

The Local Government Pensions Committee

## **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. 196 – APRIL 2007**

## **ANNUAL UPDATE**

### **Purpose of this Circular**

1. This Circular has been issued to bring the following to the attention of authorities:
  - the annual increase to be applied to qualifying pensions from 9 April 2007 is 3.6% and the increase to be applied from 6 April 2007 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is also 3.0%;
  - the earnings factors to be used, from 6 April 2007, in the calculation of a scheme member's Guaranteed Minimum Pension have been updated;
  - National Insurance contribution rates change from 6 April 2007; and
  - the maximum "weeks pay" for calculating a statutory redundancy payment increased from 1 February 2007 from £290 per week to £310 per week
  - the standard Lifetime Allowance and Annual Allowance for 2007/08 have been set at, respectively, £1.6 million and £225,000.

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**[www.lge.gov.uk](http://www.lge.gov.uk)**

Managing Director Jan Parkinson

## Annual Pensions Increase

2. LGPS administering authorities and those employers who pay their own annual compensation benefits should note that the increase to be applied from 9 April 2007 to a qualifying pension which began (i.e. has a pensions increase date) before 10 April 2006 will be 3.6%. The percentage, and part year percentages, are detailed in the Pensions Increase (Review) Order 2007 [SI 2007/ 801] which can be viewed at [http://www.opsi.gov.uk/si/si2007/uksi\\_20070801\\_en.pdf](http://www.opsi.gov.uk/si/si2007/uksi_20070801_en.pdf)
3. LGPS administering authorities should note that the increase to be applied from 6 April 2007 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is 3.0%. This is set out in the Guaranteed Minimum Pensions Increase Order 2007 [SI 2007/686] which can be viewed at: [http://www.opsi.gov.uk/si/si2007/uksi\\_20070686\\_en.pdf](http://www.opsi.gov.uk/si/si2007/uksi_20070686_en.pdf)

## The Social Security Revaluation of Earnings Factors Order 2007

4. LGPS Administering Authorities may wish to note that the Social Security Revaluation of Earnings Factors Order 2007 [SI 2007/781] comes into force on 6 April 2007 (i.e. the earnings factors used to calculate a scheme member's GMP). The Statutory Instrument may be viewed at: [http://www.opsi.gov.uk/si/si2007/uksi\\_20070781\\_en.pdf](http://www.opsi.gov.uk/si/si2007/uksi_20070781_en.pdf)

## National Insurance changes

5. In his Pre-Budget Report on 6 December 2006 the Chancellor of the Exchequer announced that the relevant NI limits and thresholds for 2007/2008 will be as follows:

From 6 April 2007	Lower Earnings Limit	Earnings Threshold	Upper Earnings Limit
Weekly	Below £87	£100	£670
Monthly	Below £377	£435	£2,904
Yearly	Below £4,524	£5,225	£34,840

The weekly figures are confirmed in the Social Security (Contributions) (Amendment) Regulations 2007 [SI 2007/118] which can be viewed at [http://www.opsi.gov.uk/si/si2007/uksi\\_20070118\\_en.pdf](http://www.opsi.gov.uk/si/si2007/uksi_20070118_en.pdf)

6. The Contracted-Out and Not Contracted Out Tables are appended to this Circular for your information. It should be noted that the Contracted-Out rebate for employers increases for 2007/2008 from 3.5% to 3.7%.

## Redundancy Payments

7. The Employment Rights (Increase of Limits) Order 2006 (SI 2006/ 3045) came into force on 1 February 2007. It increased the maximum “week’s pay” for calculating a statutory redundancy payment from £290 per week to £310 per week where the appropriate date falls on or after 1 February 2007. In the case of entitlement to a redundancy payment by virtue of section 135(1)(a) [dismissal by reason of redundancy] or section 135(1)(b) [lay-off or short time] of the Employment Rights Act 1996, the appropriate date means the relevant date as defined by, respectively, sections 145 or 153 of the Act.

## Standard Lifetime Allowance and Annual Allowance

8. The Registered Pension Schemes (Standard Lifetime and Annual Allowance) Order 2007 [SI 2007/494] came into force on 6 April 2007. It increases the Annual Allowance and the standard Lifetime Allowance as follows:

Tax year	Annual allowance	Lifetime Allowance
2007/08	£225,000	£1,600,000
2008/09	£235,000	£1,650,000
2009/10	£245,000	£1,750,000
2010/11	£255,000	£1,800,000

The Annual Allowance limits the amount of tax-free ‘savings growth’ an individual may have each year. Exceeding the Annual Allowance will result in a tax charge payable by the individual.

