

beeline



News Bulletin of Merseyside Pension Fund, April 2007 / Issue 9



Phil Woolas M.P.

new look scheme draft regulations published



On 23 November 2006, the Minister for Local Government, Phil Woolas M.P. gave a written announcement to Parliament that, having consulted with Employers, Trades Unions, Societies and Individuals, the new-look LGPS scheme due for launch in April 2008, would have the following features:

Unfortunately the details surrounding many of these new features have yet to be finalised and there are a significant number of questions the Fund has submitted to the Department for Communities and Local Government, which are yet to be answered. However to try and explain as much as we currently understand, in the following pages we will look at each of the features.

- Scheme basis to remain as Final Salary with a 1/60th accrual rate but no automatic lump sum i.e. Option B.
- a normal retirement age of 65
- tiered contributions with lower contributions for the lower paid
- a minimum retirement age of 55 (50 for existing members until 2010)
- survivor's pensions extended to include nominated dependent partners
- death in service grants increased from two to three times pay
- tiered ill health retirement with enhancements based on ability to perform other 'gainful employment'
- final pay used in calculation to be either last 12 months or the best 3 consecutive years in the last 10
- flexible retirement subject to reduced hours/pay and employer discretion
- the opportunity for employers to enhance membership/benefits
- the opportunity for members to purchase additional pension of up to £5,000 p.a.

Did you get what you asked for?

In August we wrote to all 47,600 of our Scheme members asking for their opinion on the proposals for a new-look pension scheme due to take effect in April 2008. From the 2,200 responses we received, the results of the survey were as follows:

What is your preferred Scheme Option? (Figures in brackets show National Response)	A 59% (41%)	B 25% (42%)	C 8% (7%)	D 8% (10%)
Would you be prepared to pay a higher rate of Contributions?	Yes (70%)	No (26%)	No Answer (4%)	
Would you support Tiered Contribution Rates?	Yes (45%)	No (47%)	No Answer (8%)	
Would you support Two Tiered Ill Health Retirement?	Yes (39%)	No (53%)	No Answer (8%)	

Final Salary – YES!

A BETTER RATE AS WELL!

When the Government carried out the 'Where next?' consultation, which asked for feedback on the various options which could be made available under the 'new-look' scheme, the overwhelming response from all parties was to retain its Final Salary basis. What's more, the higher rate of accrual of 1/60th (rather than 1/80th) as favoured by the majority of respondents, is now the proposed basis for the Scheme, featured in the recently published draft regulations.

Unlike the current scheme, the new-look Scheme will have no automatic tax free lump sum, however members will be able to choose how much tax free cash they receive at retirement, by converting each £1 of pension accrued under the new scheme, for £12 tax free cash instead. It is important to remember that the new 1/60th rate will only apply to the membership built up in the Scheme AFTER 31 March 2008. Membership built up before April 2008 will provide pension and automatic tax free lump sum calculated upon the existing 1/80th rate using final pay at actual date of leaving/retirement.

So, is a 1/60th pension better than a 1/80th pension with automatic lump sum of three times pension? In short, YES. And here's why... Let's compare a member with final pay of £16,000 with 30 years membership at age 65, 15 years which occurred before April 2008 and 15 years after.

For membership before 1 April 2008 the pension and automatic lump sum would be calculated as follows:

$$15 \text{ years} \div 80 \times \text{£}16,000 = \text{£}3,000 \text{ (Pension)}$$

$$3 \times \text{£}3,000 = \text{£}9,000 \text{ (Lump Sum)}$$

For membership after 1 April 2008 the pension would be calculated as follows:

$$15 \text{ years} \div 60 \times \text{£}16,000 = \text{£}4,000 \text{ (Pension)}$$

By reducing the pension to £3,000 the £1,000 given up would give a lump sum of £12,000 i.e. £3,000 more cash.



"If the RETIREMENT AGE is NOW 65 does that mean I've got to work longer than I expected?"

