Saved as Pens LGPS Glyn's Course updated January 2015

INTRODUCING

THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

England and Wales

UNISON

the public service union

CONTENTS

1. INTRODUCING THE LGPS AND WHY MEMBERS SHOULD JOIN

There is one Local Government Pension Scheme in England & Wales. There are separate but similar LGP schemes for Scotland and Northern Ireland

LGPS England and Wales is one scheme and the regulations apply to all participating employers. Regulations are regularly amended changing benefits and contributions from a future date.

Occasionally the regulations are changed so comprehensively in one go that they are regarded as changing the scheme so much that they are consolidated and are often regarded as creating an entirely new scheme from a certain date. For the LGPS England &Wales the most recent consolidations have been:-

1 April 2008

1April 2014

It is a statutory Public Service Pension Scheme which means the benefits and member contributions are set out in regulations that are signed by a Secretary of State and laid before parliament. The benefits earned are ultimately guaranteed by the Government

There are 89 separate funds across England and Wales that pay for this scheme at local level. The values of the funds determine the employer contribution at local level. Neither the member contributions nor the benefits are determined by the value of the individual funds.

Although as a statutory scheme future benefits can be changed through parliament if costs go up or there is political pressure as has occurred prior to 2008 and 2014.

Under the existing scheme there will be cost control and an employer contribution cap.

Types of Employers in England and Wales

- There are nearly 6000 employers in the LGPS fund England at 2012

- There are 81 funds in the LGPS England (and a further 8 in Wales)

- Each fund has an employer called the *Administering Authority* that runs the fund and administers the scheme

- There is only one fund which is a one employer fund and that's the Environment Agency. The rest of the funds cover many different types of employers
- Local Authorities, Further Education and others listed in a schedule of the regulations (a scheduled body)

- Admitted Bodies – like community services who need a scheduled body to guarantee the risk of admitting them,

- or a private sector contractor who can allow staff covered by an outsourcing of a service to stay in LGPS but may have to provide a bond to cover the risk to the fund of the contractor going bust

Types of Member in England and Wales

HOW IS MEMBERSHIP CHANGING IN ENGLAND?					
Number of Local Government Pension Scheme members at the end of each year					
2008-09 TO 2012-13					
IN THOUSANDS					
	2008-09	2009-10	2010-11	2011-12	2012-13
Employees	1,685	1,684	1,633	1,567	1,586
Pensioners	1,088	1,131	1,187	1,253	1,288
Former employees entitled to deferred benefits	1,149	1.245	1.326	1.420	1.508
Former employees to whom Regulation 18 of the 2007 Benefit Regulations (flexible retirees) apply	2	4	9	9	10

HOW MEMBERSHIP IS CHANGING IN WALES					
Number of Local Government Pension Scheme members at the end of each year					
2008-09 to 2012-13					
IN THOUSANDS					
	2008-9	2009-10	2010-11	2011-12	2012-13
Employees	128	127	126	124	127
Pensioners	71	72	74	79	82
Former employees entitled to deferred benefits	59	67	73	79	84
Former employees to whom Regulation 18 of 2007 Benefit Regulations (flexible retirees) apply	0	0	0	0	0

Observations

From April 2014 there will start to be another kind of member –
“deferred refunds” – those who leave within 2 years of joining and only have a right to a refund or transfer to another pension arrangement but not a pension

The scheme is becoming more ‘mature’ that means the proportion of pensioners and leavers with deferred pensions is increasing against the proportion of employees who are actually paying contributions into the scheme. Also the employer only pays contributions for employees the Fund pays the pensions. This will have implications for cash flow e.g. how much is being paid out in pensions and how much is being received in contributions.

Despite the recession and job cuts last year saw an increase in employee membership this could be down to ‘Auto Enrolment’ where the employer has to bring employees back into the scheme who have previously opted out on a set date once every three years. The date depends on the size of the employer. Members can elect to opt out again.

Despite initiatives by Government to promote flexible retirement its use is still minimal in the LGPS.

UPDATE ON ISSUES AROUND THE INTRODUCTION OF THE NEW LGPS ENGLAND AND WALES FROM APRIL 2014

The LGPS Regulations 2013 SI No 2356 were laid before parliament on 19.9.2013, came into force 1.4.2014. It covers benefits and contributions.

Transitional Protection Regulations 2014 SI No 525 were laid before parliament on 10 .03.2014 it came into force Comes into force 1.4.2014- It covers protections and pre April 2014 service

Regulations will be laid to cover:-

- Cost management regulations expected later this year
- Governance regulations expected later this year
- New Fair Deal (NFD) (dealing with how members rights to stay in LGPS after outsourcing) could be either by regulation or direction. Discussions with DCLG start soon now treasury has responded to two consultations
    - Principles of NFD published by Treasury
    - Treasury have now advised that further Education and Higher Education will not be covered mandatorily by NFD- UNISON is opposing this.

REASONS FOR STAYING IN THE LGPS

UNISON campaigns for decent pensions for all workers and the Local Government Pension Scheme (LGPS) remains a good quality pension scheme that UNISON has been at the forefront of protecting. The more members we have the more we can achieve.

1. Do you really think the State Pension will be enough

The full Basic State Pension is only currently £110.15 a week.

