

The Rule of 85

The Rule of 85, introduced to the LGPS on 1 April 1998, meant that, if you were over 60 and your age plus your length of LGPS pensionable service equalled 85 or more, you could retire before age 65 with unreduced benefits. For instance, an employee aged 60 who had 25 years of pensionable service could retire with an unreduced pension.

The Rule of 85 was removed with effect from October 2006. This means that any benefits earned up to 30 September 2006 will be paid in full if the Rule of 85 has been satisfied at the date of retirement, but benefits earned on or after 1 October 2006 will be subject to a reduction if you retire before age 65. However, there will be some protection against the changes for current staff, i.e. those reaching age 60 by 2020. For those reaching age 60 by 2016, if the Rule of 85 applies there will be full protection.

Please note that the Rule of 85 does not affect your right to retire at 60 – only the amount of benefits you may receive in some cases.

For full details of all changes to the existing LGPS, as well as details of the new LGPS, see the LGPS website: www.lgps.org.uk

Pensions Seminars

This publication has hopefully explained the changes to the Local Government Pension Scheme, however, we have also arranged four seminars in different areas of the County for employees. The seminars will cover the characteristics of the new-look LGPS, applicable from 1 April 2008, in much greater detail. Numbers will have to be restricted so early application is advised. Final numbers are required by 24 December 2007. The dates and locations of the all-day seminars are:

- Barrow – Tuesday 5 February 2008
- Whitehaven – Wednesday 6 February 2008
- Carlisle – Tuesday 12 February 2008
- Kendal – Wednesday 13 February 2008

If you wish to attend one of these seminars please send an email to:

jim.nixon@cumbriacc.gov.uk with PENSIONS SEMINAR as the subject.

Please include the town and date of the seminar you wish to attend, as well as your Employer. *Thank you for your assistance.*

Contact Details

If you have any questions regarding your pension entitlement, please contact the Cumbria CC Administration Team using the details below:

Telephone: 01228 673696
 Fax: 01228 673173
 Email: sheila.bell@capita.co.uk

You can also write to the Team at:

Cumbria CC Administration Team
 Capita Hartshead
 The Capita Building
 Kingmoor Business Park
 Carlisle
 CA6 4SJ

Cumbria County Council administers the Cumbria Local Government Pension Scheme and uses Capita Hartshead for pensions administration.

Acknowledgement and Disclaimer

The contents of this newsletter are based on our understanding of the legislation and events as at November 2007. Nothing in this newsletter can override legislation. It is not intended to constitute advice and should not be considered a substitute for specific advice in relation to individual circumstances.

Pensions News

For members of the Cumbria Local Government Pension Scheme
 Part of the Local Government Pension Scheme (LGPS)

Welcome to the inaugural edition of Pensions News, the newsletter for members of the Cumbria Local Government Pension Scheme.

In this issue, we outline the proposals for a new-look LGPS and explain how these changes will affect your benefits. We also look in more detail at recent changes to the existing LGPS, including the new option to take an increased lump sum, which may be of particular interest to members approaching retirement.

If you have any queries about your benefits, please contact the Cumbria CC Administration Team at Capita Hartshead, whose details are on the back page of this newsletter.

I hope that you find this newsletter helpful and informative, and if you have any comments or suggestions for inclusions in future issues, please contact the Team at Capita Hartshead.

Bob Mather
 Deputy Chief Executive
 Cumbria County Council

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New-look LGPS

The Government has issued the legislation for the new-look LGPS, which will replace the existing scheme from April 2008.

The new LGPS offers an improved benefit package in comparison with the current Scheme and has additional flexible retirement options. The main benefits are described briefly in this newsletter, and we will let you know further details when all of the Regulations have been issued.

Contributions

- There will be tiered contribution rates for employees. The band you will fall into will depend on your full-time equivalent salary (including all pensionable allowances). Your contribution band will be reviewed following a change in your contractual circumstances **and/or** on a more regular basis as determined by your employer.
- If you are currently paying 6% contributions, the new contribution bands and rates from 1 April 2008 will be:

| Band | Pay Range | Contribution Rate |
|------|-------------------|-------------------|
| 1 | Up to £12,000 | 5.5% |
| 2 | £12,000 - £14,000 | 5.8% |
| 3 | £14,000 - £18,000 | 5.9% |
| 4 | £18,000 - £30,000 | 6.5% |
| 5 | £30,000 - £40,000 | 6.8% |
| 6 | £40,000 - £75,000 | 7.2% |
| 7 | More than £75,000 | 7.5% |

The Government has also announced that members who currently have a protected contribution rate of 5% will have the new contribution rate phased in over three years from 2008. By the end of that period, your contributions will be in line with the new contribution bands set out above. The phased increases are:

From 1 April 2008 the contribution rate for all members who are currently paying less than 6% contributions increases to 5.25%.

From 1 April 2009 the contribution rate for all members paying 5.25% increases to 5.5%.