No. The change in retirement age does not affect when you can CHOOSE to retire. If you are 60 or over you can elect to draw your pension benefits early, however as the pension will then be paid for longer, the

amount payable will be reduced. How much of a reduction will depend on:

- when you joined the Scheme
- how old you are/how many years membership you have

The table shows the reduction factors applicable where a member chooses to retire early and has no transitional protection.

Period remaining to age 65	Pension		Lump Sum
	Male	Female	Both
	Percentage reduction		
1	6	5	2
2	11	10	5
3	16	15	7
4	20	19	9
5	24	23	12

If you joined the Scheme before October 2006 you will have some protection against reduction if you satisfy the rule of 85 at retirement. If you were born before 1 April 1956 and satisfy the 85 year rule at retirement, ALL of your benefits would be

paid unreduced, provided you retire by 31 March 2016.

If you joined the Scheme after September 2006 any decision to retire before age 65 would result in reductions being applied to your benefits.

A change in the contribution rate

TIERED CONTRIBUTIONS

From April 2008 the contribution rate for Scheme members will be split as follows:

Full time equivalent earnings	Rate
Up to £12,000	5.5%
Balance over £12,000	7.5%

This means:

- Most* members earning less than £16,000 will pay less than they do now.
- Members earning more than £16,000 will pay more than they do now.

(*The protected rate of 5% paid by some former manual workers will no longer operate from 1 April 2008.)

Does that mean part time members earning less than £12,000 a year will pay less?

Not necessarily. Just as we calculate pensions for part time members based on the pay that WOULD have been earned had they been employed full time, the full time equivalent pay is used to determine the tier, then adjusted according to the hours actually worked.

For instance:

Chris earns £10,000 and works 18/36 hours a week. Under the current scheme the monthly contributions are: $£10,000 \times 6\% \div 12 = £50$

From April 2008 the contributions would be calculated as follows:

Full time pay	= £20,000	
Annual Contribution		
£12,000 at 5.5%	= £ 660 x 18/36	= £330.00
£ 8,000 at 7.5%	= £ 600 x 18/36	= £300.00 +
		= £630.00
Monthly Contribution =	$£630.00 \div 12$	= £52.50

	Bob works full time and earns £10,000 p.a.	Chris works part time, 18/36 hours a week and earns £10,000 p.a.	Jane works full time and earns £38,000 p.a.
Current Monthly contributions	£50	£50	£190
From April 2008 the amounts will be:	£45.83	£52.50	£217.50

Cost Sharing

Currently, the pension contribution made by members is a fixed rate of either 5 or 6%. If the cost of the Scheme changes, only the amount employers pay is adjusted accordingly.

The latest proposals suggest that 'Cost Sharing' be introduced by 1 April 2011 so that where the total cost of providing the Scheme changes, both members and employers rates may change.



Early Retirement

Currently only 1 in 20 Scheme members have to wait until age 65 to retire. The other 95% retire early for a variety of reasons; choosing to retire themselves from age 60, permanent ill health from any age, or from age 50 onwards; at their employer's discretion, on efficiency grounds or as a result of redundancy.

- Under the proposals for the new scheme, the earliest age at which members, other than those retired due to ill health, can be retired by their employer will increase to age 55*. (*For existing Scheme members at 31 March 2008 read 50, until 2010).



Survivor's Pensions for unmarried members

For many years unmarried members have remarked that having widows and widowers pensions paid to surviving dependants of Scheme members was unfair as it meant that to provide these benefits required a member 'getting married'.

Now, further to the introduction of survivor's pensions for registered civil partners in December 2005, the new look scheme now proposes the introduction of survivor's pensions for nominated cohabiting partners.

Survivor's pensions for all members, will continue to be calculated on 1/160th of membership multiplied by final pay, however for nominated cohabiting partners and registered civil partners only membership after 5 April 1988 will count.

It is proposed that before a pension can be paid to a nominated partner, certain conditions must be satisfied.

