



Pension Matters

March 2011

Local Government Pension Scheme



Newsletter from the
Northamptonshire Pension Fund

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Welcome to the latest newsletter of the Northamptonshire Pension Fund. This newsletter is intended to keep you updated on the important changes in the Local Government Pension Scheme (LGPS).

A big development in the world of public sector pensions which the LGPS is part of is the review that the Independent Public Service Pensions Commission have appointed Lord Hutton to undertake. This newsletter will provide you with information on Lord Hutton's findings so far.

There have been some important regulation changes that you also need to be aware of especially if you have pension benefits with another LGPS Fund that you have not combined with your current period of membership with this Fund. You can read more about this and other changes in this newsletter.

I hope that you find this newsletter informative. The Pension Fund are always looking to improve the service that we provide to all our members and would welcome any comments you have on any of the articles for future editions of Pension Matters.



Ian Gibbon, Pensions Manager,
Northamptonshire Pension Fund

Changes to pensions increase

In the last budget, the government announced changes to the way that all public sector pensions, including the LGPS, will increase in the future.



In the past, increases have been awarded annually, in April, to pensions in deferment and pensions in payment. This increase was based on the Retail Price Index (RPI) but from April 2011 it will be based on the Consumer Price Index (CPI).

Increases that have already been awarded will not be affected. However, future increases

may tend to be lower as historically CPI has been lower than RPI. The government has stated however that CPI is a more appropriate measure than RPI and the Northamptonshire Pension Fund is bound by law to increase pensions in accordance with government instructions.

2011/2012 employee contribution bands



Contribution Rate (%)	Pensionable Pay Range*
5.5%	£0 – £12,900
5.8%	£12,900.01 – £15,100
5.9%	£15,100.01 – £19,400
6.5%	£19,400.01 – £32,400
6.8%	£32,400.01 – £43,300
7.2%	£43,300.01 – £81,100
7.5%	£81,100 +

*Subject to the passing of statutory regulations.

From 1 April 2011 the contribution bands on which your pension contributions are based will change. The rate you will pay from April will be assessed on the full time equivalent pensionable pay for your job. If you are part time it is still the full time pay for your post that is used to assess your pay banding but

you will only pay contributions based on your part time pensionable earnings.

If you work term time, the full time equivalent pay for your job is still used but is scaled down by the amount of weeks per year that you are paid for.

Have you suffered a reduction in pay

since 1 April 2008?



If your pay has decreased your pension may not be adversely affected straight away.

If during a continuous period of employment your pensionable pay is restricted or reduced for any reason (other than a temporary increase coming to an end) the best of the last three years' pay is used in the calculation of your final pension benefits. Or you can elect to have your final pay calculated on the best average* of any three consecutive years ending 31 March within your last

13 years of employment. This is provided that your reduced pay occurred within the last 10 years of employment.

This protection covers those who have been in active membership of the LGPS since 1 April 2008 and replaces Certificates of Protection that were previously issued by an employer when an employee's pay was reduced or restricted by no fault of their own.

* The "average" is based on the total of each of the three year's pensionable pay, divided by three.

Have you received equal pay compensation?

Regulations have been issued concerning the treatment of an Equal Pay Awards for pension purposes.

If you have been awarded an equal pay compensation payment by your employer in respect of an equal pay claim or single

status award, this is NOT pensionable and you should not have LGPS contributions deducted from it.

However, if the award or part of it, relates to arrears of pay, this is pensionable and your employer should deduct the appropriate pension contributions on it.



The Hutton Review of public sector pensions

You will probably be aware from media coverage that Lord Hutton has been appointed to chair the Independent Public Services Pension Commission. The Commission is to undertake a review of public sector pension provision, including the LGPS, in time for the 2011 Budget.

The Commission will make recommendations to government on how public sector pension schemes can become more sustainable and affordable in the future whilst being fair to both the public sector workforce and also the tax payer.

The Independent Public Services Pension Commission published its 176 page interim report on the reform of public sector pensions on 7 October 2010. This can be found on the Independent Public Service Pensions Commission website:

www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

A further paper 'Call for evidence for final report' was published and asked for evidence and views so that the following issues could be considered by the Commission.

Scheme Design	What is the appropriate future scheme design for public service pensions – Final Salary, Career Average, Defined Contribution or a Hybrid Scheme?
Risk Sharing	How can the risks associated with future pension provision (retirement age, longevity, investments returns, earnings, indexation factors and contribution rates) be managed?
Adequacy	Lord Hutton stated that public service pensions should be the benchmark for the private sector to aim for and there should not be a 'race for the bottom'.
Employee Understanding and Choice	How can we improve employees' understanding of pensions?
Pensions and Plurality of Provision of Public Services	The interim report considers the fairness for protecting staff on transfers. Whilst the interim report leaves it to Government to consider this for the future the further paper asks for views on this matter.
Administration Costs	How do public service administration costs, quality and efficiency compare to private sector?
Transitional Issues	If public service schemes are to change from what they currently are to a new scheme or schemes how can this be done smoothly?