2. Why miss out on a free "employer" pension contribution?

Local Government workers receive an average employer contribution of 15.9% (this varies between employers and is an average future service rate) compared to an average employer pension contribution of 6.2% for many private sector workers

3. Saving for a pension is very tax efficient

You qualify for tax relief on your pension contributions meaning that it's not as expensive as you think to contribute to the LGPS. It is also possible to claim a tax-free cash sum on your retirement

4. If you suffer ill-health your pension can sometimes be paid early

The LGPS allows for your pension to be paid early if you suffer ill-health which stops you permanently being able to do your job If you ill-health is such that it stops you from being able to undertake other gainful employment it's possible that your pension award could be increased by extra service being added

5. How else are you going to achieve financial independence in old age?

The LGPS provides a great means of building up sums of money for your retirement in a structured way You are entitled to annual benefit statements so you can always check how much you have saved and how this compares with your retirement aspirations. Also you cannot generally access your funds until you've reached at least 55 which encourages long-term provision and helps to ensure your funds are still available when you need them

6. You may be able change the way companies behave – through share ownership

The money you save into a pension is invested in other companies meaning that you effectively own a share of them. This means through your pension scheme you can campaign for these companies to be run in a way that is better for the good of society

7. You may not always be able to rely on the State

You are unlikely to find the UK State Pension as sufficient for achieving your retirement aspirations, there is no guarantee of its future value or indeed very existence! Who knows what direction of travel the UK State Pension could take in the future and it would be wise to have other “eggs in the basket”

8. You need to start saving straight away

Getting enough pension for your retirement will take some time and will cost a lot so you do really need to start saving as soon as possible! A pension also gives you a guarantee of future payments irrespective of how long you live. If you just simply saved a sum of money up – this could run out before you die without securing a pension!

9. If you have opted out of the LGPS

You should seriously consider rejoining it. If you have opted out for less than 5 years you may be able to retain the earnings link on the pension you have earned before April 2014. If the cost is the problem then from April you will have the option to pay just half of your normal contributions and earn half the level of pension.

1. WHAT ARE THE MAIN BENEFITS

The LGPS 2013 Benefit Regulations provides the scheme that was agreed that has come into force for service after 1 April 2014:-

Main differences in benefits between LGPS 2014 and LGPS 2008 :

Pension Calculated Differently	**Career Average Earnings (CARE) instead of Final Salary.** (calculation will now uses all pensionable pay not just pensionable pay near retirement/leaving)

Better Accrual Rate	**New scheme will be 1/49th per year (just over 2%) instead of the previous 1/60th (just over 1.66%)**
	(accrual rate is the fraction or % of earnings used to build up your pension for each year or part year of service you are in the scheme)
Revaluation Rate	**The Consumer Price Index (CPI) will be used for increases in pensions**
Pensionable Pay	**Includes non-contractual overtime for the first time**
Contribution Flexibility	**Scheme members can now elect to reduce contributions to 50% and get 50% accrual rate 1/98th Members can elect at any time to pay full rate again when they can afford it**
	(This is aimed at new joiners, or those facing financial challenges)
Vesting Period	**Two years (joiners before 1 April 2014 - 3 months)**
	A member joining after 1 April who leaves the LGPS with less than 2 years service can get a refund of their own contributions. Those who return to the LGPS within 5 years of leaving can combine periods of service to qualify for benefits instead of taking a contribution refund.
Higher Normal Retirement Age	**This will now be the government's State Pension Age rather than 65**
Can retire from age 55	**Employer consent for those in service at 1 April over the age of 55 no longer required, but there are likely to be high early retirement reductions**

Benefits earned before the 1 April 2014 will be based on a members Final Salary with a 1/60th accrual rate and benefits earned before 1 April 2008 will remain on Final Salary with a 1/80th accrual plus additional 3/80th lump sum

Main benefits that are the same or similar but now based on different definitions of pay and Normal Retirement Age

Death in service lump sum	**3 x pensionable pay**
Survivors pension	**1/160th accrual on Tier 1 ill health retirement**
Ill Health provision	**same three tiers as under LGPS**
	(This is being reviewed)

How are the benefits worked out?

Benefits earned before the 1 April 2014 will be based on a members Final Salary with a $1/60^{th}$ accrual rate and benefits earned before 1 April 2008 will remain on Final Salary with a $1/80^{th}$ accrual plus additional $3/80^{th}$ lump sum

Pension

For service before April 2014 it will remain a final salary scheme. Definitions remain exactly the same as in the 2007 Benefit Regulations

Definition of Final Pay

Final pay used to calculate the pension is the final pay period

The final pay period is pay earned in the year ending on the day the member stops working

Or if higher either of the two immediately preceding years

Or if pay was reduced or pay increases frozen less than 10 years from the date of leaving/retirement (excluding the ending of temporary increases like an 'acting up' allowance and flexible retirement). The member can choose the best average of three consecutive scheme years of pensionable pay (scheme year ends at every 31 March) that fall within 13 years from the date the reduction or restriction commenced

This definition will be applied to benefits earned before April 2014 whenever the member retires after April 2014 providing the member retains the earnings protection ie no break in LGPS service of more than 5 years.

The definition pensionable pay will continue to exclude non contractual overtime up to 1 April 2014. But the definition after 1st April will include it for both the purposes of calculating pension and determining which contribution band the member is in.

