

LOCAL GOVERNMENT PENSION SCHEME

Draft Local Government Pension Scheme (Amendment No. 2) Regulations 2004

Answers to Frequently Asked Questions by Members of the Scheme

SECTION A – The ‘85 Year Rule’ in the LGPS

The draft regulations propose to remove the 85 year rule from the LGPS for all new members of the Scheme and in respect of the future membership of existing members.

The following paragraphs explain what the ‘85 year rule’ does. The annex to this document sets out some examples of how the proposed amendments will affect members with different ages and periods of membership.

What is the ‘85 year rule’?

Presently, the Scheme regulations allow members who reach age 60 to elect to receive the immediate payment of their LGPS benefits. Where a member makes such an election before reaching age 65, the regulations currently provide that if their age plus LGPS membership (in whole years) when added together equal at least 85, their benefits will not be reduced to reflect that they are being paid before their 65th birthday. For members between the ages of 50 and 60, employers have a discretion that allows them to agree to pay LGPS benefits early. If the employer decides to allow payment between these ages the same test is applied when the benefits are calculated. Each LGPS employer must have a policy statement that states how they will use their discretion.

Ministers propose, subject to the outcome of the current consultation exercise, to remove the 85 year rule from the Scheme for all new members. For current members, the draft regulations propose that any benefits that relate to future membership of the Scheme, from 1 April 2005, will be reduced if paid before age 65. The proposed regulations contain some transitional arrangements for members who are near to retirement. These arrangements are explained in more detail below.

Will all members be affected by the proposed changes to the 85 year rule?

Some current members of the Scheme would not be able to satisfy the 85 year rule before they reach age 65. Where this is the case LGPS benefits would be reduced if paid before age 65 to reflect the fact that they are being paid early. For instance, if you were 44 or over when you joined the LGPS, and you have not transferred other pension rights into the Scheme, you can not satisfy the current 85 year rule before age 65 and your LGPS benefits would be reduced if paid before you reach age 65.

Why is the '85 year rule' being changed?

The Government has published plans for the future of occupational pensions. The plans were published in the June 2003 White Paper "Simplicity, Security and Choice: Working and Saving for Retirement" (CM 5835). The paper stated that the Government will increase the normal retirement age in public service pension schemes to age 65.

This means that in the future public service pension schemes will not pay pensions to members until they reach age 65, unless the pension is reduced to reflect the fact that it is being paid before the member's 65th birthday.

The current '85 year rule' in the LGPS means that a member may receive an unreduced pension before age 65. This needs to be changed to comply with the Government's policy for all public sector pension schemes.

What is the reason for the change?

People are living longer than ever before. Whilst this is to be celebrated it does bring new social and economic challenges.

As people live longer pension schemes pay benefits to members for longer after they retire. This means that whilst the annual value of an average pension may be the same as it has been historically, the total value of a LGPS pension is higher.

To ensure that the cost of paying pensions in a final salary scheme like the LGPS can continue to be affordable, there are two choices;

Where payment of a normal pension starts before age 65, the annual amount paid will be less to reflect the fact that on average the pension will be paid for longer; or

An unreduced annual pension can be paid, but it must commence from a later age, ie age 65.

This is what the draft regulations propose.

What is the thinking behind the proposals?

The changes to the LGPS start to meet the challenges of an ageing society. The ratio of the economically active proportion of the population, when compared to those in retirement in the UK, has changed. To meet the challenges of these demographic changes, the Government is committed to ensuring that people have choice over how and when they save, and how long they work. The pension scheme can help to open up options for flexible retirement to enable and encourage people to extend their working lives.

There are real benefits to be had, by employers and employees alike, by ensuring

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people, who are both willing to, and capable of, work are given the opportunity to continue to do so. Rather than all interests having to cope with the current cliff edge approach to retirement, increased flexibility will help employers improve the retention and transfer of knowledge and skills in the workforce. Employment must be focused on ability, not on age.

Will there be more changes in the future?

Later this year we will publish proposals to sustain the LGPS and increase its flexibility. The proposals will provide mechanisms to help to make the transition from work to retirement a more smooth and gradual process. We will develop proposals alongside anticipated Inland Revenue changes, which are currently being considered in Parliament, to offer employees who would like to carry on working the opportunity to do so, while drawing on part or all of their accrued LGPS pension benefits. These changes could help people to adjust their work-life balance, perhaps by moving from full-time to part-time work or to a less onerous post.

SECTION B - What will the changes mean to me?

Will I still be able to retire before age 65?

Yes.

The draft amendment regulations do not alter the provision in the LGPS that allows members who reach age 60 to make an election to receive their pension benefits.

