

Contact us

We hope you have enjoyed reading this issue of *The Quill*. If you have any comments about the newsletter, or questions about the forthcoming changes to the LGPS, please contact the Pensions Team:

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Please note that this newsletter does not confer any contractual or statutory rights. In the event of any query or dispute the statutory regulations will prevail. All information contained in this newsletter is based on our understanding of the Regulations as currently issued but may be subject to change.

The new Berkshire Pension Fund website

From 1 April 2008 visit our new website at www.berkshirerpensions.org.uk, where you will find details of the new look LGPS and much more...



The Royal Borough of Windsor and Maidenhead is the administering authority to the Royal County of Berkshire Pension Fund.

In this Issue

Change of accrual rate

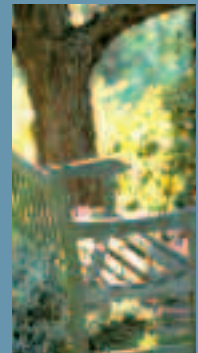
New employee contribution brands

Introducing new ill-health pension



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Welcome

Welcome to *The Quill*, the newsletter for members of the Local Government Pension Scheme in Berkshire.

Your pension benefits are a valuable part of your future financial security, so knowing how the Fund is doing is very important to you. This newsletter aims to keep you up to date with developments affecting your pension.

As you will have noticed, the newsletter has had something of an extreme makeover – not only does it look better (we think), but we hope it is also easier to read.

In this issue, we focus on the changes that are being introduced to the Local Government Pension Scheme (LGPS).

(The LGPS is administered on a regional basis, and the Royal County of Berkshire Pension Fund is part of the LGPS.)

The main Scheme regulations in force at present are the Local Government Pension Scheme Regulations 1997, although many amendments to those regulations have been made since 1 April 1998 when they came into force.

With effect from 1 April 2008, the LGPS Regulations 2007 will introduce many significant changes to the Scheme, affecting the way your pension is calculated, the contributions that you pay, the death grant paid to your loved ones if you die in service, and the pension payable to you if you retire due to ill-health – among many others.

You will have read about the proposed changes in previous newsletters, but here we set out the highlights of the so-called ‘new-look’ scheme. There is a lot to take in, so we have tried to make the information as easy to read as possible, with lots of examples to show you how it might affect your benefits.

If you have any questions after reading through *The Quill*, please contact the Pensions Team. Their details are listed on page 16.



Kevin Taylor
Pension Administration Manager

Key changes in brief



Up to 31 March 2008

Pension builds up at a rate of 1/80th of final pay, plus an automatic lump sum payment

Members contribute a standard 6% (5% in certain instances) of pensionable pay into the LGPS

Lump sum death grant of 2 x annual pensionable pay

Ill-health retirement pension with added years dependent on total LGPS membership to date of retirement

Spouse's/civil partner's pension

Final pay calculated as highest annual pay in last three years of Fund membership

From 1 April 2008

Pension builds up at a rate of 1/60th of final pay, and no automatic lump sum is payable but with an option to convert some pension into tax-free cash

Contribution rate will depend on pay, with introduction of seven different contribution bands

Increases to 3 x annual pensionable pay

Ill-health retirement pension determined by member's ability to return to work at some point in the future

Extended to include unmarried nominated cohabiting partners

Extended to include the average of pensionable pay over any three consecutive years, within the last 10 years of Fund membership where a reduction in pay has occurred

Change of accrual rate

The Local Government Pension Scheme is a defined benefit pension scheme, which means your final pension will be worked out using a formula that takes into account normally your final years' pensionable pay when you draw your pension, the number of years or part-years you have been a member of the Scheme and the 'accrual rate'.

The 'accrual rate' is the speed at which your pension benefits build up in the Scheme for each year that you are a member.

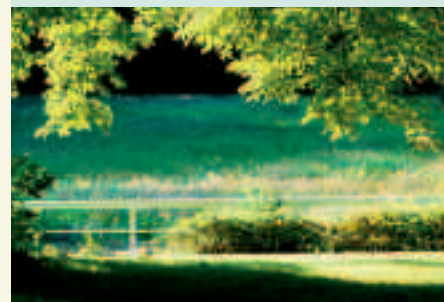
Up until 31 March 2008, your pension benefits in the Scheme will be calculated using an accrual rate of 1/80th. That means for each year or part-year of membership of the

Scheme up to that date, you are credited with 1/80th of your final pay as a pension. In addition, you also built up an automatic lump sum payment at a rate of 3/80ths of final pay for each year and part-year of membership.