The three formulas

1. **For service before April 2008 :**

   Pension – Pensionable Service (in years and days) $X1/80^{th}$ X Final Pay

   Plus an additional cash lump sum of three times the pension

2. **For service between April 2008 and March 2014 :**

   Pension- Pensionable Service $X1/60^{th}$ X Final Pay

   No additional cash lump sum

3. **For service after April 2014:**

   Pension- It is a CARE scheme

   'CARE' stands for Career Average Revalued Earnings.

   Your pension will continue to build up as a proportion of your pensionable pay

   It will be 1/49th of pensionable earnings for each year in the LGPS 2014.

   Instead of calculating your pension with reference to your final pay the LGPS 2014 uses the average of your annual earnings over your membership of the LGPS for benefits earned after April 2014.

   Each year's earnings are then increased by inflation (CPI) from the year in which it is earned up to the year of retirement.

   The administering authority that runs the fund sets up what are called in the regulations a **pension account**, for each member in their fund and each separate employment if the member has more than one employment

Cash lump sum

You have the option to exchange pension for cash up to 25% of the value of your pension.

The exchange rate is still relatively poor you only get £12 cash for each £1 pension you commute

When you retire your pension will be calculated differently depending on when you earned it.

Protections for benefits earned before the 1 April 2014

- The salary link on benefits earned before April 2014 remains the same as in LGPS 2008 that is based on Final Pay (see above definition). The existing protections for LGPS 2008 remain if the employer reduces your pay for Final Pay benefits earned up to April 2014.

- A member who has opted out of the LGPS will retain the salary link if they rejoin within five years of opting out. If they do opt back they will have 12 months to decide whether to combine their previous period of service. If their pay has gone down they may decide to keep it deferred, which will see it going up in line with prices not earnings

Protections for benefits earned after 1 April 2014

- Scheme members will have underpin protection if they were within 10 years of their normal retirement age in April 2012 and were contributing to the LGPS at 31 March.2014. In the unlikely event that the pension would have been better if they had retired up to age 65 under the LGPS 2008 regulations members would get the higher amount.

  (unlikely to be needed by most members covered by the underpin, because unless there have been significant promotions after April 2014 the accrual rate of 1/49th is over 20% better than 1/60th and the Normal Retirement Age for this age group is likely to be no more than one year higher at age 66 –currently 6%- 5% reduction)

- Those with 'Rule of 85' protection will continue to have the same protection as they had before the LGPS 2014 was introduced (see Rule of 85 entry in next section).

- Those with 'Rule of 85' protection who voluntarily retire between 55 and 60 will have early retirement reduction limited to age 60 or the date they satisfy the rule of 85 if later (instead of 65 as originally drafted in the regulations) UNISON argued successfully for this improvement.

If a member retires after April 2014 they must take all their benefits at the same time unless the employer agrees to flexible retirement when they will have a choice on whether to draw pension they earned after April 2008.

How members can increase their benefits in the LGPS?

A member can request that the value of the benefits in a previous pension arrangement/scheme are transferred into the LGPS

A member on joining the LGPS has 12 months from the date of joining to request from the administering authority running their LGPS Fund to accept a cash sum called a transfer value, from a previous employer's pension scheme or a personal pension.

If accepted it will credit the member's pension account and it will be enhanced by inflation (CPI) in the same way as earnings.

The exceptions are:-

- A transfer received before 1 April 2014. This remains a final salary service credit awarded under the LGPS 2008 Regulations

- A transfer value received from another public service pension scheme that is still final salary. The NHS Pension Scheme, the Teachers pension Scheme and LGPS Scotland and LGPS Northern Ireland are amongst the schemes that are still final salary until their version of the CARE scheme is introduced that is scheduled for April 2015.

  In both cases the credit awarded may not be day for day but in the case of a transfer from non public service pension arrangement it is whatever the LGPS Fund thinks transfer value should buy. In the case of a transfer from a public service pension scheme because of the differences in benefit structures between the schemes it should buy a credit equivalent in value to day for day.

  The Public Sector Transfer Arrangements often called the transfer club, are under review at the present time.

A member can pay additional contributions

There are two ways to do this:

1. **Additional Pension Contributions**

   A member contributing at the standard rate and not elected to pay 50% of the standard rate may start regular contributions or pay by lump sum to increase their pension from the LGPS (doesn't count as additional service).

   The administering authority can ask for medical reports and can refuse to allow a member to pay APC if it believes the member is not in good health.

   The additional pension limit is £6250 a year. This limit will rise every year in line with inflation based on the CPI.

   The amount is set out in guidance from the Government Actuary's Department and can change periodically in the same way as other factors are changed like early retirement factors.

   The age of the member when they start paying contributions or pay the lump sum is the most important factor in determining the cost to the member. The older the member when they start the higher the cost.

   The employer can agree to pay part or all of the cost.

   If the employer agrees to a leave of absence for any period of just a day or two up to a maximum of 36 months then if the member elects to pay APC to earn the benefits they would have earned during the period of absence the employer must pay at least 2/3rds of the cost.
   In these circumstances even members paying the reduced 50% contribution can elect to pay

2. **Additional Voluntary Contributions**

The administering authority must nominate an AVC provider usually a life assurance company for example Prudential, Legal and General, Clerical and Medical etc...

An employer can agree to share the cost of an AVC

The contributing member must specify the amount or % contribution they wish to pay every month. The member is free to notify that they wish to increase or decrease the amount.

The contributions go into a pension pot. The value of the pot is determined by the amount paid in but also how it is invested and the rate of return. It can be in a low return investment account or a higher risk investment that could mean the value will go down.

