

## Your pension scheme is changing

The Local Government Pension Scheme (LGPS) is changing from 1 April 2014. If you are paying into the existing LGPS you will automatically move across to the new scheme from this date.

Under the new scheme your pension builds up in a different way than at present. Other important changes include increased flexibility and new contribution rates.

At the time of writing the new scheme Regulations are still not finalised. This newsletter provides an overview of the changes as we currently understand them. Please see our website for further detailed information:

<http://pensions.cambridgeshire.gov.uk> or <http://pensions.northamptonshire.gov.uk>

### How much will the new scheme cost?

For most members the new scheme won't cost more than the existing scheme. The average cost for employees is still 6.5% of pay, but from April 2014 the highest earners will pay more.

Your contribution rate is still based on your pensionable pay. However, your rate under the new scheme will be based on your **actual pay** and not your full time equivalent pay. If you are part time the new scheme could cost you less.

The pensionable pay on which you pay pension contributions now includes non-contractual (as well as contractual) overtime.

The proposed member contribution rates are as follows:

Pay Bands	Contribution Rates
Up to £13,500	5.5%
£13,501 - £21,000	5.8%
£21,001 - £34,000	6.5%
£34,001 - £43,000	6.8%
£43,001 - £60,000	8.5%
£60,001 - £85,000	9.9%
£85,001 - £100,000	10.5%
£100,001 - £150,000	11.4%
Over £150,000	12.5%

Your employer will assess your contribution rate separately for each employment you hold and review this rate each April, and perhaps whenever your pay changes. The contribution bands themselves are expected to be reviewed every three years.

You will continue to receive tax relief on your pension contributions and National insurance contributions would also be deducted at a lower rate if in the LGPS.

## **Flexibility to pay less**

The new scheme offers considerable flexibility with a **50/50 option**.

In the 50/50 section of the scheme you pay only half of the normal contributions outlined above. In return you will build up half the normal pension for the period you are in the 50/50 section.

You will automatically be placed in the main section of the new scheme from 1 April 2014. You may choose to move to the 50/50 section, and then back to the main section, whenever you wish by making a written election.

The 50/50 section is designed to be a short-term option for periods when paying into the main section would prove financially challenging. Because of this your employer will re-enrol you back in the main section every three years. You would then need to make another election to move back to the 50/50 section.

During any period in the 50/50 section you still get full life and ill health benefits cover.

## **How does the new scheme work?**

The most significant change is that the new scheme is no longer a final salary scheme but a Career Average Revalued Earnings (CARE) scheme.

From 1 April 2014, for each year in the new scheme you build up a pension based on 1/49<sup>th</sup> of your **pensionable pay in that year**. The pension built up each year is added to your pension account, which is then adjusted in line with the cost of living at the end of each scheme year to ensure it retains its purchasing power. For any period in which you are in the 50/50 section your pension will build up at half this rate.

If you have been on reduced pay due to sickness or relevant child related leave, the pension you build up will broadly speaking be based on the pay you would have received had your pay not been reduced.

In the new scheme you can still exchange some of your pension to get a tax-free cash lump sum. The exchange rate is still £12 of lump sum for every £1 of pension given up.

## **When can I take my pension?**

Under the new scheme your Normal Pension Age is now the same as your State Pension Age (subject to a minimum age of 65). Normal Pension Age is the age when you can retire and take any pension you have built up in full.

The new scheme offers considerable flexibility beyond this. You are able to voluntarily retire and draw an immediate pension at any age between age 55 and 75.

If you choose to take your pension before your Normal Pension Age it will normally be subject to reduction for early payment – the earlier you take your benefits the greater the reduction.

If you delay taking your pension beyond your Normal Pension Age it will be increased due to it being paid later.

The rate of any reduction or increase has yet to be announced by government.

### **Protection for existing members**

Any pension you have built up prior to 1 April 2014 remains fully protected and will be based on your 'final pay', as at present.

The Normal Pension Age for payment of these benefits is also protected – this is age 65 for the vast majority of members.

Rule of 85 protections will also continue to apply, generally applicable to those individuals who have been members of the LGPS since before 1 October 2006. This protects some or all of your benefits from the early payment reductions that may otherwise apply.

Note that you cannot take your benefits built up to April 2014 separately from those benefits you build up from April 2014. All of your pension would have to be drawn at the same time if retiring voluntarily. Due to protections in place this means that different parts of your pension may be subject to different early payment reductions.

### **Additional protection for members nearing retirement**

If you are nearing retirement the new scheme provides an “underpin” that means that you will receive a pension **at least equal** to that you would have received if the scheme had not changed on 1 April 2014.

The underpin applies if you were an active member on 31 March 2012 **and** within ten years of your Normal Pension Age on 1 April 2012 **and** you haven't had a disqualifying break in membership of a public sector pension scheme of more than 5 years.

### **Flexibility to pay more**

From April 2014 there are two tax efficient ways to make additional pension savings to increase your pension. These are Additional Voluntary Contributions (AVCs) and Additional Pension Contributions (APCs).

### **Additional Voluntary Contributions (AVCs)**

As under present rules, AVCs enable you to flexibly build up extra pension savings through our selected AVC provider. From April 2014 contributions to new AVC

arrangements will no longer be limited to 50% of your pay. More information on AVCs is available on our website.

### **Additional Pension Contributions (APCs)**

From April 2014 the ability to buy extra pension through payment of APCs will be introduced. You can buy up to £6,500 additional pension (this limit is subject to increase), by paying regular APCs over an agreed term or by payment of a one-off lump sum.

The cost of APCs will depend on how much extra pension you want to buy, your age and the length of time you wish to pay. We will be able to provide more information on APCs from April 2014.

### **Shared Cost APCs**

From April 2014, Shared Cost APCs, where the cost is shared between you and your employer, will be used to enable you to cover the cost of any pension you “lose” during periods of unpaid additional maternity, adoption and paternity leave and during unpaid authorised leave of absence.

Your employer will meet 2/3rds of the cost of Shared Cost APCs arrangements to recover lost pension providing you make an election to pay within 30 days of returning to work.

Your employer will provide you with more information when a relevant event takes place after April 2014.

### **Existing additional contracts**

Payments under existing agreements for additional contribution contracts, including AVC, Additional Regular Contribution (ARC), Added Years, Part time Buy Back and Additional Survivor Benefit Contributions (ASBCs) will continue.

### **Where can I get further information?**

There is a range of further information on the new look LGPS, including more detailed leaflets, available on our website: [pensions.cambridgeshire.gov.uk](http://pensions.cambridgeshire.gov.uk) or [pensions.northamptonshire.gov.uk](http://pensions.northamptonshire.gov.uk)

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