If your local government employment has ended and you are over 60, you do **not** need your employer's consent for the benefits to be paid – you are entitled to them. When your administering authority calculate the amount of your LGPS benefits they will take into account your age, and how much membership you have, at the date the payment of your pension starts to determine whether, and to what extent, the benefits should be reduced to reflect any early payment.

Will I get the benefits I have paid for to date?

Absolutely.

The Government has explained that **all** pension rights accrued from past service will be fully protected. The value of your accrued pension rights – that is rights up to the date of the proposed Scheme amendments (1 April 2005) – are protected by law.

I am a deferred member of the Scheme. What effect will the proposed changes have on my benefits?

None.

A deferred member is someone who has left local government employment or who has opted to leave the LGPS, but is not yet entitled to the payment of his or her LGPS benefits. The proposed changes will have no effect on your deferred benefits **unless**

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you start a further period of LGPS membership **and** choose to join your deferred benefits with that membership.

I am a pensioner member of the Scheme. What effect will the proposed changes have on my benefits?

None.

If you are already receiving LGPS benefits the proposed changes will not have any effect on the pension you are receiving.

I am a current member of the Scheme. What effect will changing the '85 year rule' have on my benefits?

You are **NOT** affected provided your age plus LGPS membership (in whole years) when added together will not equal at least 85 at any point before your 65th birthday (i.e. you will have 20 years' membership, or less, at age 65). If this applies to you, your LGPS benefits would not normally have been paid before your 65th birthday, unless they were reduced to reflect the fact they were being paid early. The proposed changes do not affect you.

The change **will** have implications for you if your age plus LGPS membership (in whole years) when added together will equal 85 at some point before your 65th birthday. The exact extent to which you are affected will depend upon how much of your membership will relate to employment after the proposed date of change – 1 April 2005. Only your membership after this date will be affected by the proposed change of rules.

In addition, the proposed changes to the '85 year rule' will **NOT** affect certain members who are close to retirement and who could, under the current provisions of the Scheme, become entitled to the payment of unreduced LGPS benefits before 1 April 2013 (see below).

I am a current member of the Scheme and I plan to retire before 1 April 2013. How do the proposed changes affect me?

If your age plus your LGPS membership (in whole years) when added together will equal at least 85 **and** you will be at least 60 years old by 31 March 2013, the changes include transitional arrangements which apply to you. The transitional arrangements mean that any membership up to 1 April 2013 or your actual date of retirement, whichever is earlier, will not be affected by the change in rules.

Annex A sets out some examples of how the transitional arrangements will affect members who are in this situation.

I am a current member of the Scheme but I will not reach age 60 and satisfy the current '85 year rule' before 1 April 2013:

The proposed changes mean that **any** part of your LGPS benefits that is based on future membership of the Scheme (that is membership after 31 March 2005) would be subject to a reduction if paid before you reach age 65.

If your age plus your LGPS membership (in whole years) when added together will equal at least 85 on a date before you attain age 65, then any part of your LGPS benefits that is based on membership before 1 April 2005 would not be reduced if paid on or after that date.

Annex B sets out some examples for these members.

I am a current member of the Scheme and I will reach age 60 and satisfy the current '85 year rule' before 1 April 2013, but what will the effect on my pension be if I choose to work for longer?

If your age plus your LGPS membership (in whole years) when added together will equal at least 85 **and** you will be at least 60 years before 1 April 2013 then any part of your LGPS benefits that is based on membership before the 1 April 2013 (or your date of retirement, if earlier) would not be reduced if paid before you reach age 65.

But, any part of your LGPS benefits that is based on service on or after 1 April 2013 would be subject to a reduction if paid before you reach age 65.

Annex A sets out some examples of how the proposed change would affect these members.

SECTION C – Retirement Before Age 60

Will the LGPS be able to pay pension benefits from age 50 in the future?

The Government has stated that it plans to increase the minimum age at which ALL pension schemes can pay pension benefits from 50 to 55 by 2010. These plans were published in December 2003 by the Inland Revenue, in their paper "*Simplifying the taxation of pensions: The Governments proposals*" and the June 2003 White Paper "*Simplicity, Security and Choice: Working and Saving for Retirement*" (CM 5835).

Does the LGPS currently allow members to retire between ages 50 and 60 with their pension paid from the date they leave?

The LGPS allows members who reach age 50 to make an election to receive their pension benefits. But, if your local government employment has ended and you are between ages 50 and 60, you need your employer's agreement to pay your pension early – you are **not** automatically entitled to your pension.

