Cambridgeshire Pension Fund
Northamptonshire Pension Fund

Pension Bulletin No. 27

LGPS 2014—an overview for employers

Key Points:

- A new account based LGPS is being introduced from April 2014
- The new scheme brings with it significant challenges for employers and payroll providers
- Information and system requirements for the new scheme differ considerably from those for the old scheme and are outlined below
- Accurate and timely employer information is critical to ensure the correct build up of pensions for your employees
- It is recommended you read the in-depth guidance available on our website and look out for future LGSS Pensions communications on this subject
- The Employers Team is available to support you through this period of change.

Further Details:

The LGPS is changing

You will be aware that April 2014 brings significant changes to the Local Government Pension Scheme. It is recognised that the changes being introduced bring special challenges to employers and payroll providers undertaking LGPS employing authority administration.

This bulletin provides an introduction to the main areas impacted by the new look scheme. Greater detail is provided in national HR and Payroll Guides and on our website.

We are currently undertaking a series of employer workshops and training events to inform employers of the new duties. We will also be issuing a number of communications on specific changes to our processes and documentation over the coming weeks.

Whilst the employer challenge cannot be understated, particularly the more onerous information and system requirements introduced by the new look LGPS, LGSS Pensions are committed to working with you to ensure the transition is as smooth as possible.

Please read this document carefully alongside our other communications and the national Guides. If you have any queries please do not hesitate to contact our Employers Team.

LGPS 2014 Recap

Firstly, a recap of the main scheme changes being introduced, with which you may already be familiar. We are undertaking a series of road shows informing existing members and those eligible to join of these changes and have recently sent to you a newsletter to make available to all staff eligible for the LGPS.

- The new look LGPS is no longer a final salary scheme; instead pension builds up under an account based system that provides 1/49th of pensionable pay in each year
- Members can elect to join a new 50/50 Section of the LGPS that provides half member benefits for half employee contributions
- Employee contribution bands and rates are changing and contributions rates are now determined by actual pay
- Normal pension age is now linked to State Pension Age (minimum 65)
- Members can voluntarily retire from age 55 (without requiring employer consent) and receive immediate pension benefits
- There are a series of protections and underpins for members moving from the existing scheme to the new look scheme
- The vesting period (where after a member becomes entitled to a benefit instead of a refund/transfer) has been increased from 3 months to 2 years.

An account based system

Under the new account based system the pension built up by a member is calculated at the end of each scheme year. This benefit is based entirely on employer data, namely the pensionable pay and the LGPS Section the member was in during the year.

The pensionable pay figure that feeds each member's account is a new information requirement termed Cumulative Pensionable Pay and should be supplied per employment, for those with multiple employments, and also per Section within each employment. i.e. If during a scheme year a member has been in both the 50/50 and Main Sections seperate Cumulative Pensionable Pay figures.

The accuracy of this data is critical to employee's pensions. Under the new look scheme, LGSS Pensions, in common with other LGPS scheme administrators, will only be able to undertake limited validation of the information supplied by employers. An employee may query the information you have supplied to build up their pension many years after the scheme year in question.

For this reason it is imperative that the supply of data is always accurate, timely and in accordance with the revised LGPS legislation.

Further information on Cumulative Pensionable Pay is outlined below. Ensuring your systems can report this cumulative and the relevant Scheme Section is critical to the employer information requirements of the new scheme; the cumulative is needed for numerous processes including monthly contribution pay over, dealing with cessations and end of year information.

Employee contributions

New contribution bands have been introduced. There are now nine bands and higher rates for the higher paid. Employee contributions rates from 1 April 2014 must be determined on actual pensionable pay, not full-time equivalent pensionable pay.

You must determine an appropriate contribution band for each employee/ employment in a reasonable and consistent manner. You must also review the band for each employee/ employment each April and, if you decide to, whenever there is a material change.

You must confirm to your employee their rate(s) from April 2014 and whenever you make a change, ensuring you include the employee's ability to appeal the decision.

For this reason we suggest you publish clear policy for this responsibility.

Pensionable Pay

The definition of Pensionable Pay has changed. In particular non—contractual overtime is no longer an excluded pay element and should now be included when calculating employee and employer pension contributions.

Cumulative Pensionable Pay

Determining an accurate Cumulative Pensionable Pay (CPP) per Section is critical to the calculation of a member's pension, with each member's pension account being based on these cumulatives. However, CPP is not always simply the pensionable pay on which an employee has paid pension contributions.