The member can specify that a part or all of the contributions should additional provide death in service cover instead of going into a pension pot for the member.

Like APC if the member retires the money in the AVC pot must be used to purchase retirement benefits.

Where the employer agrees flexible retirement the member does have the option not to use the AVC pot until they finally retire.

Pension can be purchased either by buying extra pension in the LGPS using the same lump sum factors for APC or shopping around and buying a pension from an assurance company selling annuities

What can be taken as a cash lump sum at retirement?

Additional Pension Contributions
Up to 25% of pension purchased by APC can be taken as a cash lump sum with the same £12 cash for £1 pension given up.

Additional Voluntary Contributions
If a completed form from the member was received before 1 April 2014 then the AVC pot can be included in the total LGPS benefits when assessing the maximum 25% cash lump sum limit. This means in many cases members will be able to use the whole pot as a tax free lump sum without needing to exchange so much pension to get the lump sum they want.

Forms received after 1 April will mean the AVC’s started after that date will not be included in the total LGPS benefits for assessing the maximum lump sum and that effectively only up to 25% of the value can be taken as a lump sum the rest must be used to buy pension in the LGPS or an annuity**.**

3. Early Retirement and Late Retirement

Redundancy retirements

Providing the member is:-

- Made redundant or is retired by the employer on the grounds of ‘efficiency’ (employer retires the member without having to delete a post)
- Has attained age 55

Then the member must take an immediate pension based on all their combined LGPS service without the pension earned to the date of leaving being reduced for early payment.

If the member has benefits from a previous LGPS employment that was not combined to the current LGPS service this will not be brought into payment automatically and will be treated as a deferred pension.

If the member is made redundant before attaining the age of 55 then the pension will not come into payment and will be treated as a deferred pension.

This means the deferred pension will not be able to start before age 55 (except on health grounds) and if the member brings it into payment before normal retirement age it will be reduced for early payment.

Ill Health Retirements

A member can be retired by their LGPS employer if a medical advisor, appointed by the employer to consider ill health referrals (but with no other connection with the employer) agrees the member meets the conditions for ill health retirement set out in the Regulations.

They are :-

The member has at least 3 months service (going up to a minimum of 2 years for new starters from April 2014)

The member on the balance of probability is permanently incapable for medical reasons of being able to do the duties of their employment until their normal retirement age.

They cannot do gainful employment as defined when they leave

Gainful employment is any employment but for a minimum of 30 hours a week for at least 12 months.

There are three tiers (levels) of ill health retirement

Tier 1	Pension earned at date of leaving service then enhanced - to Normal Retirement Age (NRA will now be State Pension Age)
Tier 2	Pension earned to date of leaving service then enhanced by 25% to NRA
Tier 3	Pension earned to date of leaving payable for up to a maximum of 3 years. can stop before if member can undertake gainful employment. There is meant to be a review after 18 months

So which tier?

If the employer’s medical advisor believes on medical grounds the member is not likely to recover sufficiently to do gainful employment before their normal retirement age it is Tier 1.

If it is likely to be more than three years after leaving but recovering sufficiently before NRA then it is tier 2

If it is likely member will be able to do gainful employment in less than 3 years it is Tier 3

Appeal the decision?

There are full rights of appeal on all decisions.

Those on Tier 3 can ask the decision to be reviewed at any time within the three years the pension is payable to get it upgraded to Tier 2 if the medical evidence supports this.

Lastly

UNISON continues to push for Tier 3 to be scrapped and for everyone who qualifies for ill health retirement to get a life time pension as is the case in other Public Service pension Schemes.

Voluntary early retirements (rule of 85 and other protections)

Focus on early retirement

Under the LGPS Regulations up to April 2014

A member could ask an employer to agree to their early retirement any time over the age of 55.

BUT before the age of 60 the member could only retire with the employer's consent.

If the employer consented then any pension covered by the rule of 85 would not be reduced
unless the member has not completed enough service by the time they went
to be covered by the rule or the member only had 'tapered' protection.

This is still the position for those who left before April 2014 with a deferred pension.

From April 2014

The member can retire voluntarily at any time after the age of 55 without the employer consent but:- **The benefits will be liable for early retirement reductions**

•The reduction on benefits earned up to April 2014 will be based on a normal retirement age of 65

•The reduction on benefits earned after April 2014 will be based on a normal retirement age linked to State Retirement Age.

•Any part of the service currently covered by the rule of 85 protection will not be reduced if the member retires from age 60 unless they have not completed enough service by the time they go to be covered by the rule or the member only has ‘tapered’ protection on service after April 2008.

•Benefits covered by the rule of 85 would be reduced if the member retires between age 55 and 60 counting back from age 60 or the date the member satisfies the rule of 85 if later.

So effectively the discretion is the other way round

The 2008 Regulations gave the employer the discretion **not** to allow early payment before age 60 but if the employer does agree to the early retirement, members with benefits protected by the rule of 85 would be covered.

So the employer cannot now stop the early payment of pension after age 55 if a member left after April 2014

but if the member goes before their normal retirement ages they are likely to suffer early retirement reductions

but the employer does have the discretion to pay the fund to waive early retirement reductions.

So how much do I 'lose' if I go before my Normal Retirement Date?