The suggested conditions that follow are currently used in the Teacher's Pension scheme, and are subject to formal confirmation:

- The member must have lived with their partner in a permanent exclusive relationship for a minimum of two years
- The member must be legally free to marry or to enter into a civil partnership
- The member and their partner must be financially interdependent
- The member must have 2 or more years membership counting for partner benefits

Some examples of financial interdependency are given below, but these are not exhaustive and not all may need to be met. Typically interdependency means:

- Sharing a household and its related spending
- A joint bank account or mortgage
- Wills made, naming each other as beneficiaries
- Mutual power of attorney

Financial interdependency need not be demonstrated at the time a partner is nominated. This will be verified when the member dies. Existing pensioners may nominate a partner and, as with members, will need to complete a form to nominate their partner, but should inform the Fund if the nomination no longer applies.

Short Term Survivor Benefits Removed

In the past, whenever a member died, a short term survivor's pension was payable based on the member's pay/pension for three months (six months if dependent children). This benefit is to be removed from April 2008.



Increase in Death Grants/Pension Guarantees

From April 2008 the Death Grant payable in the event of a member's death in service will increase from two to three years.

For members who die within 5 years of retirement the Scheme currently pays five years' worth of pension less the pension already paid, as a Death Grant. From April 2008 this 'pension guarantee' will be increased from five to ten years.



Tiered ill health retirement

From April 2008 the current method of enhanced benefits payable upon permanent ill health, will be replaced with a new, 'tiered' ill health retirement system. Currently, enhanced benefits are granted based on permanent incapacity and the number of years of membership already built up. From April 2008, enhancement will be awarded based on the likelihood of performing other 'gainful employment' and the number of remaining years to age 65. However any enhancement granted will be no less favourable than under the current regulations.

Tier 1.	If other gainful employment can be undertaken within a reasonable time of leaving local government employment, any benefits paid will be based only on membership accrued up to date of retirement.
Tier 2.	If other gainful employment cannot be undertaken within a reasonable time of leaving local government employment, but at some time before age 65, 25% of the prospective membership to age 65 will be added to membership accrued up to date of retirement.
Tier 3.	If no further gainful employment can be undertaken before age 65, 50% of the prospective membership to age 65 will be added to membership accrued up to date of retirement.

Illustration of the effect on pensions/enhanced membership of a Tiered Ill Health Retirement System

	Margaret aged 54 with 9 Years membership Enhanced Membership	Steve aged 30 with 9 Years membership Enhanced Membership
If retired under present conditions	9 Years	9 Years
If retired under tier 1	0 Years	0 Years
If retired under tier 2	*2.75 Years	*8.75 Years
If retired under tier 3	*5.5 Years	17.5 Years

*Where enhancements are granted they will be no less favourable than under the current Scheme. In this case that would mean an award of equal membership of 9 years.

Flexible Retirement

Although flexible retirement was introduced in April 2006, in October the rules were changed to require employers to publish a statement, by 31 December 2006, on how they would deal with requests from members. If your employer permits you to take flexible retirement you will be entitled to the benefits built up to the date of flexible retirement, however they may be subject to reduction for early payment. If you pay Additional Voluntary Contributions however, the benefits which result can only be paid once you have fully retired.

To avoid confusion over the pension amounts payable, it is advisable to first request an estimate from your employer.

Employers' Discretion to award membership/ additional pension

Under the new Scheme, employers will have the discretion to award up to a maximum of 10 years membership, or the balance to age 65 if less. This replaces the current system of augmentation where a maximum of 6²/₃ years may be granted. Employers have a further option to award additional pension, in addition to any extra membership granted while still employed.



