

Proposals for the Local Government Pension Scheme 2014

On 1 June 2012 The Local Government Association (LGA) and trade unions announced their joint proposals for a new Local Government Pension Scheme (LGPS) for England and Wales.

At this stage, the changes are only proposals and they will be the subject of a formal consultation process before they become law.

The intention is that the new LGPS will begin from April 2014.

Summary of the main features

The table below provides an outline of the main features of the proposed new scheme and a comparison with the current Scheme.

	New Scheme	Existing Scheme
Type of Scheme	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate (this is the rate at which pension builds up)	1/49 th of career average pay for every year in the Scheme	1/60 th of final pay for every year in the Scheme.
Revaluation Rate for active members	Consumer Price Index (CPI)	Link to final salary
Pensionable Pay	Pay <i>including</i> non-contractual overtime and additional hours for part time staff	Pay <i>excluding</i> non-contractual overtime and non-pensionable additional hours

Employee Contribution Rate	Pay From (£)	Pay To (£)	Gross Rate (%)	Rate after tax relief (%)	Pay From (£)	Pay To (£)	Gross Rate (%)	Rate after tax relief (%)
	Up to £13,501		5.5	4.4	Up to £13,501		5.5	4.4
	13,501	21,000	5.8	4.64	13,501	15,800	5.8	4.64
	21,001	34,000	6.5	5.2	15,801	20,400	5.9	4.72
	34,001	43,000	6.8	5.44	20,401	34,000	6.5	5.20
	43,001	60,000	8.5	5.10	34,001	45,500	6.8	5.44
	60,001	85,000	9.9	5.94	45,501	85,300	7.2	4.32
	85,001	100,000	10.5	6.30	More than 85,300		7.2%	4.5 or 4.13
	100,001	150,000	11.4	6.84				
	More than 150,000		12.5	6.88				
<p>The intention is that the average rate paid by members will be 6.5%</p> <p>Rates after tax relief are approximate and will depend on individual circumstances</p>					<p>The average rate paid by LGPS members is 6.5%</p> <p>Rates after tax relief are approximate and will depend on individual circumstances.</p>			
Contribution Flexibility	<p>Members can elect to pay 50% contribution for 50% of the pension benefit. Members can switch in and out of this option.</p> <p>Only pension accrual is affected – death benefits remain the same.</p>				None			
Normal Pension age	Later of State Pension Age or 65				65			
Extra Lump sum	Trade £1 of pension for £12 lump sum				Trade £1 of pension for £12 lump sum			
Death in service lump sum	3 x pensionable pay				3 x pensionable pay			

Death in service survivor benefits	1/160th of career average pay for each year in the Scheme plus the extra membership you would have received had you retired with a Tier 1 ill health pension enhancement	1/160th of final pay for each year in the Scheme plus the extra membership you would have received had you retired with a Tier 1 ill health pension enhancement
Ill Health provision	<p>Tier 1 - immediate payment with service enhanced to Normal Pension Age</p> <p>Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age</p> <p>Tier 3 - temporary payment of pension for up to 3 years</p>	<p>Tier 1 - immediate payment with service enhanced to Normal Pension Age (65)</p> <p>Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age (65)</p> <p>Tier 3 - temporary payment of pension for up to 3 years</p>
Inflation proofing of pensions in payment	CPI	CPI
Membership required in order to qualify for a benefit.	2 years	3 months

Protection of existing rights

The new Scheme applies only to benefits built up from 1 April 2014. Those with deferred benefits or pensions in payment are unaffected by the changes.

Final salary benefits built up before LGPS 2014 will be based on final pay at the point of retirement or leaving.

Many LGPS members currently have the ability to draw unreduced benefits before their normal retirement age because they are in a protected category which means they benefit from what is called “the rule of 85”. For these members, the protections for the rule will continue to apply in the same way as they do now.

Members who were within 10 years of age 65 in April 2012 will benefit from an underpin to ensure that when they retire they will be no worse off than had they remained in the old Scheme.

Pension Protection when members are compulsorily transferred

As is the case now, members who are compulsorily transferred will be able to retain membership of the Scheme. At present there are no details on how members will retain access to the LGPS from 2014 and whether it will differ from the current arrangements.

What next?

The details announced so far are only part of the story. Negotiations are continuing on ways of managing the future costs of the LGPS within certain limits and ways to improve the wider governance of the Scheme.

The plan is that the current proposals will form the basis of a set of draft regulations which are due in the autumn. This will provide the opportunity for a formal consultation process prior to the regulations becoming law by April 2013. This will give a full year to plan and communicate the new scheme in detail before it becomes operative in April 2014.

Further detail

You can find more detail of the LGPS 2014 on the Cheshire Pension Fund Website, which contains a section dedicated to the development of the new Scheme. This section will continue to be updated as more information becomes available. The Fund's website address is;

www.cheshirepensionfund.org

Alternatively you can contact the Pension Helpdesk on 01244 976000 or email us at pensions@cheshirewestandchester.gov.uk

Further briefings will be provided when more information comes available

This Bulletin has been distributed to all Fund Stakeholders, including Pension Fund Committee Members, Consultative Forum and all employers via email