CURRENT FACTORS TO USE AFTER AGE 55

YEAR'S EARLY	PENSION REDUCTION (%)		Reduction on the cash sum you have to take on service before April 2008*
	Males	Females	
1	6	5	3
2	11	11	6
3	16	15	8
4	20	20	11
5	25	24	14
6	29	27	16
7	32	31	19
8	36	34	21
9	39	37	23
10	42	40	26
11	45	44	Not applicable
12	48	47	Not applicable
13	52	50	Not applicable

(Factors are liable to change over time and are reviewed periodically)

*The reduction on the lump sum only applies to the cash lump sum that has to be taken as a cash lump sum on benefits earned before April 2008. It will not apply to any additional cash sum you elect to take at retirement because the extra cash sum will be achieved by commuting pension that will already be reduced for early payment.

The same factors will count back from the various normal retirement dates that may apply to the different periods of your LGPS service. So if your normal retirement date for service before April 2014 is 65 they would count back from 65 for benefits earned before April 2014. If your normal retirement date is 66 for service after April 2014 they would count back from age 66 for your benefits earned after April 2014

If you retire in between whole years the reduction factor will be adjusted. For example if a female retired 2 I/2 years early the reduction would be 12.5% (i.e. half way between 11 and 15%)

So when are my Normal Retirement Dates?

Most members will have 2 possibly 3 Normal Retirement Dates :-

•one ‘Normal Retirement Date’ for their service before April 2014 which is Age 65

•another date for service after April 2014 which is linked to State Pension Age

•And possibly a third date for service covered by the Rule of 85

If I satisfy the Rule of 85 what are the protections?

If you were contributing to the LGPS before 1 October 2006

- service before April 2008 is protected
- Those aged 60 by April 2016 protected on service to April 2016
- Those 60 between April 2016 and March 2020 the early retirement reduction is tapered from April 2008.

So for example if you are 60 in April 2018 (exactly half way through the taper)

Your continuous pre April 2008 service would be unreduced if you retired at 60, but service after that date would be reduced but the early retirement factors would be 50%.

So if a women retires at 60 tapered reduction based on current factors, would be on service to April 2014 it would be 12% (based on 5 years early 24% less 50%) and for service from April 2014 it would be13.5% (based on 6 years early 27% less 50%)

.

Normal retirement date post April 2014 service is:-

Age 65 or your State Pension Age if later

State Pension Age for both men and women will start to increase from December 2018 to reach 66 by October 2020.

Will be 67 between 2034 and 2036

Will be 68 between 2044 and 2046

The Pensions Bill going through Parliament would increase State Pension Age to 67 between 2026 and 2028

Check your SPA:-

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181343/spa-timetable.pdf

So how does it work?

Example based on current factors

A Member retires 1st April 2024 at age 57 with 30 years service

- **14 years service before April 2008 covered by rule of 85.**
  Reduction is based on 3 years from age 57 to 60
  Pension is reduced 16% male 15% female. Additional lump sum reduced by 8%

- **6 years service between 1 April 2008 and 31 March 2014**
  Reduction is based on 8 years from age 57 to 65
  Pension reduced 36% male 34% female

- **10 years service from 1 April 2014 to 31 March 2024**
  Reduction is based on 10 years from age 57 to 67 (SPA)
  Pension reduced 42% male 40% female

Flexible Retirement

Not really a retirement as the member stays in work although on reduced hours or grade as agreed with the employer after bringing into payment all or some of their pension from a date agreed with the employer.

A member can apply for flexible retirement from age 55

The employer must have a written statement of its policy on flexible retirement.

If agreed the member must bring all the benefits earned up to 1 April 2008 into payment.

But they have the option of not bringing into payment all or some the pension they have earned after April 2008 and April 2014.

The appropriate early retirement reductions will apply to the various parts of the pension depending on when the different parts are brought into payment.

Late Retirements

Members who stay in work covered by membership of the LGPS can remain contributing to the LGPS up to age 75 and do not have to bring their pension into payment before that age.

Members who have earned benefits before 1 April 2014 will have their benefits increased by late retirement factors for the period between age 65 and when they retire.

For benefits earned after 1 April 2014 the increase will be based on the period between the normal retirement age based on state pension age and when they retire. The factors are similar to the early retirement factors and are currently under review.

For illustration purposes, if someone retired at 67 and their normal retirement age for service after 1 April 2014 was 66, then benefits earned before April 2014 would be increased over age 65 by the late retirement factor for 2 years and benefits earned after 1 April 2014 would be increased over age 66 by 1 year.

4. How the scheme is costed

How is it costed at scheme level?

There are TWO methods for controlling future cost

1. **The TU/LGA Agreement**

Under the TU/LGA agreement from April 2014 the target cost of the scheme will be 19.5% of payroll of members who contribute to the scheme for future service.
The employer portion will be 13% the member portion will be 6.5% a fixed ratio of 2 to 1.

This is the target cost for future service only from April 2014- and is based on the average future service costs of all 89 Funds. Action may be required
If:-

- The cost goes above or below 19.5% or

- either the employer or member portion is less or more than 13%/6.5%

It will be controlled by joint discussions that may result in recommendations to change the regulations to alter the rate of employee contributions or
change future benefits after consultation.

2. **The Treasury cap on employer contributions**

On top of this the treasury will set an employer contribution cap that is to be higher than 13% but will be calculated differently. It is likely to be 14.6%.

It will also be based on the average of all the LGPS funds.

The main differences are not taking into account the 50/50 option and having a very low assumption of how much pension members will commute for cash when they retire.