Whatever changes are made, the Government has already given assurance that existing accrued rights will be protected.



New limits on pensions

The Government has announced plans to change the tax limits applying to pensions starting from April 2011. How this may affect you is illustrated here.

There are two limits involved, the Lifetime Allowance (LTA) and the Annual Allowance (AA).

Lifetime Allowance

The LTA is the limit on the total value of HMRC registered pension benefits that

you can draw without a penalty. This limit is currently £1.8 million but the Government may reduce this to £1.5 million from April 2012. The Government will set in place protection for those individuals who have already made decisions concerning their pension benefits based on the current LTA.

“The reduction in AA will affect more individuals than the reduction in LTA and especially those who are better paid and with lots of pension scheme membership”

Annual Allowance

The AA is a limit that applies year on year. It looks at the increase in the value of benefits from one year to the next. From April 2011 the AA will decrease from £255,000 to £50,000. The reduction in AA will affect more individuals than the reduction in LTA and especially those who are better paid and with lots of pension scheme membership. The following examples illustrate this.

To calculate the increase in value of your benefits you need to compare the pension in one year to the pension (and inflation) in the previous, then year, then, multiply the difference by 16. Then, work out the increase in value of any lump sums and AVC funds and inflation. Add these two figures together to get your total increase. You are permitted to carry over unused AA from the previous three tax years.

Example

A LGPS member on a salary of £50,000 with 30 years of membership in the LGPS. Allowing for the fact that pre 2008 benefits and post 2008 benefits are calculated differently, this is the value of the benefits accrued:

Pension: £19,375 and a lump sum of £50,625.

The next year the member is promoted and his salary increases to £60,000. As a result, his benefits increase to:

Pension: £24,250 and a lump sum of £60,750.

The 2011 benefits now need to be increased in line with CPI which, for the purpose of this example is 3%. This gives:

Pension: £19,956 and a lump sum of £52,144.

The real increase in value is calculated as follows:

Increase in pension value x 16 = £68,704.

Increase in lump sum: £8,606.

Total: £77,310

Clearly, £77,310 is £27,310 greater than £50,000. If individual years were looked at independently the member would have a tax charge to pay of 40% of the excess above £50,000 which would be £10,924. However, as this is the member's first promotion for several years the member can carry forward the preceding three years unused annual allowances. If these exceed the £27,310 the member does not have to pay the tax charge.

Further information on the reduction in Annual Allowance can be found on the HMRC website. The following link will take you straight there.

www.hmrc.gov.uk/pensionschemes/annual-allowance/reduced.htm

If you think you may exceed either the LTA or the AA, you may wish to seek independent specialist advice.

Changes to Survivor Pensions

The government has potentially increased the size of your survivor pension if you are in a Civil Partnership or have Nominated a Cohabiting Partner. Read on to find out if this affects you.

Civil Partners

The LGPS regulations have now been amended to put Civil Partners in the same position as married couples. Scheme membership before 6 April 1988 is now counted in the calculation of civil partner's survivor benefits where previously it was excluded.

This change was effective from 1 April 2008 and applies to anyone who has been the registered civil partner of an active member since that date.

Nominated Cohabiting Partners

If you have declared a cohabiting partner you can now elect to pay further contributions to include your scheme membership before 6 April 1988 in the calculation of your partner's pension, payable following your death.

You have the option of buying your pre 6 April 1988 membership in full or in part by means of additional pension contributions. There is a time limit to take advantage of this opportunity and so elections to proceed with paying additional contributions must be received by the Pension Fund on or before 31 March 2011.

The Pension Fund has identified members who have completed a Nomination of Cohabiting Partner form and have membership of the LGPS before 6 April 1988 and contacted them with regard to their options. If you are in this position and have not heard from us yet, please contact the Northamptonshire Pension Fund.

If you have yet to complete a Nomination of Cohabiting Partner form and are living with someone that you would like to receive a pension in the event of your death, please contact the Pension Fund and we will send you a form for completion straight away. If you have membership of the LGPS prior to 6 April 1988 please let us know if you are interested in having this count towards the calculation of survivor's pension and we will provide you with further details.



Combining previous periods of LGPS membership

Government have released a new set of amendment regulations which provided some important changes to the LGPS that could affect you.

Do you have a deferred pension from a previous period of LGPS membership that you have not combined with your current membership in the Northamptonshire Pension Fund?

When you rejoined the LGPS with Northamptonshire Pension Fund did you elect to keep the membership from your earlier employment(s), including any in this Fund, separate from your current active membership?

If you wish to consider combining your previous LGPS membership with your current you need to take action now by completing the "Previous LGPS Membership Option Form" found at the back of this booklet and return it to the Northamptonshire Pension Fund as soon as possible so that the necessary details can be obtained from your previous LGPS authority.

"Now it is possible for contributing scheme members to elect to combine any period of LGPS membership with their current membership"

Previously there was a time limit of 12 months from rejoining the LGPS to combine your last period of LGPS membership but with effect from 30 September 2010 the regulations were amended and some of the former restrictions applying to ability to amalgamate previous periods of LGPS membership have been relaxed. However, this is a for a limited time period only.