In certain circumstance, such as periods of reduced or nil sick pay or relevant child related leave, you will need to add an Assumed Pensionable Pay (APP) to this cumulative in place of the pay on which the employee has paid pension contributions.

APP is broadly speaking based on the employee's pay in the 12 weeks/3 months immediately prior to a period of reduced or nil sick pay or relevant child related leave. Significantly, during such periods, employer contributions are due on the amount of APP and not the amount of actual pensionable pay.

If you do not correctly add APP into the CPP figure provided to LGSS Pensions, the pension account for your employee will be under or over stated. For example, if you failed to add APP to the CPP for an employee off long term sick, the pension for the scheme year in question could be dramatically understated.

This is a considerable simplification of the process; further details are available in the HR and Payroll. Guides on the national LGPS Regulations and Guidance website.

Protections and underpin

The new look LGPS has a number of protections and underpins for staff who were in the LGPS prior to 1 April 2014.

The main protection in place is that benefits from membership before 1 April 2014 will normally be based on the LGPS 2008 (current) definition of pensionable pay at exit. For this reason you will need to provide LGSS Pensions with this final pay figure, for example, each year for annual benefit statement purposes for estimate purposes, when your employee leaves employment.

Furthermore, certain staff nearing retirement will have an additional protection in place that means they will not be in a worse position under the new scheme that they would have been if the current scheme had continued through to their exit.

Those still purchasing added years, where the additional contributions are expressed as a percentage will continue to pay that percentage of their pensionable pay as defined in the LGPS 2008.

You will therefore need to ensure your systems can continue to handle the LGPS 2008 definition of pensionable pay as well as the definition and cumulatives introduced by the new look scheme.

Due to the protections and underpin LGSS Pensions will continue to need details of material changes and breaks in service.

Additional Pension Contributions

Additional Pension Contributions (APCs) have been introduced as the successor to Additional Regular Contributions (ARCs). APCs are a method of members purchasing up to £6,500 of additional annual pension by means of either additional contributions paid over a period or a lump sum.

APCs are also the means by which members can buy back “lost” pension following authorised unpaid leave and strike breaks. Contributions in respect of the first 30 days of unpaid leave should no longer automatically be deducted in respect of any period falling after 31 March 2014. Instead the member may enter into an APC contract to replace the lost pension.

If the member makes an APC election within 30 days of their return to work, the cost of purchasing lost pension (except for strike absences) is shared in the proportions 1/3rd employee and 2/3rds employer. An online modeller for APC costs will be available shortly.

Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) continue to be a facility under the new scheme. However, for new contracts only the previous 50% of pay limit has been removed. Instead, a 25% limit on the tax free cash that can be generated by the AVC has been introduced.

Voluntary retirement from age 55

A major change is that from 1 April 2014 employees can voluntarily cease employment and, without requiring employer consent, elect to receive immediate pension benefits.

It is expected that significant early payment reductions would apply to the benefits being paid early, although an employer may choose to "switch on" the effect of the 'rule of 85', reducing the reduction in benefits but incurring employer capital costs.

The exact wording of the transitional 'rule of 85' provision has yet to be finalised and therefore detailed guidance on this area is not yet possible.

Discretions

The new look scheme requires employers to publish ploicies on the execise of a number of discretions covering the new scheme itself, transitional arrangements from the old scheme, 2008 scheme discretions still relevant and new discretions for post-31 December 2008/ pre-1 April 2014 leavers.

National guidance will be issued shortly confirming the exact discretions upon which policies are required; once made, employers must send a statement of their policies to LGSS Pensions and also publish it before 1 July 2014.

Change to vesting period

The vesting period (where after a member becomes entitled to a benefit instead of a refund/transfer) has been increased from 3 months to 2 years, as stated above.

Please be careful about employees currently in the ill health/ redundancy / efficiency/ flexible retirement process to ensure they meet this minimum qualification criteria for benefits if their last day of employment is 1 April or later.

Further information:

These are important changes for you to understand and implement for April 2014.

Please see the detailed HR and Payroll Guides on the national LGPS Regulations and Guidance website:

http://www.lgpsregs.org/

Please also see the LGSS Pensions website:

pensions.cambridgeshire.gov.uk or pensions.northamptonshire.gov.uk

We will be uploading a timetable of further communication in due course.

LGSS Pensions—Contact us:

You can contact the Employers Team at penemployers@northamptonshire.gov.uk