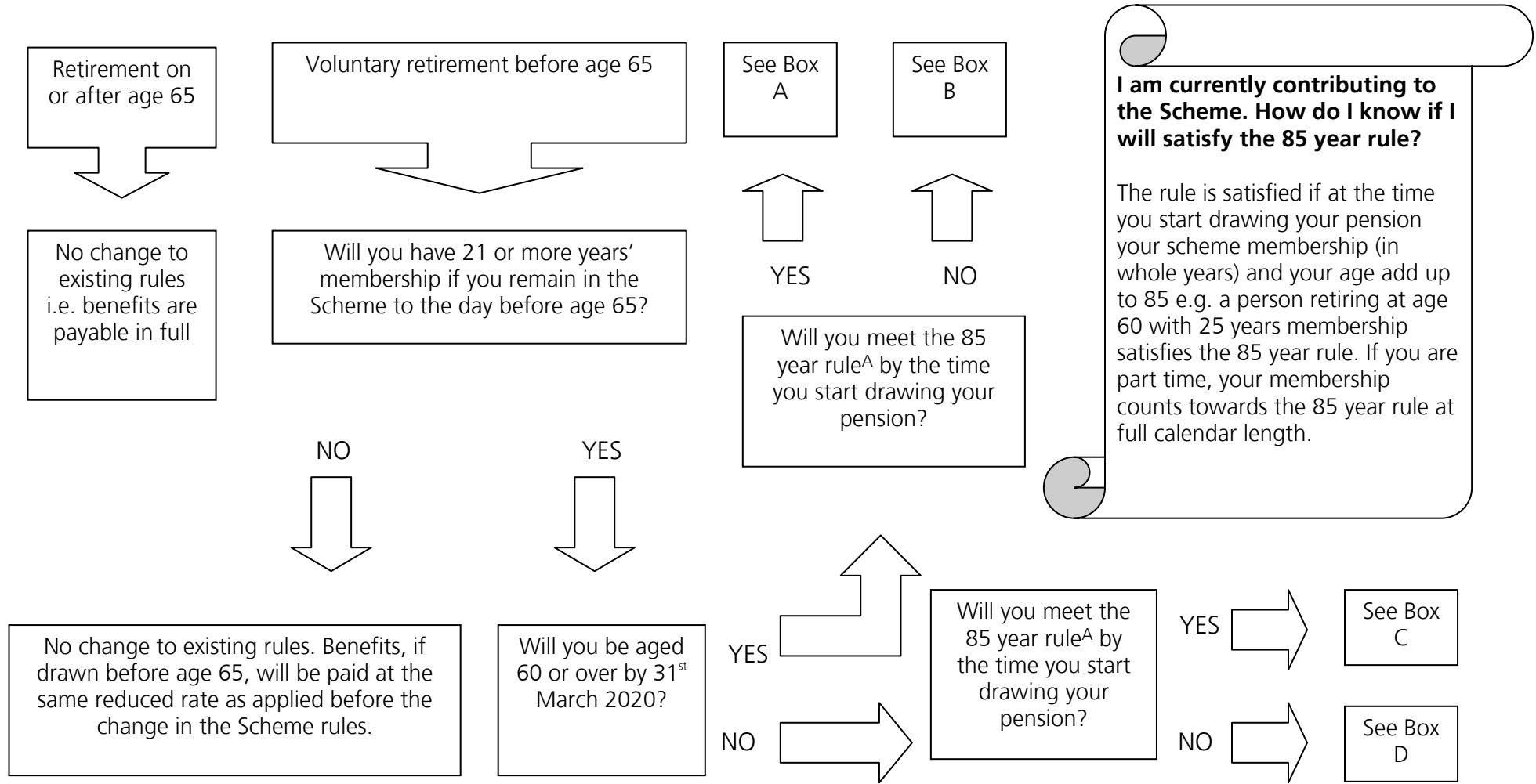
### **The LGPS is a good quality pension arrangement and has many features:**

- **Employer subsidised** - Your employer, on average, pays over twice as much into the LGPS as you do.
- **A secure pension** - The Scheme provides you with a secure future income, independent of share prices and stock market fluctuations. Your pension will also receive regular cost of living increases when in payment.
- **A lump sum on retirement.**
- **Early retirement** - You can choose to retire from age 60 (or earlier with the employer's consent) and receive your benefits immediately, although they may be reduced for early payment. Unreduced benefits are payable immediately if you are made redundant or retired in the interests of efficiency when aged 50 or over.
- **Flexible retirement from age 50** – You can choose to draw benefits early if you reduce your hours or grade provided your employer agrees. Your pension benefits may be reduced if paid before age 65. Your employer may, however, determine not to apply all or part of this reduction.
- **Ill-health retirement** – at any age. If you ever become permanently unable to do your job, you could receive immediate ill-health benefits.
- **Death benefits** – Lump sum life cover of two years pay from the moment you join and widow's / widower's / civil partner's / children's pensions in the event of your death.

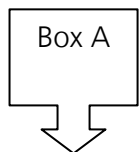
**We hope you find this information helpful.** Further information is available from <insert contact details of pension fund administrator> and on [www.lgps.org.uk](http://www.lgps.org.uk)

**How will the changes to the 85 year rule in the LGPS in Scotland, which were made on 1<sup>st</sup> December 2006, affect me?**

By following the flowcharts below you will be able to see how the changes to the LGPS in Scotland made on 1<sup>st</sup> December 2006 affect you if you were an existing member of the Scheme at 30<sup>th</sup> November 2006 and you either voluntarily retire on or after age 60, or you voluntarily retire on or after 50 and before age 60 with your employer's consent, or you take flexible retirement with your employer's consent on or after age 50.

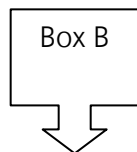


A. or meet an earlier Normal Retirement Date which some members who joined the Scheme before 1<sup>st</sup> April 1998 have under previous regulations



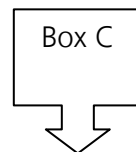
**None of the benefits you accrue up to 31<sup>st</sup> March 2020 will be reduced.**

However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.



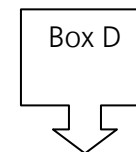
**The benefits you accrue up to 31<sup>st</sup> March 2020 will be reduced but the calculation of the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year rule<sup>B</sup>).**

The benefits you accrue after 31<sup>st</sup> March 2020 will be reduced but the calculation of the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.



**None of the benefits you accrue up to 31<sup>st</sup> March 2008 will be reduced.**

However, any benefits you accrue after that date will be reduced to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.



**The benefits you accrue up to 31<sup>st</sup> March 2008 will be reduced but the calculation of the reduction will be the same as under the old rules (i.e. based on the number of years you are short of meeting the 85 year rule<sup>B</sup>).**

The benefits you accrue after 31<sup>st</sup> March 2008 will be reduced but the calculation of the reduction will be higher than under the old rules to take account of the fact that the benefits are being drawn before age 65. The size of the reduction will depend on how many years before age 65 you draw your benefits.

***Please note that no reduction will be applied to any of your benefits if you draw them on or after age 65.***

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B. or the shortfall to any earlier Normal Retirement Date which some members who joined the Scheme before 1<sup>st</sup> April 1998 may have had under previous regulations