Now it is possible for contributing scheme members to elect to combine any period of LGPS membership with their current membership. But, this election must be made on or before 30 September 2011.*

Further information on combining periods of LGPS membership can be found on the Northamptonshire Pension Fund website:

www.northamptonshire.gov.uk/en/councilservices/jobs/pensions/pages/default.aspx

* Please be aware that the Government has announced how it will restrict tax relief on pension savings from April 2011. The Annual Allowance will be reduced from £255,000 to £50,000. Consequently some members may incur additional tax charges where elections to combine membership are made after 5 April 2011.

Ill health benefits

In 2008 new three-tiered ill health retirement benefits were introduced into the LGPS. The recent amending regulations have made some changes to these benefits which are detailed here. But first a quick reminder on what the ill health benefits are in the LGPS.

Tier	Qualification	Benefit Payable
Tier One	If you have no reasonable prospect of being capable of gainful employment* before age 65.	Ill health benefits are based on the membership you would have had if you had stayed in the Scheme until age 65.
Tier Two	If you are unlikely to be capable of gainful employment within 3 years of leaving but you may be capable of doing so before 65.	Ill health benefits are based on your membership built up to leaving plus 25% of your prospective membership from leaving to age 65.
Tier Three	If you are likely to be capable of gainful employment within 3 years of leaving, or before age 65 if earlier.	Ill health benefits are based on your membership at leaving. Payment of these benefits will be stopped after 3 years, or earlier if you are in gainful employment or become capable of such employment, subject to an 18 month medical review.

* Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months.

A member that retired on the third tier of ill health with a pension payable for a maximum of three years can now claim their “suspended” (stopped) pension from the age of 55 providing their previous employer consents to this.

If the pension is paid before age 65 it is reduced, but the employer can elect to waive this reduction on compassionate grounds. If a death grant becomes payable during the period of “suspension” it is calculated as five times the pension minus the pension and lump sum that has already been paid.

Previously a tier three ill health pensioner could have their level of benefit raised to a tier two benefit subject to a medical review

and without any time restrictions. Now, the medical review must take place no more than three years from the date that the tier three benefit ceased, or before the member reaches age 65 if that is sooner.

Also, members who reach age 65 during the first 18 months no longer require a medical review and those who reach age 65 during the first three years will not have their benefit ceased.

If a member returns to local government employment following receipt of an ill health award, any future ill health benefits that may become payable will be restricted to the total benefits that would have been awarded had a tier one benefit been awarded on the first medical retirement.

Death in service benefits

Changes to the LGPS regulations mean that there is extra protection for those who die in service and had reduced their hours of work prior to their death.

If you reduce your working hours due to an ill health condition that leads to your death, then your death grant and survivor benefits are protected. The reduction in your working hours due to your illness will be ignored in the calculation of the death grant payable which improves the value of the benefit payable.

Please remember that in order for Northamptonshire Pension Fund to pay a death grant to the person, people or indeed

organisation or charity of your choice you must complete an Expression of Wish form to inform the Fund of your wishes. In order for any death grant to be paid without being subject to inheritance tax, the Fund retains absolute discretion as to who the death grant should be paid. However, the Fund will be guided by your wishes.

If you do not complete an Expression of Wish form, any death grant will be payable to your estate and Probate may need to be obtained before the Fund can make payment.

To obtain an Expression of Wish form please contact the Northamptonshire Pension Fund.



Previous LGPS membership option form

AUTHORISATION TO OBTAIN FURTHER INFORMATION IN RESPECT OF
PREVIOUS LOCAL GOVERNMENT PENSION SCHEME (LGPS) SERVICE

Amendment regulations (Local Government Pension Scheme (Miscellaneous) Regulations 2010 – (SI2090)) now allow a current member a one-off option that expires on 1 October 2011 to amalgamate their previous LGPS service with their current LGPS service. This option applies to all members irrespective of if they have previously made an election to retain their deferred benefits.

Please complete your personal details here:

Title	
Forenames	
Last Name	

National Insurance Number	
Employer	
Payroll Number	

Home Address	
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Please provide the details of your previous LGPS membership below. If you have more than two previous periods of membership please provide details on a separate sheet.

Name of Previous LGPS Provider			
Address			
Dates of Membership		to	

Name of Previous LGPS Provider			
Address			
Dates of Membership		to	

Please attach a self certified copy of your birth and marriage/civil partnership certificate to this form.

Please note:

- You only have the right to aggregate any former LGPS Membership if you make an election to proceed with the amalgamation on or before 1 October 2011.
- If your previous membership is not held in the Northamptonshire Pension Fund, the Pensions Section will write to your previous LGPS fund authority.
- Once details have been received from the previous LGPS fund, the Pensions Section will write to you providing details of your previous LGPS membership and an election form.
- The Northamptonshire Pension Fund can not be held responsible for any delay caused by the previous LGPS fund in submitting data to this authority.

I hereby authorise Northamptonshire County Council Pension Fund to obtain information in respect of my previous Local Government Pension Scheme benefits from:

Signed		Dated	
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