

ODPM proposals to amend the Local Government Pension Scheme.

This note explains the changes that the Office of the Deputy Prime Minister has recently consulted on to amend the Local Government Pension Scheme in England and Wales. It is proposed that, subject to Ministerial approval, the changes will take effect from 1 April 2005.

What is proposed?

1. That the 85 year rule is removed from the Scheme for service from 1 April 2005. However, where members were born before 1 April 1953, only service after 31 March 2013 will be affected.
2. That the minimum age benefits can be paid, other than on the grounds of permanent ill health, is increased from age 50 to age 55 with effect from 1 April 2005. But not for current members who were born before 1 April 1955.

1. Who is not affected by the removal of the 85 year rule?

If you will be 60 or over before 1 April 2013 and you will satisfy the current 85 year rule by then, the benefits you accrue up to that date will not be affected by the changes. However, benefits you accrue from membership after 31 March 2013 will be reduced if you choose to have your pension paid before you are 65.

If you will not satisfy the 85 year rule before you reach age 65, you are not affected by the changes. Your benefits under the current Scheme would be reduced if paid before your 65th birthday and the amount of the reduction after the proposed changes have been made will be exactly the same. Therefore, the proposed changes do not affect you.

What is the 85 year rule?

The 85 year rule is a test which is used to calculate whether your pension benefits should be reduced if they are paid to you before you reach age 65.

Under the current rules, if you ask for your pension to be paid before age 65 it will be reduced to reflect the cost of paying it to you early, unless you satisfy the 85 year rule.

This is the test:

Age (whole years) + LGPS membership (whole years) = at least 85 years

If your age and membership does not equal at least 85 when your benefits are paid, your benefits, if paid before age 65, could be reduced.

Note: If your employment ends because of redundancy, efficiency or ill-health retirement, then LGPS benefits are not subject to a reduction if paid early.

What will the test be in the future?

All benefits from membership of the Scheme after 31 March 2005 will be reduced if you choose to have your pension paid before you are 65.

BUT, all membership up to 1 April 2005 is protected. Benefits from this period will not be reduced if you satisfy the 85 year rule when your benefits are paid.

What would the changes mean?

The changes would mean that for service from 1 April 2005, the earliest age at which unreduced LGPS benefits will be paid is 65. If benefits are paid before age 65, they would be reduced to reflect the cost of paying them early unless:

- benefits are paid earlier due to ill-health or redundancy / efficiency, or
- benefits are paid before 1 April 2013 to a member who would be 60 or over by 31 March 2013 and would satisfy the 85 year rule by that date.

All membership up to 1 April 2005 will continue to be treated as it is now.

Does this affect when you can retire?

No - the 85 year rule has nothing to do with when you can retire.

- The Scheme allows you to choose to receive your pension from age 60 onwards (if your employment has ended).
- If you voluntarily cease your employment after you reach age 55 (or after age 50 if you were born before 1 April 1955) but before you reach age 60 you can ask for your pension to be paid. BUT it is up to your employer to decide whether to agree to pay pension before age 60. There is no right to receive a pension before age 60, so you should not assume that your employer will agree to pay it. Each employer has a written policy on how they will consider whether to pay a pension before age 60.

However, if your employment ends because of permanent ill health your benefits would be paid immediately, regardless of age and without reduction. If your employment ends by reason of redundancy or efficiency unreduced benefits would be paid immediately if at that time you are aged 55 or over (or aged 50 or over if born before 1 April 1955).

Why are the changes being made?

On average, people are living longer. This means pension schemes pay benefits to members for longer after they retire. The cost to the Pension Fund of paying your pension is therefore greater because pensions will be paid for a longer period of time.

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

- 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 generally not before age 65.

This is what the proposed changes to the LGPS are designed to achieve.

2. The Minimum Benefit Age Increase

The earliest age at which you can receive a pension is being increased to age 55. What does this mean to you?

Currently, unless retiring on health grounds, a member must be 50 or over before a pension can be paid. From 1 April 2005 a pension will not be paid to a member before age 55, unless the pension is paid due to ill-health.

This means that in the future you will not be able to ask your employer to pay your pension until age 55 at the earliest. The employer can still decide not to agree to pay your pension until age 60.

Also, a pension will not be paid immediately to a person who is made redundant on or after age 50 and before age 55.

Who is not affected by the change?

If you were born before 1 April 1955, this change does **not** affect you.

If you were born after 31 March 1955 the earliest age at which a LGPS pension can be paid to you is 55, unless you become entitled to an ill-health retirement pension.

Further information?

The ODPM website contains examples of how the proposed changes would affect certain members. It is available at:
<http://www.xoq83.dial.pipex.com/afaqx.htm>

You may also wish to consider asking your pension fund administrators for further information. If you are uncertain who to contact, your employer should be able to provide you with the appropriate details.