

# **Local Pension Board**

## **An Introduction to Pensions**

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# Areas to go through

- What does the Pension Section do?
- Summary of the Local Government Pension Scheme (LGPS) changes since April 2014, known as the “largest change to public sector pensions in a generation”
- Changes to pensions (at national level and the impacts on us)
- Structure of the Pension Section
- Vision for the future

# What does the Pension Section do?

- Provides pension administration for the Leicestershire Pension Fund.
  - Active contributors      32,425
  - Preserved members    26,234
  - Pensioners                24,690
  - Employers                 201
- Scheme members) New starters, transfers in, breaks in service, combining records, leavers (refunds, preserved benefits, transfers out, deaths in service, retirements – voluntary, age, ill health, redundancy, efficiency, flexible), divorce, transfers out, paying extra, providing benefit statements, deaths of preserved and pensioner members, pension tax collecting.
- The Pension Section also provides fire-fighters pensions administration for three Fire Authorities (Leics, Derbys, Notts).
- (Employers) Year-end, FRS, valuation, employer contributions rates, admission agreements, bonds/guarantors, capital costs, training.

# LGPS 2014 - What are main points?

- Start date 1 April 2014
- Career Average Revalued Earnings (CARE) scheme and actual pensionable pay. Referred to as a “Pension Account”
- 1/49<sup>th</sup> accrual (previously 1/60<sup>th</sup> = April 2008 to March 2014, prior to April 2008 = 1/80<sup>th</sup>)
- No automatic right to a retirement lump sum but may still give up pension to achieve a lump sum
- Revaluation of active members’ benefits in line with consumer price index (CPI)
- Normal pension age linked to state pension age – i.e. if a member’s state pension age rises, then their normal pension age will do so to (but only for post 2014 CARE service element).

# LGPS 2014 What are the main points?

- A low cost 50/50 option – allows active members to pay 50% contributions for 50% of main benefits.
- Death in service and ill health still on main scheme benefits\* (\*Note a later point on death grants).
- Pensions in payment to increase in line with CPI
- Average member contributions yield 6.5% with tiered contributions (assuming everyone stays in the main scheme and there is not a “drift” to the 50/50 scheme)
- Contribution bandings are calculated on actual pensionable pay for part timers e.g. a part timer may pay lower rate than they paid before the 2014 scheme.

# LGPS 2014 What are the main points?

- Contributions are taken on non-contractual overtime for all scheme members and used in the calculation of CARE benefits from 1 April 2014. This would include additional hours for part timers.
- However, the calculation of benefits accrued to 31 March 2014 are still based on final pay as defined within the regulations

# LGPS 2014 What are the main points?

## 2015 LGPS employee contributions

From	To	Gross rate
	Up to £13,600	5.5%
£13,601	£21,200	5.8%
£21,201	£34,400	6.5%
£34,401	£43,500	6.8%
£43,501	£60,700	8.5%
£60,701	£86,000	9.9%
£86,001	£101,200	10.5%
£101,201	£151,800	11.4%
	More than £151,801	12.5%

# LGPS 2014 What are the main points?

- Optional lump sum commutation at a rate of £12 of lump sum for every £1 of pension
- A member may leave employment voluntarily at age 55 or over and elect to receive immediate payment of pension (with an actuarial reduction that may be waived, whole or part, by employer) - employer discretion. (LCC will not waive reduction)
- Early/late retirement factors from age 55 on an actuarially neutral basis.
- A vesting period of 2 years (no longer 3 months), option for those in “cross over” period.
- Minimum age of 55 still applies for early payment of unreduced benefits on redundancy or efficiency.



# LGPS 2014 What are the main points?

- Ill health retirement pensions to be based on the current 3 tier ill health provisions.
- Spouse and partner pensions to continue on a 1/160th accrual
- Death in service lump sum is 3 x pensionable pay – note; only highest death grant counts!
- Benefits accrued to 31 March 2014 are still based on protected final pay at leaving.

# LGPS 2014 What are the main points?

Additional voluntary contributions (AVCs). Contracts entered into before 1 April 2014.

- 50% limit on AVCs still applies, i.e. AVCs up to 50% of pensionable pay\* are permissible (\*2008 definition of pensionable pay).
- Scheme member can take 100% of their AVC pot as tax free cash at retirement (subject to HMRC rules).