From 1 April 2008, the accrual rate is changing from a 1/80ths basis, to a 1/60ths basis. This means your pension will accrue (build up) at a rate of 1/60th of your final pay for each year and part-year of membership from this date. Also, benefits built up from this date will no longer include an automatic lump sum, but there will be an option to convert part of your pension into tax-free cash if you wish. So, are you better or worse off under the new scheme? The article overleaf reveals all...

IMPORTANT

Membership built up before 1 April 2008 will still provide you with a pension worked out using the 80ths basis and a lump sum normally equal to three times your pension. Any years or part-years of membership from that date will be used to calculate a pension worked out on the 60ths basis.



80ths versus 60ths – which

Although 60 is a smaller number than 80, 1/60th of something is actually more than 1/80th. That means that a pension calculated on membership built up from 1 April 2008 will actually build up faster (and therefore be better) than a pension based on membership before that date.

However, under the 60ths arrangement, there is no automatic lump sum. Under the 80ths arrangement, the lump sum builds up at a rate of 3/80ths for each year or part-year of membership.

So, which is the better deal? The best way to show you is by using an example...

Mr A has a final pay of £20,000 and has been a member of the LGPS for 20 years. All 20 years were built up before 1 April 2008, so his pension benefits are calculated like this:

Annual pension: $\frac{1}{80} \times 20 \times £20,000 = £5,000$

Lump sum: $\frac{3}{80} \times 20 \times £20,000 = £15,000$

Now, let's say that Mrs B retires with a final pay of £20,000 and 20 years of membership – the difference being that all of her years in the Scheme were built up after 31 March 2008. Her benefits would be worked out like this:

Annual pension: $\frac{1}{60} \times 20 \times £20,000 = £6,666.67$

Lump sum: **NIL**

As you can see, the pension has increased by £1,666.67, but there is no automatic lump sum. However, Mrs B chooses to 'commute' part of her pension for a cash lump sum, i.e. she gives up part of her pension for cash. This is calculated on the basis that for every £12 she takes as a cash lump sum, she gives up £1 of pension.

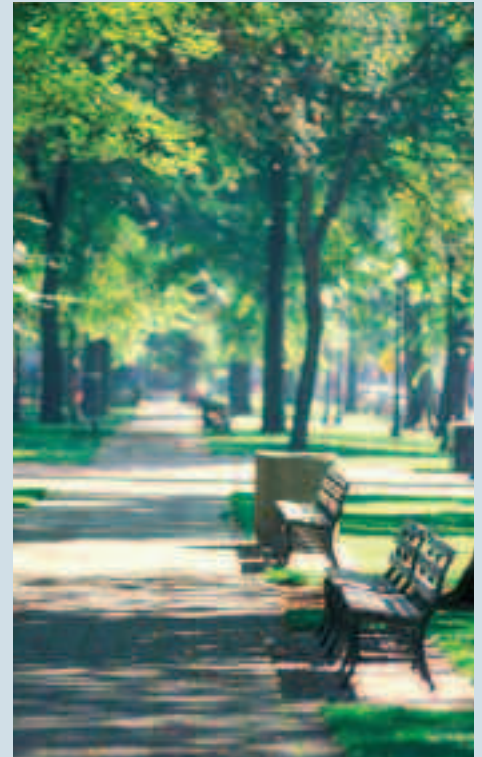
is the better deal?

So, if she wanted to take a cash lump sum of £15,000, this would reduce her annual pension by: **£15,000 ÷ 12 = £1,250**

And this goes to prove that you actually get a better pension under the 1/60th scheme than under the 1/80th scheme, because not only does Mrs B have a cash lump sum of £15,000, she also has an annual pension of £5,416.67, which is still over £400 more than the pension Mr A receives.

So now you're thinking: what happens if you joined the LGPS 10 years before 1 April 2008 and remained a member for another 10 years after that date? Let's look at what happens to Mr C in this scenario (let's assume his final pay is £20,000):

Annual pension:	$\frac{1}{80} \times 10 \times £20,000 = £2,500$
	$\frac{1}{60} \times 10 \times £20,000 = \underline{£3,333.33}$
Total pension:	£5,833.33
Lump sum:	$\frac{3}{80} \times 10 \times £20,000 = £7,500$



Tax-free cash

The maximum tax-free cash available under Her Majesty's Revenue & Customs (HMRC) limits is 25% of the capital value of all your pension rights (including any benefits you may have in other pension schemes but excluding State pension benefits). For the purpose of the LGPS we calculate this as 20 times your pension plus your lump sum.