From 1 April 2010 the contribution rate for all members paying 5.5% increases to:

| Band | Full-time Equivalent Pay Range (these will be increased annually by RPI) | Contribution Rate |
|------|--|-------------------|
| 1 | Up to £12,000 | 5.5% |
| 2 | £12,000 - £14,000 | 5.8% |
| 3 | £14,000 - £18,000 | 5.9% |
| 4 | £18,000 - £30,000 | 6.5% |
| 5 | £30,000 - £40,000 | 6.5% |
| 6 | £40,000 - £75,000 | 6.5% |
| 7 | More than £75,000 | 6.5% |

- In both scenarios (i.e. members who are currently paying 6% and members who have a protected contribution rate of less than 6%), the contribution bands will be increased each year to take account of inflation.

Benefits

- The new scheme will still be on a final salary basis but the accrual rate has been improved. You will receive 1/60th of your final salary for each year of pensionable service. A tax-free lump sum payable at retirement will no longer be automatic, but there will be an option to convert some of your pension to create one suited to your needs. You will be able to take up to 25% of the capital value of your benefits as a tax-free lump sum, and every £1 of annual pension converted will give a tax-free lump sum of £12. AVCs will still be available and may be used to form part of the lump sum.
- Your final salary will be defined as the better of your last year's whole-time equivalent salary, or either of the two preceding years ending with the day that is the anniversary of your date of leaving.
- If you move to a lower-graded role (other than as a result of flexible retirement), you will be able to choose to have your benefits calculated on the average of your best three consecutive years' salary in your last ten years of service (revalued in line with the Retail Prices Index).
- Benefits based on membership up to 31 March 2008 will be calculated using the rules that are in force now, which give an accrual rate of 1/80th of final salary for each year of scheme membership for pension and 3/80ths for lump sums. Benefits based on membership from 1 April 2008 will be calculated using the rules described above. The two amounts will then be added together to give you your total pension benefits payable from the LGPS.

Benefits continued

- If you wish, you will be able to purchase up to £5,000 of additional annual pension, in £250 blocks. In-house AVCs will also continue to be available.
- Survivors benefits will be payable for life to spouses, civil partners and "nominated" co-habiting partners at an accrual rate of 1/160th. The accrual rate for survivor benefits has not changed but the benefits have now been extended to nominated co-habiting partners. Benefits for civil partners and nominated co-habiting partners will be based on membership from 6 April 1988 onwards. Survivor benefits will also be payable to children, with the amount depending on the number of children and whether or not a spouse's, civil partner's or nominated co-habiting partner's pension is payable.
- If you die in service, your survivor(s) will receive a tax-free lump sum of three times your salary. If a member who has retired and is in receipt of a pension dies before his or her 75th birthday, a tax-free lump sum will be payable. The lump sum is the member's pension multiplied by ten, less pension payments already made.
- For new joiners after 1 April 2008, early retirement will not be allowed before age 55 (again, except on grounds of ill-health).
- If you choose to work beyond the age of 65, your pension will be enhanced.

Retirement options

- Flexible retirement with employer consent was introduced in April 2006 and allowed members over 50 (55 for new members from 1 April 2008 and for all existing members from 2010) to request a reduction in their hours and/or grade and request payment of their retirement benefits. This will be extended to allow members to choose whether they receive all or part of their retirement benefits whilst continuing in employment. Benefits paid before age 65 may be reduced to take account of early payment.
- A two-tier ill-health retirement package, with some enhancement for those with over two years' membership, will be introduced. Members who are medically certified as permanently unable to perform their duties because of ill-health, and are unlikely to obtain gainful employment before age 65, will receive their accrued pension entitlement plus membership enhancements up to normal retirement age. Members who are unlikely to obtain gainful employment in a reasonable time but are likely to do so before age 65 will receive their accrued pension entitlement plus 25% of prospective membership to age 65.

Retirement age

- The Normal Pension Age will be 65.
- From April 2010, the earliest permissible retirement age will be age 55 (except on grounds of ill-health).

Changes to the existing LGPS

As well as creating a new LGPS from April 2008, the Government has issued legislation amending the terms of the current LGPS. These changes include the removal of the maximum service rule, new increased contribution limits, amendments to the Rule of 85 and the introduction of a new lump sum option (discussed further below), and other changes.

Lump sum option

Benefits based on membership accrued up to 31 March 2008 automatically provide you with a tax-free lump sum at retirement of three times your annual pension. However, you are able to take a larger lump sum by giving up part of your annual pension, up to a maximum of 25% of the capital value of your pension benefits. Every £1 of pension you give up will give you an additional tax-free lump sum of £12.

Things to consider:

- If you are in any doubt as to whether to take advantage of this new lump sum option you should take independent financial advice. The Pensions Team can advise you of the maximum lump sum available to you but **cannot** provide financial advice as to whether or not you should take up the option.

- You need to consider that the £1 pension given up **may** be subject to income tax (subject to the level of your taxable income in retirement); the additional £12 lump sum would be tax-free.

- You would be giving up part of your "index-linked" pension, i.e. that part of your pension that increases with inflation.

- Life expectancy is an issue. If you retire at age 50 and live until you are aged 110, then giving up pension for an additional lump sum at a rate of 12:1 was probably not a good financial deal, since you could have drawn the pension for 60 years! However, if you retire at an older age or you are in poor health the lump sum may be a more attractive option.

- Retirement plans could be a big consideration.

- What effect would the option have on other benefits to which you may be entitled, e.g. if you decide in favour of retaining the maximum pension would you be precluding yourself from certain means-tested State benefits? You may need to seek advice on this point.