

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND

PENSIONS NEWS

A newsletter for current members of the Local Government Pension Scheme (LGPS)
January 2012

CONTENTS

1. Reform of the LGPS
2. Restricting Tax Relief on Pension Contributions
3. Auto-enrolment
1. Contacting Pensions

1. REFORM OF THE LGPS

The story of public sector pension reform so far.....

In March last year, Lord Hutton issued his final report which provided the Government with his recommendations on the future of public sector pensions. These recommendations are now being considered by the Government and we aim to untangle the current headlines and give you some details here regarding the LGPS.

It is important to note that the recommendations are subject to consultation between the Government, employers and national unions before any changes are made.

The key recommendations that could affect you after changes are agreed include;

Protection of pension already earned

- You will keep all the pension you have earned already.
- This pension will be calculated as it is currently, when you retire.
- You can receive your pension at the same age as now.
- None of the pension benefits you already have will be lost.

Proposed future pension calculation

- A "defined benefit" arrangement is proposed. This means you will still know how much pension you can expect to receive at retirement.

- A pension calculated from your average earnings is proposed. This is known as a Career Average Revalued Earnings (CARE) pension arrangement.
- Under a CARE Scheme, your pension would be worked out each year, based on your salary for that year.
- Each year, your pension will be increased up to retirement to keep it in line with earnings and prices.

Will you be worse off under the proposed new scheme?

- Not necessarily. This won't be known until we have details of the precise pension formula.

Changes to your retirement age

- The review recommends your retirement age should rise to be the same as for your state pension. This is because people are living longer. In future the state pension is planned to rise in stages and the LGPS retirement age would also change so that it reaches the same level.
- You can still choose when to take your pension and can still retire earlier, although if you do, your pension will be adjusted downwards.
- But remember, you can still receive the pension you have built up under the existing scheme at the same age that applies to you now.

Changes to contribution rates

- Under the Government's proposals the LGPS contribution rate will increase by an average of approximately 3.2%. However, they have confirmed that no increase would apply to those earning less than £15,000 and those earning up to £21,000 would not see a rise greater than 1.5%.
- The Government is considering other ways to make savings and nothing has yet been ruled in or out as talks continue.

The LGPS continues to be an important benefit for you

- The review aims to ensure that the LGPS continues to provide you with a competitive way to plan for your retirement. It is a funded, secure, defined benefit scheme which your employer also contributes to.

The LGPS currently provides many benefits including:

- Pension based on the length of your membership.
- Option of a tax free lump sum on retirement
- Fully index-linked benefits which keep in line with inflation.

- Immediate benefits at any age, if you have to retire due to ill health.
- Death in service lump sum of three years actual pay.
- Survivors' pensions for spouse, civil-partner, co-habiting partner or eligible children.
- The right to retire from age 60 (reductions may apply).
- Early retirement benefits from age 55 on redundancy.

NB: If you leave the scheme you will lose these benefits and will need to find another way of saving for retirement and protecting your family.

Latest Update

On 20 December 2011, the Chief Secretary to the Treasury (Rt Hon Danny Alexander) updated the House of Commons on progress made in the negotiations with the Trade Unions in respect of the reforms of the public sector pension schemes.

The update was accompanied by a written ministerial statement for the Secretary of State for Communities and Local Government (Rt Hon Eric Pickles MP) on the LGPS. The written ministerial statement reported that the Local Government Association (LGA) and the local government trades unions have jointly signed a Heads of Agreement on the principles which will govern scheme design, ongoing cost management and governance of the New Scheme to be introduced by 2014. There will be further negotiations on the agreed principles in the New Year.

The agreed features are:

- the introduction of the New Scheme in April 2014 (with regulations on the Statute Book by April 2013) with a single solution to both the short-term and long-term issues;
- the new scheme will be a CARE scheme;
- the ability to have limited or no contribution rate increases for employees provided the Government's financial constraints are met;
- some elements of choice to encourage new members to join and existing members to remain in the Scheme;
- a member's Normal Retirement Age will match the rise in the state Pension age for post 2014 service.

What next?