The standard Lifetime Allowance is the total value of pension savings an individual may accrue without incurring an extra tax charge.

Some individuals may have Primary and / or Enhanced Protection. Those who have registered for Primary Protection have a ‘Lifetime Allowance enhancement factor’ (the ‘primary protection factor’) which means they will have an individual Lifetime Allowance that is higher than the standard Lifetime Allowance.

Enhanced protection, in broad terms, exempts the individual from any application of the Lifetime and Annual Allowance tax charges, provided that benefit accrual and contributions in respect of service after 5 April 2006 falls within very strict limits.

## Actions for administering authorities

9. In consequence of the items in this Circular, administering authorities may wish to update relevant scheme literature and guides issued to employees and

employers participating in their Fund. They may also wish to consider copying this Circular to employers in their Fund (other than to Local Authorities to whom this Circular has already been sent direct) or bring the Circular to the attention of employers by directing them to the Circular on the LGE website at: <http://www.lge.gov.uk/lge/core/page.do?pagelid=71952>

Terry Edwards  
Head of Pensions  
April 2007

**Class 1 Earnings Limits and Thresholds and NICs Rates from April 2007**

**Class 1 Contribution rates for Contracted-out Salary Related Schemes (COSR) 2007- 2008**

Category Letters D (Standard Contracted-out rate), E (Married Woman's Reduced Contracted-out rate) and L (Contracted-out deferment rate). These rates should only be used where the employer operates a COSR occupational pension scheme.

Earnings Bands	Employee's contribution: Category letters			Employer's contribution: Category letters	Employee's NIC Rebate on earnings above the LEL, up to and including the ET (Applies to category letters D & L only)	Employer's NIC Rebate on earnings above the LEL, up to and including the ET
	D	E	L	D, E and L		
Below £87.00 weekly, Below £377.00 monthly, Below £4,524.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£87.00 to £100.00 weekly, or £377.00 to £435.00 monthly or £4,524.00 to £5,225.00 yearly	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>1.6%</b> on earnings from <b>£87.01</b> up to and including <b>£100.00</b> (or monthly or annual equivalents)	<b>3.7%</b> on earnings from <b>£87.01</b> up to and including <b>£100.00</b> (or monthly or annual equivalents)
£100.01 to £670.00 weekly, or £435.01 to £2,904.00 monthly or £5,225.01 to £34,840.00 yearly	<b>9.4%</b> on earnings above the ET	<b>4.85%</b> on earnings above the ET	<b>1%</b> on earnings above the ET	<b>9.1%</b> on earnings above the ET		
Over £670.00 weekly, or over £2,904.00 monthly, or over £34,840.00 yearly	<b>9.4%</b> on earnings above the ET, up to and including the UEL, and <b>1%</b> on earnings above the UEL	<b>4.85%</b> on earnings above the ET, up to and including the UEL, and <b>1%</b> on earnings above the UEL	<b>1%</b> on all earnings above the ET	<b>9.1%</b> on earnings above the ET, up to and including the UEL, then <b>12.8%</b> on all earnings above the UEL		

**Class 1 contribution rates for Not Contracted-out Schemes – 2007/2008**

Category Letters A (standard rate), B (Married Woman's Reduced Rate), C (Employer only rate) & J (Not Contracted-out deferment rate)

Earnings Bands	Employee's contribution: Category letters				Employer's contribution: Category letters
	A	B	C	J	A, B, C & J
Below £87.00 weekly, Below £377.00 monthly, Below to £4,524.00 yearly	Nil	Nil	Nil	Nil	Nil
£87.00 to £100.00 weekly, or £377.00 to £435.00 monthly or £4,524.00 to £5,225.00 yearly	<b>0%</b>	<b>0%</b>	Nil	<b>0%</b>	<b>0%</b>
£100.01 to £670.00 weekly, or £435.01 to £2,904.00 monthly or £5,225.01 to £34,840.00 yearly	<b>11%</b> on earnings above the ET	<b>4.85%</b> on earnings above the ET	Nil	<b>1%</b> on earnings above the ET	<b>12.8%</b> on earnings above the ET
Over £670.00 weekly, or over £2,904.00 monthly, or over £34,840.00 yearly	<b>11%</b> on earnings above the ET up to and including the UEL, and <b>1%</b> on earnings above the UEL	<b>4.85%</b> on earnings above the ET up to and including the UEL, and <b>1%</b> on earnings above the UEL	Nil	<b>1%</b> on all earnings above the ET	<b>12.8%</b> on all earnings above the ET

## **Distribution sheet**

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## **Website**

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