



beeline



News Bulletin of Merseyside Pension Fund, August 2007

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The new look local Government pension scheme 2008

Usually, in beeline, we try to keep you up to date with the latest developments affecting members of the Local Government Pension Scheme and, in that respect, this issue is no different. What is different about this issue is that we are going to concentrate solely on those changes in the Scheme which will become effective next April and how they might affect you.

So, for this issue only, our other pension related articles such as answers to frequently asked questions, other useful items of information and the regular competition, will take a back seat until later in the year when we will revert to the usual format. As always, if you have any suggestions for articles, we would be pleased to hear from you.

New LGPS regulations now received

In April, the Government finally 'made and laid' the regulations which will introduce the New-look Local Government Pension Scheme with effect from 1 April 2008.

In this issue of beeline we will look at some of the most important changes arising from these regulations; what the changes are, how they will affect members, plus what we expect from further sets of regulations, which are imminent.



New accrual rate

1/60th

RATHER THAN

1/80th

The 'accrual rate' is the rate at which the fraction of your final pay increases for each year of Scheme membership.

Until 31 March 2008 the rate will remain as 1/80th per year for pension and 3/80th per year for lump sums, however for membership built up from 1 April 2008 the rate will become 1/60th per year for pension, without an automatic lump sum.

For example; a member with 8 years membership built up until 31 March 2008 and 30 years from 1 April 2008 would have benefits calculated on a final pay at retirement of £20,000 like this:

Benefits based on membership up until 31 March 2008.

$\frac{8 \text{ years} \times £20,000}{80} = £2,000$ ANNUAL PENSION

$3 \times \frac{8 \text{ years} \times £20,000}{80} = £6,000$ automatic tax free LUMP SUM

Benefits based on membership built up from 1 April 2008.

$\frac{30 \text{ years} \times £20,000}{60} = £10,000$ ANNUAL PENSION

No AUTOMATIC lump sum

The total benefits, automatically paid are therefore:

Pension = £12,000 p.a. Lump Sum = £6,000

Although an automatic lump sum will not be generated in respect of membership from 1 April 2008, members will be able to give up some pension and take a lump sum, at the rate of £1 of pension for each £12 of lump sum subject to a maximum of 25% of the capital value of their benefits.

"Which rate is better, 1/80th with automatic lump sum or 1/60th with the option to convert?"

In actual fact the 1/60th rate produces more pension per each year of membership and, after converting pension into lump sum, produces more tax-free cash per £1 of pension than the previous 3/80th rate.

Final Salary Retained

Scheme benefits will still be based upon FINAL SALARY - *that is, based on pay in your final year of membership and the number of years you have been a Scheme member. *(Councillors benefits remain based on a Career Average).

Age limit changed for early retirement

Currently, if a member aged 50 or over is made redundant/retired on grounds of efficiency, they are entitled to immediate payment of their LGPS benefits. From April 2008, for members joining the new-look Scheme, the minimum age will increase to 55. For members who joined the Scheme before 1 April 2008, the minimum age will increase to 55 from April 2010.

Please Note: Members retired due to permanent ill health, incapable of other gainful employment may receive immediate payment of their benefits at any age.

When can I retire?

The Normal Retirement Age for the Scheme is 65, but members still have the option to choose to retire from age 60, although their benefits may be subject to reduction unless;

- they joined the Scheme before 1 October 2006 and have full or partial protection against reduction because of the 85 year rule
- their employer decides to waive any reduction
- they are retired on grounds of ill health, redundancy or business efficiency
- they choose to draw their benefits from age 65