Fund Accounts and Investment Review 2005/06



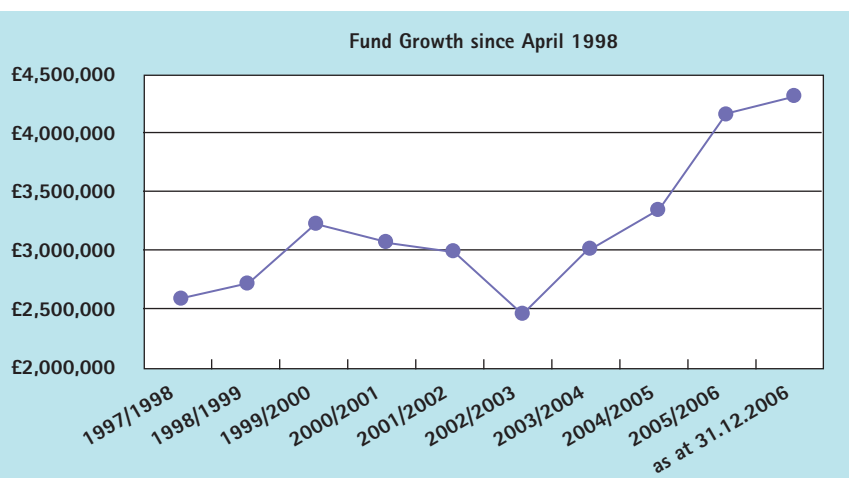
The financial year 2005/06 marked another strong period of investment growth for the Fund which achieved a total return of just under 23%.

As economic growth and activity remained positive throughout the world, we benefited from healthy investment gains from a highly diversified pool of international assets. It was a particularly good year for stocks and shares with the Fund's UK investments returning just under 27%, European stocks returning 36%, and North American investments up 26%.

Elsewhere, returns from Japanese investments were in excess of 50%. As the economies of China and India continued to develop at a rapid rate, we also saw solid returns from investments in the up and coming emerging world markets.

Outside the global stock markets, the Fund's property portfolio continued to perform well and was a major contributor to the growth in our assets with a return of just under 22%. In 2007/08, our investment officers will be working to ensure that the Fund's considerable assets continue to be put to the best possible use both here, at home and throughout the rest of the world to safeguard the interests of our members.

Fund Account	Year to	Year to
	31.03.06	31.03.05
	£000	£000
Contributions & Benefits		
Employees contributions	46,861	45,888
Employers contributions	137,443	124,242
Transfer values received	20,131	18,472
	<u>204,435</u>	<u>188,602</u>
Pensions	150,533	142,773
Lump sum benefits	24,400	20,717
Transfers out/refunds	17,682	31,721
Administration expenses	3,253	3,150
	<u>195,868</u>	<u>198,361</u>
Net additions from dealing with members	8,567	-9,759
Return on investments		
Investment income	70,181	70,413
Change in market values	679,507	271,194
Exchange	330	-144
Investment management expenses	-4,058	-4,156
Net return on investments	<u>745,960</u>	<u>337,307</u>
Net increase in the Fund during the year	754,527	327,548
Balance sheet		
Investment value as at 31 March	4,007,443	3,258,057
Cash at bank	8,179	90,326
Debtors and other assets	40,638	34,586
Creditors and provisions	-14,727	-95,963
	<u>4,041,533</u>	<u>3,287,006</u>
Net assets of the Fund at start of year	3,287,006	2,959,458
Increase in Fund during year	754,527	327,548
Net assets of the Fund at end of year	4,041,533	3,287,006



Additional contributions

The existing Scheme provides two alternative methods of increasing retirement benefits through the payment of additional contributions: Additional Voluntary Contributions (AVCs) and the purchase of extra membership (Added Years).

Under the new Scheme, AVCs will remain much the same as they are now, however no NEW contracts to buy Added Years will be allowed. Instead, members will have the option to buy units of £250 p.a. additional pension up to a maximum additional pension of £5,000 p.a. Contribution rates for this facility are not yet available. It is expected that those members currently paying additional contributions to buy added years, will be able to continue with their added years contracts.

AVCS AND TAX FREE CASH

Last issue we informed you of the amendment to the Scheme regulations which allowed you to potentially pay all of your taxable earnings as pension contributions and that you could also take up to 100% of your AVCs as a tax free lump sum at retirement, provided this was within the 25% overall limit.

