

**For an explanation of the terms underlined see the LGPS 2014- Glossary**

These documents describe proposals and do not override any existing legislation. Any examples given are for illustration only, not as an estimate of the benefits you may receive.

# LGPS 2014 - OVERVIEW

This overview sets out the main features of the proposed LGPS 2014 starting from 1<sup>st</sup> April 2014. This new scheme has resulted from the first phase (Workstream 1) of the LGPS 2014 project - a process of negotiation between the Local Government Association (LGA) and the local government unions in consultation with government.

The process is set out in the Project Initiation Document which can be found on the LGPS website ([www.lgps.org.uk](http://www.lgps.org.uk)).

Underlined terms used throughout this and other LGPS 2014 documents are explained in the LGPS 2014 – Glossary.

## THE PROPOSED CHANGES APPLY FROM APRIL 2014

All pensions in payment or built up before April 2014 will be fully protected. If you are currently in receipt of a pension or have left with a deferred pension these changes do not affect you. If you are currently a contributing scheme member your pre April 2014 pension will still be based on final salary at retirement, and current Normal Pension Age.

## NEW SCHEME DESIGN PRINCIPLES

In December 2011 the following principles were agreed by employers, unions and government. They have guided the development of the proposed LGPS 2014 during Workstream 1 of the project: The full principles document can be found on the LGPS website at [www.lgps.org.uk/lge/aio/15431141](http://www.lgps.org.uk/lge/aio/15431141)

### PRINCIPLE 1

A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014) negating the need for scheme changes prior to April 2014.

### PRINCIPLE 2

That the single solution be designed around options that will be worked on the basis of career average and can include zero increases in employee contributions for all or the vast majority of members provided overall financial constraints are met (recognising that such constraints may change subject to further negotiations with Treasury on meeting the costs of protections – Principle 7 - and that there will be no triple counting of recycled savings).

### PRINCIPLE 3

That the new scheme incorporates some elements of choice designed to encourage both retention of existing membership and encourage new membership.

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#### **PRINCIPLE 4**

That scheme costs are based on actual experience and the base numbers are provided by Government Actuary's Department (GAD) from the model fund data, can be independently verified and are supported by the Association of Consulting Actuaries (ACA).

#### **PRINCIPLE 5**

In order to encourage flexible retirement, the age at which benefits may be taken (the pension age) is to be any time between 55 and 75. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age (NPA) which is to be linked to State Pension Age (SPA) or age 65 whichever is later.

#### **PRINCIPLE 6**

That access to the scheme be provided for a broad range of employees who deliver public services through the continuation of current Admitted Body Status (ABS) arrangements.

#### **PRINCIPLE 7**

That the method of meeting the cost of protections (final salary and retirement age in the old scheme and the 10 year protection of pension and age into the new scheme), their value relative to other public sector schemes and their scope for recycling need to be confirmed by Treasury.

#### **PRINCIPLE 8**

That scheme cost efficiencies be realised through more effective procurement and provision of both administration and investment services.

#### **PRINCIPLE 9**

That the LGPS maintain its relative value in terms of benefits in relation to other public sector schemes.

#### **PRINCIPLE 10**

That the scheme design be subject to robust and independent equality impact assessment to ensure it meets all legislative equality requirements in both effect and intent.

### **FUTURE SCHEME MANAGEMENT PRINCIPLES**

In the next phase of the project (Workstream 2) future cost management and scheme governance is being discussed based on Principles 11 to 17 as set out in the December 2011 document. This includes agreeing a method for managing the future costs of the LGPS within certain limits. There will also be discussions between unions, employers and government about how further improvements to scheme governance, including wider representation, can be achieved. Further information on this subject will be covered in future communications on Workstream 2 of the LGPS 2014 project.

## NEW SCHEME BENEFITS

The table below shows the main provisions of the proposed new Local Government Pension Scheme (LGPS 2014) for membership from 1<sup>st</sup> April 2014. Terms used in the table below are explained in the glossary where appropriate.