A project team consisting of Unions, the LGA and the Department of Communities and Local Government (DCLG) will meet weekly to work on costed options and make recommendations to a project board (again with representatives from the same bodies) which will meet fortnightly.

The aim is to reach an agreement which each party to the process can put to their respective memberships in good time for final proposals to be accepted

by the Government in April so that drafting of new scheme regulations can commence.

The next stage of the process would then commence to agree the finer points of the new scheme design in time for a statutory consultation process to commence in the early autumn.

Please visit our website at: www.pensions@worcestershire.gov.uk where we will report on developments regarding the reform of the LGPS as they arise.

2. RESTRICTING TAX RELIEF ON PENSION CONTRIBUTIONS

The Government has announced that, from April 2011, it will restrict the amount of tax relief available on pension contributions, by reducing the amount the value of your pension savings can increase in any one year, before you become liable to a tax charge. This is called the Annual Allowance (AA).

For the tax year 2011/12, the AA will reduce from £255,000 to £50,000. The new AA covers any pension savings you make in tax registered arrangements – not just the LGPS.

Unlike at present, the new AA will also apply in the year you take your benefits, although there will be an exemption in the case of serious ill health retirement or death.

You would only be subject to an AA tax charge if the value of your pension savings in a tax year increases by more than £50,000.

However, there will be a three year carry forward rule that allows you to carry forward unused AA from the previous three tax years. This means that if the value of your pension savings increase by more than £50,000 in a tax year, you may not be liable to the AA tax charge.

For example, if the value of your pension savings in a tax year increase by £60,000 (i.e. by £10,000 more than the AA) but in the three previous years had increased by £35,000, £38,000 and £40,000, then the amount by which each of these previous years fell short of £50,000 would more than off-set the £10,000 excess pension savings in the current year.

There would be no AA tax charge to pay in this case.

Most people will not be affected by the AA tax charge because the value of their pension savings will not increase in a tax year by more than £50,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

If you are affected, you will be liable to a tax charge (at your marginal tax rate) on the amount by which the value of your pension savings in the tax year, less any unused allowance from the previous three years, exceeds £50,000.

If you exceed the AA in any year, you are responsible for reporting this to HMRC on a self-assessment tax return. The Fund will be able to tell you how much the value of your LGPS benefits, including any AVCs you have made, has increased.

3. AUTO-ENROLMENT

The Pension Act 2008 laid the foundation for a fundamental reform of workplace pension, requiring every employer to automatically enrol their workers into a qualifying pension scheme, if they are not already in one, and contribute to that pension.

Automatic enrolment – the basics

From this year every employer will have to enrol into a workplace pension, those workers who;

- Are not already in a workplace pension scheme.
- Are at least 22 years old.
- Have not yet reached State Pension Age.
- Earn more than the minimum earnings threshold (£7,475.00 in the 2011-12 tax year).
- Work in the UK.

The timing depends upon the size of the employer. Very large employers are first in late 2012 and early 2013. Other employers will follow during 2012 up to 2016.

The pension scheme must be a qualifying scheme, meaning that it must meet certain government standards. This is the first time that employers have been required by law to contribute to their workers' pensions. A new pension scheme NEST (National Employment Savings Trust) has been established, it is available to any employer who chooses to use it. This will enable all employers to provide a pension scheme for their workers, either using NEST, their own scheme or another pension provider.

Please note that auto-enrolment will have no impact for those members currently contributing to the LGPS.

Further information on auto-enrolment can be found at:

www.thepensionsregulator.gov.uk/docs/Pensions-reform-getting-ready-v2.pdf

4. CONTACTING PENSIONS

If you have a query or would like any further information please contact:

Pensions Service
HR Service Centre
Resources Directorate
County Hall
Spetchley Road
Worcester
WR5 2NP

You can also contact us by telephone:

Membership Team: 01905 765329
Benefits Team: 01905 728881

Or email: pensions@worcestershire.gov.uk

Please quote your national insurance number when contacting our office.

Please note that we are unable to accept changes to personal details over the telephone.

Further information on the LGPS is available at: www.lgps.org.uk and www.communities.gov.uk/lgps

LP
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