However, the current regulations mean that if your employment ends because you are

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made redundant you are entitled to the payment of your benefits if you are age 50 or over at the time your employment ends.

What will the changes in the LGPS mean and when will they happen?

From 1 April 2005 only members who have reached age 55 will be allowed to make an election to receive their LGPS benefits or will be entitled to the immediate payment of LGPS benefits following redundancy.

However, where a member of the Scheme reaches age 50 (or more) by 31 March 2005, the proposed changes to increase the minimum benefit age, from age 50 to 55, do not affect them. Where such a member's employment is terminated because they are made redundant, they will continue to be eligible for the immediate payment of their LGPS benefits. These members will also be allowed to make an election to receive their pension benefits between age 50 and 55 if their employment ends - subject to the employer agreeing to pay the LGPS benefits early.

Will I still receive my pension if I have to leave employment due to ill-health?

Yes.

The change to the minimum retirement age, from 50 to 55, will **not** affect ill-health retirement pension benefits. If you are entitled to ill-health retirement benefits these will be paid irrespective of your age.

The following sets out some examples of how the proposed changes will work and the relevant reduction factors.

ANNEX A

Example 1

Male or female member who is 60 on 31 March 2011 and satisfies the '85 year rule'

Joined the LGPS: 1 April 1986;

Retirement date: 31 March 2011

Age at retirement: 60

Membership at retirement: 25

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

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First check whether the current '85 year rule' is satisfied at retirement:

To do this we check the calculation: age (when member elects to receive LGPS benefits) + membership = 85 (or more)

Which for this example is: $60 + 25 = 85$ - Which means that this member does satisfy the '85 year rule'.

Because the member reached age 60 and satisfied the 85 year rule before 1 April 2013 the proposed changes mean that none of the LGPS benefits in relation to any membership up to 1 April 2013 will be reduced:

Membership up to 1 April 2013 or date of retirement (if earlier): 25 years

The member's pension is based on 25/80ths of their final salary, because all their membership relates to employment before 1 April 2013 and the criteria for the transitional provisions are satisfied.

So the pension is: £ 4,687.50

And the Lump sum for this period is: £14,062.50

No further service to consider.

Example 2 Annex A

Male member who is 60 on 31 March 2013 and satisfies the '85 year rule', but does not retire until 31 March 2015

Joined the LGPS: 1 April 1986;

Retirement date: 31 March 2015

Age at retirement: 62

Membership at retirement: 29

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31

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March 2013? Yes, the member satisfied the rule on 31 March 2013 (Age (60) + Membership (27 years) = 87 at 31 March 2013.

Because the member reached age 60 and met the 85 year rule before 1 April 2013, the proposed changes mean that none of the LGPS benefits which are based upon membership up to 1 April 2013 will be reduced. All benefits which relate to service from 1 April 2013 will be reduced if benefits are paid before age 65.

Calculation:

Membership up to 1 April 2013 or date of retirement (if earlier): 27 years

The member's benefits are based on 27/80ths of their final salary for membership up to 1 April 2013.

Pension for this period of membership is: £ 5,062.50

Lump sum for this period is: £15,187.50

Membership from 1 April 2013: 2 years

The member's benefits are based on 2/80ths of his final salary for membership between 1 April 2013 and 31 March 2015. But, this period of membership is subject to a reduction because the benefits are being paid 3 years before the member reaches age 65.

Unreduced pension for this period is: £375

Less reduction to reflect payment at age 62: (22%) (£ 82.50)

Reduced pension: £292.50

Lump sum for this period: £1,125

Less reduction to reflect payment at age 62: (7%) (£ 78.75)

Reduced lump sum for this period: £1,046.25

Both periods combined give total benefits of:

Total pension per annum: £5,355

Total lump sum: £16,233.75

Example 3 Annex A

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Female member who is 60 on 31 March 2013 and satisfies the '85 year rule', but does not retire until 31 March 2015

Joined the LGPS: 1 April 1988;

Retirement date: 31 March 2015

Age at retirement: 62

Membership at retirement: 27

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31 March 2013? Yes, the member satisfied the rule on 31 March 2013 (Age (60) + Membership (25 years) = 85 at 31 March 2013.

Because the member reached age 60 and met the 85 year rule before 1 April 2013, the proposed changes mean that none of the LGPS benefits which are based upon membership up to 1 April 2013 will be reduced. All benefits which relate to service from 1 April 2013 will be reduced if benefits are paid before age 65.

Calculation:

Membership up to 1 April 2013 or date of retirement (if earlier): 25 years

The member's benefits are based on 25/80ths of their final salary for membership up to 1 April 2013.