We have now received a letter from the Department for Communities and Local Government (DCLG), notifying us that they are seeking comments on intended amendments to the regulations covering AVCs. The proposal is to limit Scheme AVC payments to 50% of salary and make the amendments retrospective to 6 April 2006.

The Fund has responded to the DCLG detailing our objections to the retrospective implementation of the proposed amendments.

QUESTIONING THE PROPOSALS?

"Why are these proposals for a new-look pension scheme being made?"

The Government's objective in light of increases to life expectancy and an ever-changing and diverse workforce has been to make changes to ensure the Scheme's long term existence for all existing and potential future members.

"Will I have to apply to join the new Scheme in April 2008?"

All members in the current Scheme as at 31 March 2008 will automatically become members on 1 April 2008.

"What is to happen about membership earned before April 2008 under the old rules?"

Current members will have their 'old' scheme membership 'banked' then calculated at the 1/80 pension and 3/80 lump sum rates based on final salary at date of leaving/retiring. From 1 April 2008 pensions will be calculated at the rate of 1/60.

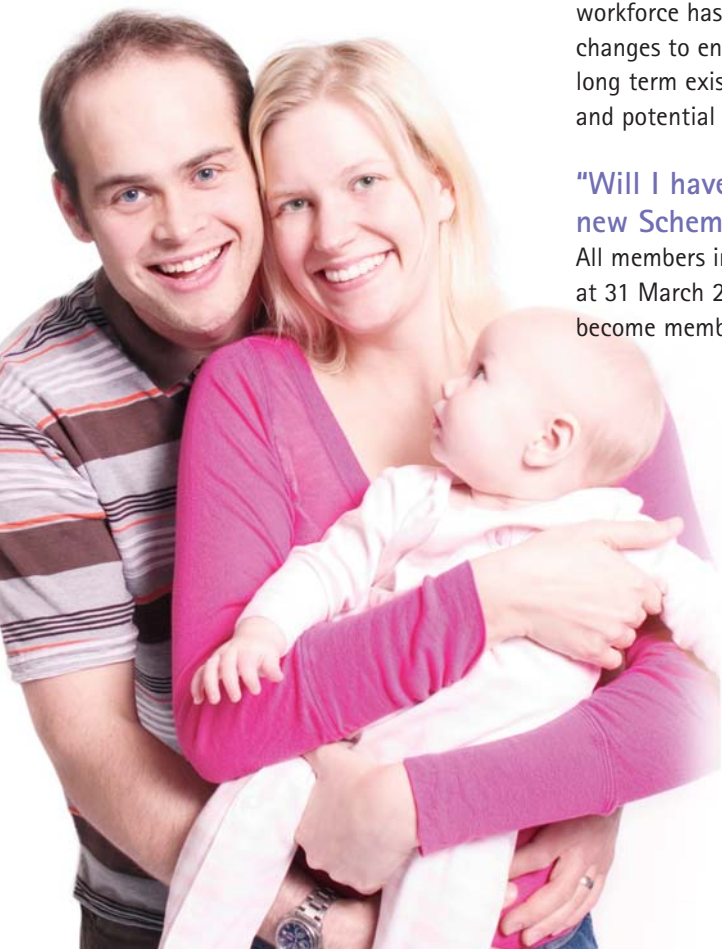
"How will the future cost sharing arrangements between employers and employees operate?"

We don't know, however cost sharing will probably affect the contribution rate paid by both employers and members.

"I'm not married but live with my partner and earn £16,000 per year. Under the new Scheme, what pension will he get if I die in service?"

He will receive a pension for life based on 1/160th of your final salary multiplied by your membership from 6 April 1988. If you were to die on 5 April 2008 he would actually receive:

$1/160 \times £16,000 \times 20 \text{ years} = £2,000 \text{ p.a.}$





Our new web site... ...already it's a year old!

The Fund's website has just celebrated the first anniversary of its re-launch in March 2006.

