

Notice to LGPS members:

LGPS Changes

Many of you will be aware of the Government's review of the LGPS (the stocktake) that is currently taking place, together with the wider review of public sector pension schemes.

Some 80 years ago when the LGPS was set up the average life expectancy for a male on retirement was 11 years, whereas for a man retiring at age 65 it is now 16 years and for a woman it is 19 years. As people are living longer, our pensions are being paid out for longer, which costs more money.

Also, the number of pensioners relative to the number of people in work is increasing. Currently, there are around 4 workers for every pensioner but this is expected to fall to 2 workers for every pensioner by 2050. We therefore need to retain experienced people in the workforce for longer.

And so, like most pension schemes, the LGPS needs to change to meet these challenges.

New rules from 1st April 2005

- The **earliest retirement age is increasing from 50 to 55**, except for those retiring on ill-health and those of you who are protected from the change.
- Although the LGPS already has a retirement age of 65, current rules allow some employees to retire before then with unreduced benefits. By removing the 85-year rule, **if you choose to retire before age 65 your benefits will be reduced to take account of early payment**, unless your employer waives the reduction on compassionate grounds or you are protected from the change.

Read the information on the next page to find out if you are protected from the effects of these changes.

Remember, the LGPS is a good quality pension scheme that provides you with a whole range of benefits. You can continue to retire early (before age 65) and receive your benefits

- on ill-health retirement, at any age
- if your employer makes you redundant or retires you in the interests of efficiency, from age 55 (or from age 50 if you are protected)
- if your employer consents to your request for early retirement from age 55 (or from age 50 if you are protected) although your benefits may be reduced
- from age 60, although your benefits may be reduced.

There is one important condition – to draw your benefits before age 65, you must have at least 3 months membership, or have brought in a transfer from another pension scheme.

If you were contributing to the Scheme on 31st March 2005 are you protected from the changes?

- **If you are age 50 or over by 31st March 2005, your earliest possible retirement date continues to be age 50**, but if you are retired because of permanent ill health your benefits can be paid from any age.
- **If you will be age 60 by 31st March 2013, choose to retire before age 65 and satisfy the 85-year rule when you start to draw your pension**, you will have some protection from the removal of the 85 year rule. Your benefits built up before April 2013 will not be reduced.
- **If you will be age 60 by 31st March 2013, choose to retire before age 65, do not satisfy the 85 year rule when you start to draw your pension, but would have satisfied the rule if you had remained in employment until age 65**, you will have some protection from the removal of the 85 year rule. All the benefits you have built up in the Scheme before 1st April 2013 will continue to be calculated in the same way as if the changes had not been made. But any benefits you build up under the new rules (from April 2013) will be subject to a larger reduction than before.
- **If you choose to draw your benefits before age 65 and would not have met the 85 year rule if you had remained in employment until age 65, or if you do not draw your pension until age 65**, the removal of the 85 year rule will have no impact on you. You will receive the same benefits as before.

How do I know if I will satisfy the 85-year rule?

The rule is satisfied if at the time you start drawing your pension your membership and age (each in whole years) adds up to 85. *If you work part time, your membership counts towards the 85-year rule at its full calendar length.*

Remember: *The 85-year rule is a rule to see if your benefits should be reduced or not **if you choose to retire early**. If you do not satisfy the 85-year rule, then your benefits are reduced if voluntarily drawn before age 65, unless your employer chooses to waive the reduction on compassionate grounds.*

Everyone else who chooses to retire before age 65 will receive reduced retirement benefits.

Even if you don't qualify for the protections described in the box above you can still rest assured that all the benefits you have built up in the Scheme before 1st April 2005 will continue to be calculated in the same way as if the changes had not been made. But any benefits you build up under the new rules (from April 2005) will be subject to reduction, if you choose to receive them before age 65 - please see the example on the next page.

A man aged 45 on 1 April 2005 with continuous membership from age 20 retires at age 60 in 2020, having satisfied the 85-year rule. His final years' pay is £18000.

He would have:

- 25 years' membership (1980 to 2005) protected
- 15 years' membership (2005 to 2020) subject to reduction

Annual Pension:

25/80 x £18000	= £ 5625.00
15/80 x £18000	= £ 3375.00
Less 33% of £3375.00	= £ 1113.75
Total	= £ 7886.25

Lump Sum

3 x 25/80 x £18000	= £16875.00
3 x 15/80 x £18000	= £10125.00
Less 11% of £10125.00	= £ 1113.75
Total	= £25886.25

If he carries on working to age 65 then 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	= £ 10125.00
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Lump Sum

3 x 45/80 x £18000	= £ 30375.00
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Further information and examples of how the changes may affect you can be found at www.lgps.org.uk

Future of the LGPS

These changes to the LGPS form the second phase of the current review of the scheme, known as the Stocktake. The third and final phase is being consulted on right now. It aims to modernise the scheme so that it meets the needs of the current local government workforce. Partner's pensions, flexible retirement options and improved death benefits together with increased contributions for employees are just some of the things being considered.

Government Ministers have expressed their commitment to retaining a defined benefit final salary arrangement which is relevant to the local government workforce provided that it remains both affordable and sustainable to scheme members, scheme employers and tax payers.

More information on the next phase of the review is available at www.xoq83.dial.pipex.com

We hope you find this information helpful. Further information about your pension rights will be made available in due course. If you have any further questions please contact us.

PensionFundEnquiries@wolverhampton.gov.uk