Pension for this period of membership is: £ 4,687.50

Lump sum for this period is: £14,062.50

Membership from 1 April 2013: 2 years

The member's benefits are based on 2/80ths of her final salary for membership between 1 April 2013 and 31 March 2015. But, this period of membership is subject to a reduction because the benefits are being paid 3 years before the member reaches age 65.

Unreduced pension for this period is: £375

Less reduction to reflect payment at age 62: (18%) (£ 67.50)

Reduced pension for this period: £307.50

Lump sum for this period: £1,125

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Less reduction to reflect payment before age 62: (7%) (£ 78.75)

Reduced lump sum for this period: £1,046.25

Both periods combined give total benefits of:

Total pension per annum: £4,995

Total lump sum: £15,108.75

Example 4 Annex B

Male member who is 60 on 31 March 2015 and satisfies the '85 year rule'

Joined the LGPS: 1 April 1986;

Retirement date: 31 March 2015

Age at retirement: 60

Membership at retirement: 29

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31 March 2013? No, the member was only 58 on 31 March 2013.

Will the member satisfy the '85 year rule' at retirement?

Yes - (Age (60) + Membership (29 years) = 89)

Because the member will satisfy the 85 year rule when their LGPS benefits are paid, the proposed changes mean that the LGPS benefits which are based upon membership up to 1 April 2005 will not be reduced. All benefits based on membership after 1 April 2005 will be subject to a reduction, because the benefits are being paid before age 65.

Calculation:

Membership up to 1 April 2005: 19 years

The member's benefits are based on 19/80ths of their final salary for membership up to

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1 April 2005.

Pension for this period of membership is: £ 3,562.50

Lump sum for this period is: £10,687.50

Membership from 1 April 2005: 10 years

The member's benefits are based on 10/80ths of his final salary for membership between 1 April 2005 and 31 March 2015. But, this period of membership is subject to a reduction because the benefits are being paid 5 years before the member reaches age 65.

Unreduced pension for this period is: £1875

Less reduction to reflect payment at age 60: (33%) (£ 618.75)

Reduced pension for this period: £1256.25

Lump sum for this period: £5,625

Less reduction to reflect payment at age 60: (11%) (£ 618.75)

Reduced lump sum for this period: £5,006.25

Both periods combined give total benefits of:

Total pension per annum: £4,818.75

Total lump sum: £15,693.75

Example 5 Annex B

Female member who is 60 on 31 March 2015 and satisfies the '85 year rule'

Joined the LGPS: 1 April 1990;

Retirement date: 31 March 2015

Age at retirement: 60

Membership at retirement: 25

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Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31 March 2013? No, the member was only 58 on 31 March 2013.

Will the member satisfy the '85 year rule' at retirement?

Yes - (Age (60) + Membership (25 years) = 85)

Because the member will satisfy the 85 year rule when their LGPS benefits are paid, the proposed changes mean that the LGPS benefits which are based upon membership up to 1 April 2005 will not be reduced. All benefits based on membership after 1 April 2005 will be subject to a reduction, because the benefits are being paid before age 65.

Calculation:

Membership up to 1 April 2005: 15 years

The member's benefits are based on 15/80ths of her final salary for membership up to 1 April 2005.

Pension for this period of membership is: £ 2,812.50

Lump sum for this period is: £8,437.50

Membership after 1 April 2005: 10 years

The member's benefits are based on 10/80ths of her final salary for membership between 1 April 2005 and 31 March 2015. But, this period of membership is subject to a reduction because the benefits are being paid 5 years before the member reaches age 65.

Unreduced pension for this period is: £1,875

Less reduction to reflect payment at age 60: (27%) (£ 506.25)

Reduced pension for this period: £1,368.75

Lump sum for this period: £5,625

Less reduction to reflect payment at age 60: (11%) (£ 618.75)

Reduced lump sum for this period: £5,006.25

Both periods combined give total benefits of:

Total pension per annum: £4,181.25

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Total lump sum: £13,443.75

Example 6 Annex B

Male member who is 60 on 31 March 2015 and does not satisfy the '85 year rule' at the date he retires, but would have satisfied the rule before he reached age 65

Joined the LGPS: 1 April 1993;

Retirement date: 31 March 2015

Age at retirement: 60

Membership at retirement: 22

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31 March 2013? No, the member was only 58 by 31 March 2013.