# LGPS 2014 What are the main points?

Additional voluntary contributions (AVCs). Contracts entered into from 1 April 2014, onwards.

- AVCs can be paid on 100% of pensionable pay\*, after allowing for statutory deductions LGPS contributions, NI etc. (\*2014 definition of pensionable pay)
- Scheme member can still take 100% of their AVC pot as tax free cash at retirement (subject to HMRC rules). This was 25% but has recently been changed back to reflect the pre April 2014 position.

# LGPS 2014 How are benefits calculated?

## A Simple Example

The following example is a retirement where the person is retiring voluntarily and is;

- Full time throughout (no part time service or breaks in service)
- Has no 50/50 service
- Has no extra contracts “AVCs or ARCs”
- Has no conversion of annual pension to lump sum
- Has no pay protection
- Has no transfers in
- Has no annual allowance or life time allowance HMRC tax implications

# LGPS 2014 How are benefits calculated?

## A Simple Example

Born 1/7/57, Joined LGPS 1/4/93, Retires 31/3/19 Age 61 at retirement, Total service 26 years

From	To	Pen Pay	Accrual	Membership	Pension	Lump Sum	Revalued Pension
1/4/93	31/3/08	16,750	1/80 +3/80	15	<b>3,140*</b>	<b>9,421</b>	n/a
1/4/08	31/3/14	16,750	1/60	6	<b>1,675*</b>	n/a	n/a
1/4/14	31/3/15	15,000	1/49	1	306	n/a	<b>344</b>
1/4/15	31/3/16	15,500	1/49	1	316	n/a	<b>345</b>
1/4/16	31/3/17	16,000	1/49	1	326	n/a	<b>346</b>
1/4/17	31/3/18	16,500	1/49	1	336	n/a	<b>346</b>
1/4/18	31/3/19	17,000	1/49	1	346	n/a	<b>346 = 1,727*</b>
	Assumes CPI @ 3% pa					<b>9,421</b>	<b>6,542*</b>

# LGPS 2014 How are benefits calculated?

A Simple Example .....or is it?

Born 1/7/57, Joined LGPS 1/4/93, Retires 31/3/19 Age 61 at retirement, Total service 26 years

From	To	Pension	Lump Sum	Normal Retirement Age	% Reduction	Lump Sum	Final Pension
1/4/93	31/3/08	<b>3,140</b>	9,421	60	n/a	<b>9,421</b>	<b>3,140*</b>
1/4/08	31/3/14	<b>1,675</b>	n/a	Between 60 and 65 (the norm is 65)	<b>8% (approx.)</b>	n/a	<b>1,541*</b>
1/4/14	31/3/19	<b>1,727</b>	n/a	State Pension Age	<b>25% (approx.)</b>	n/a	<b>1,295*</b>
Total						<b>9,421</b>	<b>5,976*</b>

# Changes to pensions at national level

- Freedom and Choice – Broadly allows scheme members to transfer out of the LGPS to a Defined Contribution (DC) scheme to take the pension as “cash”
- Fire-fighters scheme changes from April 2015
- Reducing tax thresholds and new tax rules for pensions – Lifetime Allowance, Annual Allowance and the new Money Purchase Annual Allowance since April 2015
- Reducing deadlines for the production of annual benefit statements and monthly posting of contributions
- Governance changes – Local Pension Board
- Guaranteed Minimum Pension (GMP) reconciliation

# Structure - Pension Section

Three Teams; Benefits, Technical and Fire

1 x Pensions Manager

2.6 x Pensions Team Managers

4.8 x Pensions Assistant Team Managers

15.5 x Pensions Officers

4 x Pension Assistants

1.8 x Business Support

29.7 Total



# Vision for the Future

- Greater move towards on-line “modellers” for scheme members so they can run their own “what if” scenarios – e.g. how much will my preserved benefit be worth if I claim it at age 57, 58, 59, 60 etc.
- Introduce a formal qualification within the Pension Section (the three year Foundation Degree in Pensions Administration) to broaden and expand knowledge within the Section and to start to develop the managers of the future.
- Develop systems to allow employers to submit pension data directly to pensions in a consistent, secure and validated way, thereby reducing risk or errors and improving efficiency within pensions.
- Train and develop current staff to learn more areas of pension administration