The re-design of the site and its content, has proved to be very popular with users. So much so that 813,492 recorded 'hits' have been made on the site since March 2006.

The website's role is central to the Fund's commitment to communicate in the most effective way to all members. It is the first place you can read about developments within the Pension Scheme.

Whilst beeline attempts to translate the details of all that is happening every few months, the website updates you every few hours. In a popular recent

addition, you can subscribe for an email to be sent to you whenever there is an addition or change to our website.

The Fund's E-mail Alert service can also send you the latest information, related links and news releases on the specific subjects you choose. Over one hundred subscribers currently take advantage of this service with numbers growing all the time. Subscribe today at:

www.merseysidepensionfund.org.uk/MPF?q=subscribe
(you can unsubscribe from this service at any time).



PRIZE competition

Jon Morris, an employee of Liverpool John Moores' University.

Last issue's winner

£25 of gift vouchers went to Jon Morris, who correctly solved the 'Sudoku' puzzle. Congratulations – Ed.

To win £25 of high street vouchers, highlight the 13 'Liverpool Landmarks' below in the following Wordsearch puzzle and send your entry to Merseyside Pension Fund, Beeline Competition 9, PO Box 120, Liverpool L69 2NW by 31 May 2007. The first correct entry drawn on 1 June 2007 will win. Please note entries are restricted to members and deferred members of the Scheme. Employees of Merseyside Pension Fund and their relatives may NOT enter.

R	G	L	K	G	N	N	N	R	I	E	S	I	R	P	T	O	T	L	D	B	A	M
C	U	N	A	R	D	B	U	I	L	D	I	N	G	R	M	I	R	E	F	A	C	R
S	U	L	N	A	E	E	R	T	A	E	H	T	E	R	I	P	M	E	L	O	P	U
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E	N	G	R	H	L	L	A	H	C	I	N	O	M	R	A	H	L	I	H	P	A	F
T	Y	I	L	C	O	F	O	T	N	R	G	H	F	R	Y	L	I	L	H	E	W	N

CUNARD BUILDING
CAVERN CLUB
RADIO CITY TOWER
WALKER ART GALLERY

GOODISON PARK
ANFIELD
EMPIRE THEATRE

ST GEORGES HALL
SEFTON PARK
ALBERT DOCK

PHILHARMONIC HALL
ROYAL LIVER BUILDING
WILLIAMSON TUNNELS

NAME: _____

ADDRESS: _____

DAYTIME TEL NO.: _____

PENSION NO./NATIONAL INSURANCE NO.: _____

Keep Updated

To keep updated with the latest Scheme news, visit:
www.merseysidepensionfund.org.uk/2008.htm

Alternatively subscribe to our email alert service at:
www.merseysidepensionfund.org.uk/MPF/?q=subscribe
and we will email you when the latest developments occur.

See 'Our new website' article on page 8.

What did you think of the annual benefit statement?

In December the Fund issued over 41,000 Annual Benefit Statements to Scheme members. Using a slightly different design we hoped to further improve by making the information clearer and more understandable than before. But it's not what **WE** think that matters, **tell us what YOU think?** Send your replies to Merseyside Pension Fund, PO Box 120, Liverpool L69 2NW.

Please tick the appropriate box for each question

	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly Disagree
The LGPS Benefits are easier to read/understand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Membership/Breaks in Membership sections are easier to read/understand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The State Benefits are easier to read/understand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Explanatory Notes are useful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Frequently Asked Questions are useful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(If you have any further comments please write them on a separate sheet of paper.)



Home Address

If you've moved, we need to know!

From now on, all pension scheme correspondence, except 'beeline' will be sent to your home address. So, if you change address, **YOU**, not your employer, will need to let the Fund know by either writing to us at the address shown on the back page, or by accessing:

www.merseysidepensionfund.org.uk/MPF/?q=Address

Why aren't we sending beeline to home addresses?

Beeline is not just for members, but for all staff who could join the Scheme if they want to.