Tiered ill health retirement introduced

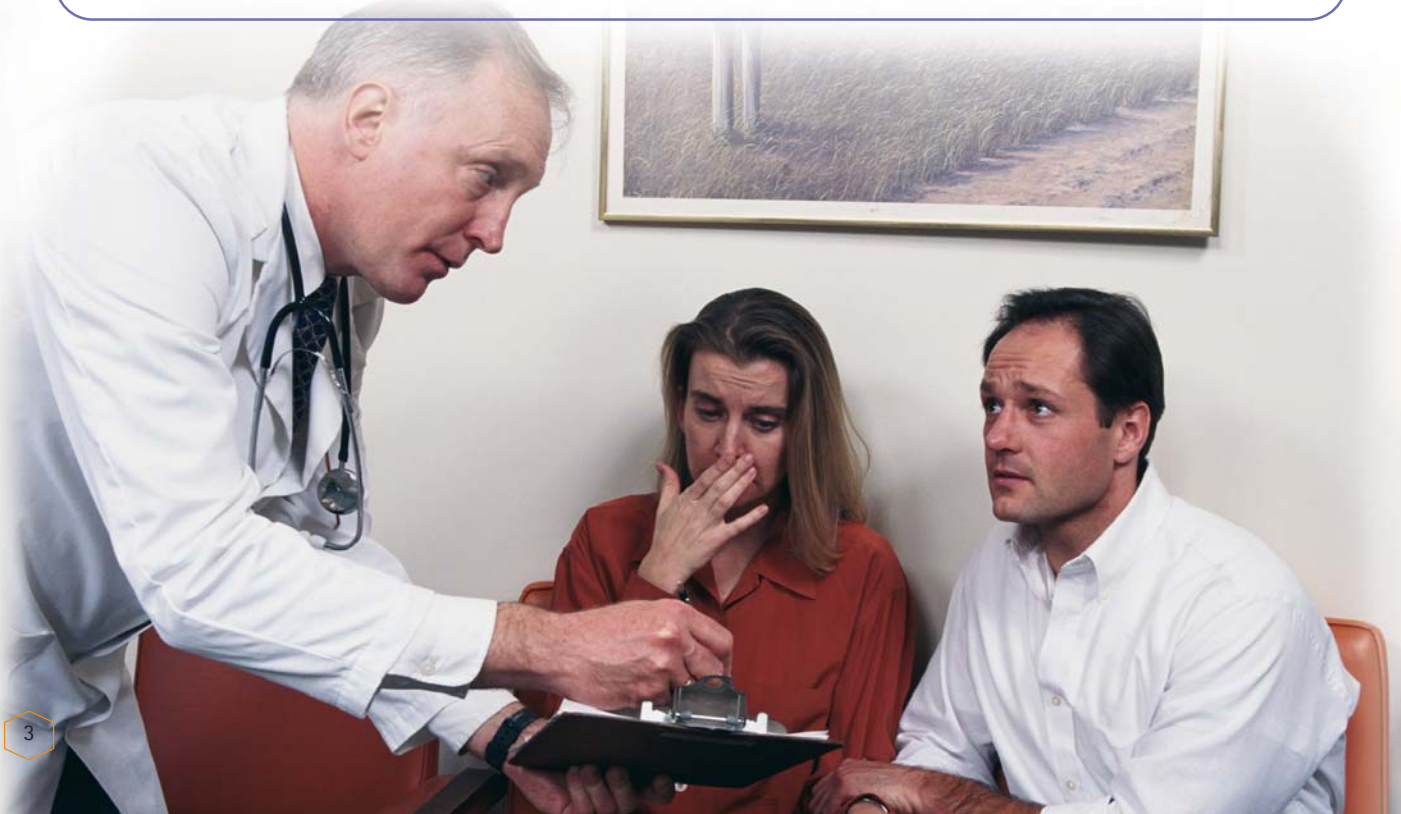
There will be 3 levels of ill health where immediate benefits can be paid to members who are permanently unable to carry out their job:

1 If a member is certified as incapable of gainful employment before age 65, the Fund will pay an ill health pension with benefits based on the years they have built up so far, plus enhancement of their potential membership to age 65.

2 If a member is certified as incapable of any alternative gainful employment within a reasonable period of time, but is likely to do so before age 65, the Fund will pay an ill health pension with benefits based on the years they have built up, plus enhancement of a quarter of their potential membership to age 65. For members aged 45 or over at 1 April 2008, the enhancement under the 'old' rules, where greater, would be applied instead.

3 If a member is certified to be permanently unfit for their local government job, but as being immediately capable of some other 'gainful employment' (i.e. working at least 30 hours per week for a minimum of 12 months) it is expected that separate regulations will be published to allow their employer to pay them a temporary ill health benefit.

The benefits payable are expected to be based on the amount of accrued benefits built up until date of leaving but payable only until further employment is obtained. As we receive further information we will update members using; posters on office notice boards, the Fund website or further issues of beeline.



Tiered contribution rates introduced for scheme members



In an attempt to 'even out' or 'equalise' the actual cost of Scheme membership, the new Scheme will introduce different contribution rates for different pay bands. Consequently all members' contribution rates will change. Your band will be decided by your pay on 1 April (or your rate of pay on entry if you joined after 1 April).

If you work part-time, the rate you pay will be based on the whole-time equivalent pay for your job, however contributions will only be paid on your actual earnings.

The rate determined for you in April will be payable for the whole year. Any subsequent change in your rate of pay during the year, may place you in a higher/lower band. It is still unclear as to the effect of a late pay award, the Fund will update you as soon as this is clarified by the Department for Communities and Local Government (DCLG). From April 2008, rates will be determined according to the following table:

Annual Rate of Pay at April 2008	Rate for existing 6% contributors from April 2008
£75,000	7.5%
£40,000	7.2%
£30,000	6.8%
£18,000	6.5%
£14,000	5.9%
£12,000	5.8%
£0	5.5%

Example 1: Peter, whose annual rate of pay in April is £18,000 per year, works full time. Currently he pays 6% of his pay, which equates to £90 per month (before tax). From 1 April 2008, he will pay 5.9% of his actual pay. (£88.50 per month, before tax).

Example 2: During the same year Peter decides to cut his hours in half. His whole-time equivalent pay is still £18,000 per year, however his contributions, which are still based on his original rate in April of 5.9%, are now only paid on £9,000 per year, or £44.25 per month, before tax).

Example 3: Joan works part-time hours of 15 hours a week out of a maximum of 35. Her annual rate of pay on 1 April 2008 is £8,000, but her whole time equivalent pay is £18,666 per year. ($35 \div 15 \times £8,000$).