Action only required if the cost goes above or below the cap by more than 2%. If this was to happen the Secretary of State would alter how benefits are calculated earned after a future date.

What does this mean for individual funds?

Neither the 13% employer proportion nor the treasury employer contribution cap will apply to individual funds or employers.

It will be based on average figures for all the funds in England and Wales. Employers will continue to pay significantly more or less than these targets for future service and it will not affect how much employers will be paying on top to pay off their past service deficits.

What will change the cost at scheme level?

Average changes in life expectancy across the scheme if not matching changes to State Pension Age

An average of changes to membership including
• gender split

•length of service

•Amount members take as cash when they retire (commutation)

•How many take up the lower benefit/contribution option (the 50/50 option)

What is not included?

•Changes to the investment performance of the funds

•Fund deficits - that is when the cost of benefits already earned cost more than expected or the size of the fund is less than was expected.

How is it costed at fund level?

The cost at scheme level sets the contribution rate for members but NOT for individual employers.

The individual Employer contribution is arrived at every three years after what is called a fund valuation based on:-

• **The membership of that employer** (for example length of service, average age etc..)

•**the assumptions the actuary for the scheme uses** (for example on life expectancy and the future growth of the fund) determines the employer contribution rate to be paid for what benefits they think will be earned in the future. There are 4 different actuarial firms that Funds use

•**and the performance of the fund-** Investments performance, charges etc...

•**And how much money is needed to be paid in to the fund** (spread over a number of years) to bring the scheme up to 'solvency' that is the assets (the value of the fund) meets the cost of providing the benefits

Based on the costing at scheme level

What will members pay from 1 April 2014?

FROM TO	Gross Rate	Net amount payable after tax relief
Up to £13,500	5.5%	4.40%
£13,501 £21,000	5.8%	4.64%
£21,001 £34,000	6.5%	5.20%
£34,001 £43,000	6.8%	5.44%
£43,001 £60,000	8.5%	5.10%
£60,001 £85,000	9.9%	5.94%
£85,001 £100,000	10.5%	6.3%
£100,001 £150,000	11.4%	6.84%
More than £150,000	12.5%	6.88%

If the workforce changes for example

- **if the lower paid become a higher proportion of the membership**
- **there was a higher than expected take up of members opting to pay half their regular contributions for half pension**

the contribution rate may need to be adjusted so the 6.5% contribution yield from members is achieved

Part time workers are put into the contribution based on their actual pay it will no longer be based on their whole time equivalent pay

For the first time non contractual overtime will count towards deciding which contribution band a member will be put in.

There is debate as to whether the contribution bands should continue to be adjusted in line with price inflation during a period of pay restraint

5. Introduction to how the scheme is run

The Public Service Pensions Act 2013 sets out that every 'Scheme' must have a manager

After much lobbying it was agreed that for the LGPS there will be a Scheme Advisory Board to oversee the LGPS at Scheme level and advise the Secretary of State on any changes that may be needed especially around cost control.

The voting members are equal numbers from the Trade Union side UNISON,GMB and Unite and the Employers.

There is a Shadow Scheme Advisory Board already operating that is being advised by a number of sub committees.

The Act also sets out that every Fund must also have a board with employer and employee representatives in equal numbers.

The board at Fund level assists the scheme manager

- Secures compliance with the scheme regulations
- Secures compliance with requirements imposed by the Pensions Regulator
- **Such other matters as the regulations may specify**

The DCLG has issued a consultation paper on the proposed fund boards that ended on the 21 November

What are the key issues?

- Will the employee reps be nominated by the union? In Scotland they will be. The proposal for England and Wales is the employee reps are chosen by the administering authority

- The DCLG propose a minimum of 2 employer reps and 2 employee reps. We want more up to a minimum of 5 each for the largest funds

- The DCLG want board members to have 'experience'. Knowing the main benefits of the scheme and gaining knowledge is one thing but we do not want entry barriers – there is no similar barrier for pension scheme trustees or becoming an MP or Councillor for that matter

- We see giving facility time for board members as essential we will push for this to be in the statutory guidance

The Act also states:-

‘In making the regulations the responsible authority must have regard to the desirability of securing the effective and efficient governance and administration of the scheme and any connected scheme.’

- To do this we argue that the boards must help control of costs particularly fund management and transaction costs and not just advise but also assist the Fund and this should be addressed by regulation. The easiest way to solve this is by complete separation of the Fund from the employer.
- We have put forward a model constitution for a local board that addresses our issues and would empower the board if adopted
- So The regulations setting out how LGPS funds are to be managed have not been finalised but are set to be laid in January and come into force April 2015
- At one extreme it could mean business almost as usual for the manager/existing pension committees with a separate board with equal member employer representation simply advising the fund manager and working with the Pensions Regulator if the Board thinks the fund is not complying with the Regulations- but with the Board created and effectively controlled by the Fund manager.
- Instead of the boards being set up by fund manager which would be obliged to make decisions in the best interest of councils it should be set up in the best interests of members. The easiest way to solve this is by complete separation.

This is the model favoured by UNISON. We are actively seeking members to come forward and be trained

What else should Boards do?

The pension boards should not just be about how the funds are run. There are other reasons to engage

They should also be able to look at:-

1. How are the employers comply with written policies on discretionary practice e.g. Flexible retirement and when will they remove the early retirement reductions on voluntary retirements
2. Overseeing the process and operation of the Internal Disputes Resolution Procedure e.g. On ill health retirements
3. How the fund administration performs e.g. How many disputes per head of member. The frequency and quality of benefit statements.
4. With the choice to take pension as a cash sum after a large tax deduction from April 2015 the board should have a key role in what should be a rigorous process in advising members.