	LGPS 2014
<b>Basis of Pension</b>	<b>Career Average Revalued Earnings (CARE)</b>
<b>Accrual Rate</b>	<b>1/49<sup>th</sup></b>
<b>Revaluation Rate</b>	<b>Consumer Price Index (CPI)</b>
<b>Normal Pension Age</b>	<b>Equal to the individual member's State Pension Age (minimum 65)</b>
<b>Contribution Flexibility</b>	<b>Members can opt to pay 50% contributions for 50% of the pension benefit</b>
<b>Death in Service Lump Sum</b>	<b>3 x pensionable pay</b>
<b>Definition of Pensionable Pay</b>	<b>Actual pensionable pay - to include non contractual overtime and additional hours for part time staff</b>
<b>Vesting Period</b>	<b>2 years</b>

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LGPS 2014 contains some new features. All other benefits remain the same as in the current scheme - LGPS 2008.

Some of the new features - CARE and the link to State Pension Age - were set down by the government in November 2011 and are features of all 'new' public sector pension schemes. The government also replaced the Retail Price Index (RPI) with Consumer Price Index (CPI) indexation before negotiations began.

### **LGPS 2014 IS STILL A DEFINED BENEFIT SCHEME**

LGPS 2014 is a CARE scheme (Career Average Revalued Earnings). Like the final salary LGPS 2008 it is a defined benefit scheme.

### **THE 50/50 OPTION**

In line with Principle 3 above, LGPS 2014 contains an *option* for members to pay 50% of the contributions for a 50% pension whilst retaining the full value of other benefits of the scheme such as an ill health pension, 'death in service' and redundancy. This is intended to attract non-members on low pay to the scheme and retain members who suffer periods of financial difficulty.

### **CONTRIBUTIONS BASED ON ACTUAL PAY FOR PART-TIME STAFF**

In LGPS 2014, all members will have contribution rates based on *actual* - not full time equivalent - pay which is not the case in the current scheme. This will mean that some part-time workers will pay lower contributions than in LGPS 2008.

### **NEW SCHEME CONTRIBUTIONS**

The average member contribution to LGPS 2014 will remain at 6.5% as now. *In line with Principle 2, most members will pay the same or lower contributions than at present.*

The contribution bandings have been changed from the current ones in LGPS 2008. The new structure has been designed to take tax relief into account and to be more progressive. That means that most contribution bandings *after tax relief* increase with earnings - from 4.4% for those earning less than £13,500 to 6.88% for those earning over £150,000.

## PROPOSED CONTRIBUTION BANDS AND RATES FOR APRIL 2014

Pensionable Pay	Headline/Gross Contribution	Contribution After Tax Relief*
Up to £13,500	5.5%	4.40%
£13,501 - £21,000	5.8%	4.64%
£21,001 - £34,000	6.5%	5.20%
£34,001 - £43,000	6.8%	5.44%
£43,001 - £60,000	8.5%	5.10%
£60,001 - £85,000	9.9%	5.94%
£85,001 - £100,000	10.5%	6.30%
£100,001 - £150,000	11.4%	6.84%
More than £150,000	12.5%	6.88%

\*Please note that the net contribution rates stated are approximate and will depend on individual members' circumstances.

### PROTECTION OF CURRENT BENEFITS

The new LGPS will start on 1<sup>st</sup> April 2014. Only pensionable service after that point will be in the new scheme, under the new LGPS 2014 rules.

Pensioner and deferred members will not see any change to their benefits. Members with service in the current final salary scheme will retain the link to final salary for all service before 1<sup>st</sup> April 2014 and the Normal Pension Age as under the current rules. Your final salary pension from the LGPS 1997 and LGPS 2008 will be calculated separately when you retire and be added to your pension from the LGPS 2014.

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In addition, to ensure that no member within 10 years of age 65 as at 1<sup>st</sup> April 2012 is worse off, there will be an 'underpin'. This means that those members who would see a change in their pension age in that period will get a pension at least equal to that which they would have received in the current scheme.

*Previously agreed protection will continue.* This includes the retirement age provisions for remaining members with Rule of 85 benefits.

## **PENSION PROTECTION ON TRANSFER**

It is proposed that the provisions of the current scheme are extended to ensure that all staff whose employment is compulsorily transferred will still be able to retain membership of the LGPS when transferred.