Will the member satisfy the '85 year rule' at retirement? No - (Age (60) + Membership (22 years) = 82)

At what age would the member have satisfied the 85 year rule? Age 62 (62 + 24 years = 86)

Because the member would not satisfy the 85 year rule if his benefits are paid at age 60, all the benefits will be subject to a reduction. But, benefits that relate to service before 1 April 2005 are reduced by reference to the age at which the 85 year rule would have been met, ie age 62. This means they are paid 2 years early. Benefits that relate to service from 1 April 2005 will be reduced by reference to age 65, ie they are paid 5 years early.

Calculation:

Membership up to 1 April 2005: 12 years

The member's benefits are based on 12/80ths of his final salary for membership up to 1 April 2005, which is then subject to an actuarial reduction to reflect the fact that the benefits are being paid before the member satisfied the 85 year rule at age 62.

Unreduced pension for this period is: £2,250

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Less reduction to reflect payment at age 60: (15%) (£ 337.50)

LGPS pension for this period: £1,912.50

Lump sum for this period: £6,750

Less reduction to reflect payment at age 60: (5%) (£ 337.50)

LGPS lump sum for this period £6,412.50

Membership from 1 April 2005: 10 years

The member's benefits are based on 10/80ths for membership from 1 April 2005, which is then subject to an actuarial reduction to reflect the fact that the benefits are paid before the member reached age 65.

Unreduced pension for this period is: £1,875

Less reduction to reflect payment at age 60: (33%) (£ 618.75)

LGPS pension for this period: £1,256.25

Lump sum for this period: £5,625

Less reduction to reflect payment at age 60: (11%) (£ 618.75)

LGPS lump sum for this period £5,006.25

Both periods combined give total benefits of:

Total pension per annum: £3,168.75

Total lump sum: £11,418.75

Example 7

Female member who is 61 on 31 March 2016 and does not satisfy the '85 year rule' at the date she retires, but would have satisfied the rule before she reached age 65

Joined the LGPS: 1 April 1996;

Retirement date: 31 March 2016

Age at retirement: 61

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Membership at retirement: 20

Final salary for the 12 months up to retirement: £15,000

Benefits will be calculated as follows:

Would the member attain age 60 and satisfy the current '85 year rule' on, or before, 31 March 2013? No, the member was only 58 by 31 March 2013.

Will the member satisfy the '85 year rule' at retirement? No - (Age (61) + Membership (20 years) = 81)

At what age would the member have satisfied the 85 year rule? Age 63 (63 + 22 years = 85)

Because the member would not satisfy the 85 year rule if her benefits are paid at age 61, all the benefits will be subject to a reduction. But, benefits that relate to service before 1 April 2005 are reduced by reference to the age at which the 85 year rule would have been met, ie age 62. This means they are being paid 2 years early. Benefits that relate to service from 1 April 2005 will be reduced by reference to age 65, ie they are paid 5 years early.

Calculation:

Membership up to 1 April 2005: 9 years

The member's benefits are based on 9/80ths of her final salary for membership up to 1 April 2005, which is then subject to an actuarial reduction to reflect the fact that the benefits are being paid 2 years before the member satisfied the 85 year rule at age 63.

Unreduced pension for this period is: £1,687.50

Less reduction to reflect payment at age 61: (13%) (£ 219.38)

LGPS pension for this period: £1,468.12

Lump sum for this period: £5,062.5

Less reduction to reflect payment at age 61: (5%) (£ 253.12)

LGPS lump sum for this period £4,809.38

Membership from 1 April 2005: 11 years

The member's benefits are based on 11/80ths of her final salary for membership from 1 April 2005, which is then subject to an actuarial reduction to reflect the fact that the

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benefits are paid before the member reached age 65.

Unreduced pension for this period is: £2,062.50

Less reduction to reflect payment at age 61: (23%) (£ 474.38)

LGPS pension for this period: £1,588.12

Lump sum for this period: £6,187.50

Less reduction to reflect payment at age 61: (9%) (£ 556.88)

LGPS lump sum for this period £5,630.62

Both periods combined give total benefits of:

Total pension per annum: £3,056.24

Total lump sum: £10,440

Reduction Factors in the LGPS

Using the factors which are currently in the LGPS the reductions for retirement before age 65 are as follows:

Years Early	Percentage Reduction		
	Retirement Pension		Lump Sum
	Men	Women	Both Sexes
0	0	0	0
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11
6	37	31	14
7	40	35	18

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8	43	39	21
9	46	42	24
10	48	45	26

NB: Where the number of years before age 65 is not an exact number (ie 4 years and 6 months) the necessary interpolations are made in the table. For 4 years 6 months, for example, the percentage reduction would be 30.5 for a man and 25 for a woman. The lump sum percentage reduction would be 10.

**Local Government Pensions Division
Office of the Deputy Prime Minister
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