So, if your annual pension was £5,833.33 and your lump sum was £7,500 (as in the example of Mr C on the previous page), the maximum tax-free cash would be worked out like this:

Pension: $(£2,500.00 + £3,333.33) \times 20 = £116,666.60$

Lump sum: £7,500.00

Total capital value: £124,166.60

Maximum tax-free cash: $£124,166.60 \times 25\% = £31,041.65$

Maximum pension conversion:

$£31,041.65 \text{ less } £7,500 \text{ (lump sum)} = £23,541.65$

$£23,541.65 \div 12 = £1,961.80$

Reduction to pension: $£5,833.33 \text{ less } £1,961.80 = £3,871.53$



Please note: the pension is reduced to below what would have been calculated in the former scheme due to the maximum lump sum being taken. If additional tax-free cash of £7,500 were to be purchased by way of conversion (to provide the same lump sum as would have been provided under the former scheme), the annual pension would reduce by £625 to £5,208.33 (which is over £200 more than the pension provided under the 1/80th scheme).

Changes to your contribution rate

From 1 April 2008, the amount that you pay into the LGPS will depend on how much you earn as of that date (previously, most members paid a flat rate of 6%* irrespective of their earnings).

Under the new regulations, seven pay-related contribution bands have been introduced, as the table below shows.

Pay Range (annual)	Rate
£0 - £12,000	5.5%
Over £12,000 to £14,000	5.8%
Over £14,000 to £18,000	5.9%
Over £18,000 to £30,000	6.5%
Over £30,000 to £40,000	6.8%
Over £40,000 to £75,000	7.2%
Over £75,000	7.5%

The bands will increase each year in line with the Retail Price Index (RPI). The RPI measures inflation in regular household expenditure, including mortgages, fuel and food.

If you work part-time, it is your full-time equivalent pay that is used to assess the band into which you should fall. If you work term-time, it is your full-time equivalent term-time pay that determines your banding (ie, it is not grossed up to 52 weeks). Please note that it is your employer's responsibility to determine your contribution band.

Manual workers*

If you are a member currently paying the protected 5% manual worker's contribution rate, you will pay a different rate for the next three years.

The contribution rate will gradually increase over the next three years (as the table below shows). With effect from 1 April 2011, you will pay contributions in accordance with the table on the left and its seven pay-related bands.

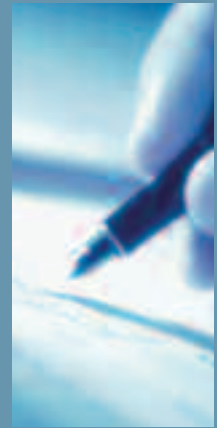
Year from	Rate
1 April 2008	5.25%
1 April 2009	5.50%
1 April 2010	Lower of 6.50% or the table left
1 April 2011	See table left

Death grants

As a member of the LGPS, you are currently covered for death in service benefits, which provide your loved ones with a cash lump sum if you should die while you are contributing to the Scheme.

From 1 April 2008, the death grant will be increased from two times to three times your annual pensionable pay. (If you work part-time, your death grant will be based on your actual part-time pay, and not the full-time equivalent as with other benefits.)

If you leave local government and choose to keep your benefits in the Royal County of Berkshire Pension Fund, but die before they become payable, a death grant equal to your 3/80ths lump sum built up before 1 April 2008 plus five times the value of your 1/60ths pension built up from 1 April 2008 (including any pension increases applied since your leaving date) will be paid to your nominated beneficiary.



Nominated cohabiting partners

For the first time, the LGPS will provide pension benefits to unmarried cohabiting partners. Previously, only legally married spouses and registered civil partners qualified for benefits.

If you are not married but have a partner and you would like to nominate them to receive part of your pension benefits in the event of your death, you have to:

- ▶ Be able to marry or form a civil partnership
- ▶ Be living together as if you were husband and wife or civil partner, and this arrangement must have been in place for at least two years

- ▶ Be financially interdependent on each other, or your partner must be financially dependent on you
- ▶ Not be living with a third person as if husband or wife or civil partner.

Benefits payable to a nominated cohabiting partner will be based on post-5 April 1988 membership only in line with civil partners' benefits.

A nomination can be made at any time and may not necessarily be the same nomination as for your death grant. However, upon your death, your nominated cohabiting partner will be required to provide evidence that all of the above requirements are still true before a partner's pension can be paid to them.