6. Access to the scheme

Part time working

Part time workers have the right to opt into the LGPS when they start employment and anytime after that while they are employed.

From April the concept of part time working will have little relevance in a CARE so all scheduled employers should in future automatically put workers in the scheme regardless of their hours.

Those on zero hours contracts will also be eligible to join

Those with a contract of less than 3 months will not be put in automatically from day one, but they can opt in at any time and should be put in when the contract is extended when three months is completed.

New Fair Deal

The first consultation on the principles of New Fair Deal has been published and confirms that in future member's pensions will be protected, with very few exceptions, by the member staying in their public service pension scheme when they are outsourced or the service is retendered.

The principles of New Fair Deal shall also apply to most employers in the LGPS including Local Government

The treasury has now responded to the second consultation and has decided the principles of New Fair Deal will not apply to higher and further education.

The union side continue to argue strongly that FE and HE should follow the same principles as Best Value Authorities and is taking this up with the shadow front bench.

It has been confirmed that the principles will apply to academy schools.

Discussions with the DCLG are about to start and UNISON will be pushing to remove all the loop holes in the current statutory guidance that attempts to enforce the principles of fair deal on best value Authorities.

7. Administration of the scheme.

Who decides?

Any question around the right to benefits (e.g. ill health retirement) and what the member should pay are decided by the employer.

The administering authority (that is the employer running the local LGPS Fund) is responsible for calculating the benefits based on data and information supplied by the employer.

This includes advising members of their options on leaving

It is responsible for calculating benefit statements

It is responsible for administering the Additional Voluntary Contribution Scheme where members pay contributions to an outside provider (usually an insurance company) nominated by the administering authority - and crediting additional pension where members pay additional pension contributions to buy extra pension within the LGPS.

The administering authority is responsible for issues around previous service or employment for example dealing with requests from members to transfer benefits from a previous employer's pension scheme into the LGPS.

The employer is responsible for exercising most of the discretions allowed in the LGPS. Including whether to allow flexible retirement or augment benefits for example on redundancy.

The employer in respect of the LGPS Regulations it must have a written statement of policy on how it is going to exercise its discretion to:-

1. The circumstances when it will consider paying part or all of the cost to buy additional pension for a member under Additional Pension Contributions and how much it will consider paying into members Additional Voluntary contributions.
2. Policy on flexible retirement for example the level of the reduction in hours or grade and how a flexible retirement will be agreed.
3. The circumstances when the employer will pay to remove an early retirement reduction on a voluntary retirement.
4. Policy on awarding additional pension for a member contributing to the LGPS or a member made redundant or retired on the grounds of efficiency

In addition the employer should also have written policies regarding the exercise of discretions in the Discretionary Payments Regulations. These cover the policy on the payment of Injury Allowances and increasing redundancy payments or awarding added years on redundancy.

Dispute resolution

If you believe something is wrong with what you are paying take it up with your employer's HR or payroll as soon as possible. The contributions you are paying should be shown clearly on your pay slip so check them.

If you do not agree with a decision in your pension made by your employer – for example – the length of service or amount of pensionable pay or whether you should have been refused an ill-health, you have a right to complain through the Internal Disputes Resolution Procedure

The IDRP has two stages:

- The first stage is an appeal to a person or persons nominated by your employer to hear first stage appeals. The appeal needs to be submitted within six months of the decision or the date the decision should have been made (the nominated person has the discretion to extend this time limit)

- If still not satisfied with the first stage decision you must appeal within six months of the decision to the Administering Authority (the second stage)

Pensions Ombudsman

- If not resolved after that you can appeal to the Pensions Ombudsman within 3 years of the date the dispute started.

- Only the PO can hear cases on 'mal administration' for example if a benefit statement is wrong. The member has to establish that the mistake has caused them monetary loss otherwise the award is likely to be only a maximum of around £200 to compensate for inconvenience and disappointment. Even in cases of mal administration the IDRP must be completed first before the PO will hear the case.

- The PO will normally restrict their decision on whether the correct procedure has been followed in coming to a decision based on the regulations and any policies. The PO will usually not determine whether the decision is right or wrong for example in ill health the PO is unlikely to decide which medical evidence is right but whether the procedure has been followed correctly.

8. Pension choice from April 2015

What is the government going to do?

The main change proposed from 6 April 2015

The government announced in its last budget that it planned to allow all those who have been contributing to Defined Contribution pension arrangements, the option of being able to take their whole pot of money as a cash sum from 6 April 2015.

Up to then contributors can take a maximum of 25% of their pot as a tax free cash sum but have to use the 75% of the value of their pot to buy a pension for life. (When contributors used a lump sum to buy a pension this is usually called an annuity)

After that date contributors who are over 55 can retire and decide to take the whole pot as cash in which case only 25% will be tax free and 75% will be reduced by their marginal rate of tax (20% for most tax payers and 40% for upper band tax payers)

The government plans to extend this option th to members of Defined Benefit Pension Schemes that have funds.

How is this going to happen?