Under existing regulations her contributions would be based on 6% of £8,000 per year, or £40 per month.

From April the full time pay sets her contribution rate at 6.5% - so from April 2008, she will pay 6.5% of her actual part time pay, which amounts to £43.88 per month.

Equalisation for current 5% contributors

For former manual' workers who currently pay a protected contribution rate of 5%, equalisation of contribution rates will take place over three years until April 2011 as shown opposite:

- Year 1 2008/09 - 5.25%
- Year 2 2009/10 - 5.5%
- Year 3 2010/11 - 6.5% (or lower, in accordance with the corresponding pay band from the table above).

Increase to Death in Service Benefits

Introduction of Survivor's Benefits for Nominated Co-habiting Partners

As well as increasing the Death Grant for members who die in service from two to three times pay, from April 2008, members will be able to nominate a co-habiting partner to receive a survivor's benefit upon the member's death. It is expected that the definitions and qualifications will be based upon those currently used in the Teachers' pension scheme.

Currently, when a member dies, a short-term pension based on the member's pay is paid to a surviving spouse/civil partner for up to 6 months. Under the new Scheme, this benefit is replaced with a long term survivor's pension becoming payable immediately on death.

Survivor's pensions are based on half of the pension the member would have received had they retired due to health grounds on the day they died. This is calculated

using membership built up to date of death PLUS potential membership to age 65. Survivor's pensions for co-habiting and registered civil partners are based on membership since April 1988, although it is expected that a facility may be introduced for membership prior to April 1988 to be counted, subject to payment of additional contributions or a reduction in benefits.

Example:

Mr Smith is married; if he dies in April 2008 he will be aged 52. He joined the Scheme at 27 and would have 25 years membership. His final year's pensionable pay is £20,000.

The Death Grant payable in accordance with his Nomination Form would be $3 \times £20,000 = £60,000$

The Survivor's Pension paid to his spouse is calculated using an accrual rate of $1/160$ th based on the 25 years of membership he has in the Scheme PLUS the 13 years membership he would have had up to age 65:

$$\text{i.e. } \frac{38 \text{ years } (25 + 13)}{160} \times £20,000 = £4,750 \text{ per year for the rest of her life}$$

Please note: You will be required to complete a separate nomination form in addition to the Nomination Form you may already have completed in respect of the lump sum Death Grant. These forms will be available early in 2008.

Thinking of Buying Additional Scheme Membership?

From 1 April 2008 the facility to purchase additional scheme membership will be removed, although members who have already started, or elect before April 2008, to buy extra years will be able to continue their payments after April.

In its place a new facility will enable members to buy extra annual pension, up to a maximum of £5000.

The option to pay Additional Voluntary Contributions (AVCs) remains.

Flexible Retirement – Option to Draw Partial Benefits Introduced

Although 'flexible retirement' was introduced in April 2006, from April 2008 there will be an option for those members granted flexible retirement to choose to take some or all of their benefits, whilst continuing to work in some reduced capacity - for example by a reduction in hours. This will only be possible with employer's permission if you are aged 50 or over (55 from March 2010).



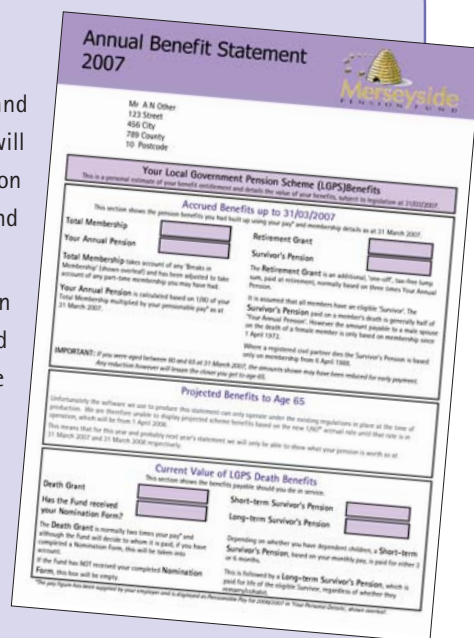
Annual Benefit Statements 2007

due for issue (later this year)

The forthcoming changes in the Scheme do not affect the way your pension is calculated in respect of membership before 31 March 2008. The statements we produce each year however, show not only present value of benefits but project their value based on membership up to age 65. Unfortunately the software we use to produce the statements can only operate under the existing regulations in place at the time of production. We are therefore unable to display projected scheme benefits based on the new 1/60th accrual rate until that rate is in operation, which will be from 1 April 2008.

This means that for this year's and probably next year's statement we will only be able to show what your pension is worth as at 31 March 2007 and 31 March 2008 respectively.

Also we have also received information from the Department for Work and Pensions (DWP) that because of the changes to State Pension legislation and computer software, we will not be supplied with State Benefit details in order to produce a combined statement until further notice.



Home Address

If you've moved, we need to know!

All pension scheme correspondence, except 'beeline' is sent to your home address. So, if you change address, **YOU**, not your employer, 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/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.



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