IMPORTANT

If a nomination is not made, a cohabiting partner's pension WILL NOT be paid even if all the conditions described on this page are satisfied.



Ill-health retirement

Before 1 April 2008, if you retired early because of ill-health, you would have been awarded extra years of membership depending on how long you had been a member of the Fund. The ill-health pension was calculated in the same way as the normal retirement pension, so any extra years of membership would increase the amount you were paid.

Under the new regulations, the number of extra years you are awarded depends on the extent of your ill-health or disability, ie, it is no longer based solely on how long you have been a member of the Fund.

If you retire early because of ill-health, a qualified occupational doctor will assess you and decide on the

likelihood of you being able to work again before age 65.

If the doctor says there is no reasonable prospect of you obtaining gainful employment* before 65, your membership will be increased by the period between your date of leaving and your 65th birthday, and your benefits will be calculated as if you had remained in the Scheme to your 65th birthday.

If the doctor says there is a reasonable prospect of you obtaining gainful employment in the future, but not within a reasonable period, your membership will be enhanced by 25% of the period between your leaving date and your 65th birthday. These benefits will be paid immediately and for the rest

of your life. You will then have the same options as for normal retirement.

The Government is currently consulting on a proposed third tier of ill-health benefits for members who are retired because of ill-health but have a reasonable prospect of obtaining gainful employment shortly after leaving. Such benefits may be paid without enhancement and may be suspended at the point the member becomes re-employed. Further guidance is expected once the consultation period has expired.

***Gainful employment**

Gainful employment is defined as paid employment for not less than 30 hours per week for a period of not less than 12 months.

Example: ill-health pension

Miss D, aged 33, has been a Scheme member for five years (all built up after 31 March 2008). She develops a chronic condition that prevents her from returning to work. The occupational doctor says she has no prospect of being able to work again (in gainful employment) before the age of 65. Her final pay is calculated to be £25,000, and her pension is worked out like this:

Accrued membership:	5 years
Enhanced membership:	32 years
Total membership:	37 years
Annual pension:	$\frac{1}{60} \times 37 \times £25,000 = £15,416.67$

Now, let's say her condition wasn't as serious, and the occupational doctor determined that, although she probably wouldn't be able to work again within a reasonable period, it is likely that she would be able to work again at some point before reaching normal retirement age. In this case, Miss D's pension would be worked out like this:

Accrued membership:	5 years
Enhanced membership:	$32 \times 25\% = 8$ years
Total membership:	13 years
Annual pension:	$\frac{1}{60} \times 13 \times £25,000 = £5,416.67$

Final pay

As before 1 April 2008, the ‘final pay’ figure used to calculate your benefits would normally be:

- ▶ the earnings (full-time equivalent if part-time) upon which you have had pension contributions deducted over your last 365 days of employment; or
- ▶ one of the previous two years’ pay figures, if higher.

If, however, your pay has been reduced for any reason during the last 10 years of your employment, from 1 April 2008 you will be able to choose a different pay figure to be used instead of the best in the last three years.

In brief, you will be able to choose the average of your pensionable (full-time equivalent) pay in any three consecutive years, these years running from 1 April to 31 March, over a period of 10 years from the point that you leave the Scheme.

Certificates of protection, issued under the former regulations to members who were forced to take a reduction in pay by their employers, will be honoured under the new regulations, but no new certificates will be issued.



Where can I find out more?

The regulations governing the LGPS are set out in three separate and distinct sets of legislation:

- ▶ The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- ▶ The Local Government Pension Scheme (Administration) Regulations 2007
- ▶ The Local Government Pension Scheme (Transitional Provisions) Regulations 2007

All these regulations can be viewed online at www.LGE.gov.uk by following the links to Pensions and the Timeline Regulations for England & Wales.

As amendments are made to the regulations, via amending statutory instruments, these timeline regulations are updated to reflect the changes that have been made.

The regulations can therefore be read as they stood both before and after the changes are made.

Additional Regular Contributions (ARCs)

With effect from 1 April 2008 you may elect to pay ARCs into the Local Government Pension Scheme in order to purchase extra pension. You have to buy a minimum additional pension of £250 but can buy multiples of £250 up to a maximum of £5,000 over an agreed period.

The cost of buying this additional pension will be determined by the Government Actuary's Department and you should contact the Pensions Team for further information. If you are paying into an existing 'added years' contract, you will be allowed to continue those payments.