The Taxation of Pensions Bill is currently going through Parliament. It sets out the detail as to how people can take cash. If the person is a member of a funded scheme that does not have the facility to take all the benefits as cash the member can transfer their 'savings' to what will be called a 'flexi-access drawdown' (FAD) fund. This is jargon for a fund that allows you to take your savings in a scheme all as cash.

Other flexibilities

For UNISON members the main change is that with effect from 27 March the value of pension that can be commuted for cash is already increasing from £18,000 to £30,000 (these amounts are not the pension but how much it is worth).

Who will be affected?

All our members in Defined Contribution pension arrangements and those in employer pension schemes that have funds are set to get this option. This includes all the Defined Benefit schemes in the private sector and the Local Government Pension Scheme

It does not include members in the unfunded pension schemes. This means members of the NHS, Civil Service and Teachers Pension Schemes will not be able to transfer to an arrangement that will allow them to convert their pension into cash.

What are the implications for the employer pension scheme funds?

The employers in the LGPS have voiced serious concerns. They fear that money going out of the funds will mean the funds become cash negative faster rate that is more money paid out on benefits and transfer values for those who want to go and take the maximum cash will be more than contributions coming in.

It is also argued that as funds approach cash negativity, they may be in a position of having to sell assets at the wrong time and suffer losses.

However these concerns may be misplaced. First of all investments strategies and cash flows do not directly determine benefits in a statutory scheme like the LGPS.

The most expensive members of the scheme are those who have reached retirement age. Cashing in their pension (that is the ones who have reached retirement age) would reduce the liabilities and risks of the scheme significantly

The investment strategies may not need to change that much as the target would be still to meet the liabilities for benefits earned for members by the time they retire. Targets are not about what members do with their pension after they retire

The target could conceivably cost less if it is assumed members will cash in their pension and cap the risk on the funds. Whether this is the case or not would depend on how the pension would be converted in to a transfer value that the member takes to an outside provider that then pays it out as a cash sum, and we do not know at the present time how a transfer value would be calculated.

What can schemes do?

They can delay the payment of a transfer value for up to 12 months

For the LGPS the Secretary of State could allow funds to pay a lower transfer value to members seeking this option.

Both would hit the member not solve the problem

How popular will it be?

It is difficult to predict but we would expect a high proportion of low paid members who already commute the maximum pension for cash when they retire, will be tempted by even more cash in hand. The questions are will they receive proper advice and will they be so desperate for cash up front, will they listen?

What should UNISON do?

This certainly presents a major risk for our members we need to do all we can to ensure that members receive proper advice and are not pressured to take cash. In my view there is a serious risk of mis-selling from 'Independent Financial Advisors.

This a populist measure by a government in the run up to an election, it is not the answer to pension problems.

Set up a rigorous process

We will be unable to just ban transfers - as some staff might complain that we were restricting their rights etc.

We need to set up a process that is extremely rigorous, and members wishing to transfer will need to show that they have gone through a number of steps including good independent advice etc.

This should be handled centrally so that funds are aware of the potential numbers of leavers. If the system is rigorous this should also mean that dodgy IFAs would be wary of trying it on as they would know someone would be looking at their advice.

The LGPS Fund Boards will be of limited use on this issue until they refocus on how the employers and fund lead authority are dealing with advice and administration. Training will need to be expanded to cover this area.

9. Changes to state benefits and how they will affect members in the LGPS

The Pensions Bill is going through parliament it will bring a Single State pension to replace the Basic State Pension and the Second State Pension from 2016.

Under the proposals there would be one flat rate State Pension that may be around £150 per week when it comes in April 2016 for those who contribute for 35 years from 2016. Retired members will not see any change in their State Pension and for those near retirement who have long service in contracted out schemes like the LGPS the difference is likely to be insignificant.

Although the headline figure is significantly higher than the Basic State Pension (currently a maximum of £110 a week) some workers who were going to earn a significant second state pension will be worse off.

Members after the change is introduced would pay around 1.4% additional NI contributions and the employer would pay another 3.4%.

This would put even more pressure on reasonable pension scheme to close. It will increase costs for LGPS employers

UNISON wants dialogue with employers we must avoid having to renegotiate the scheme in 2016

The additional cost of increased NI contributions may encourage some members to opt out of the LGPS or opt for the half contribution half pension option.

For those whose State Pension Age is after 2016 there is likely to be some improvement in their prospective state pension.

UNISON is pushing for there to be an independent commission to decide changes to State Pension Age in future

9. HOW DO I FIND OUT MORE ABOUT MY LGPS PENSION

You can contact your employers pension department and ask for a benefit statement that will show you what your benefits would be based on your current pensionable earnings and retiring at your National Pension Age.

This is separate from your State Pension you can request a State pension forecast from the DWP

- ❑ Useful website is the Local Government Association : www.lgps.gov.uk and for finding out who to contact at your Administering Authority www.lgps.org.uk/lge/age/page.do?page.do?pagedd=9925
- ❑ You can also get general information from the pension pages on the Knowledge part of the UNISON pension website https://secure.unison.org.uk
- ❑ Any specific questions on pension options you can take up with your employer's pension department
- ❑ Any problems you can approach your UNISON branch, often via your branch Pension Champion or Pension Rep who will forward it to UNISON Region and UNISON National Pension Unit if necessary
- ❑ To get financial advice for example on how much pension to convert to cash on retirement, you will need to approach an Independent Financial Advisor
- ❑ Queries on State Pension go to the Pension Service

  https://www.gov.uk/contact-pension-service