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The Local Government Pension Scheme (LGPS)

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The Local Government Pension Scheme (LGPS)

- ▶ The new Local Government Pension Scheme – LGPS 2014 – was introduced in England and Wales on 1 April 2014.
- ▶ It is a Defined Benefit Scheme Career Average Scheme with an Accrual Rate of 1/49th
- ▶ Normal Pension Age (NPA) in the scheme is your State pension Age (minimum 65 rising to 67)
- ▶ Tiered Contributions based on Actual Pensionable Pay range from 5.5% to 12.5% (average Member Contribution is 6.6%)
- ▶ Range of Benefits including 50/50; Lump Sum Payments, Survivor Pensions, Ill Health benefits

NB The State Pension age will increase for both men and women to:

- 66 between 2018 and 2020.
- 67 between 2026 and 2028.
- 68 between 2044 and 2046*.

The Pensions Act 2014 provides for a regular review of the State Pension age, at least once every five years. The Government is not planning to revise the existing timetables for the equalisation of State Pension age to 65 or the rise in the State Pension age to 66 or 67. However the timetable for the increase in the State Pension age from 67 to 68 could change as a result of a future review. Before any future changes could become law Parliament would need to approve the plans.

Contribution Rates

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Pay Band for the Year April 2014 to March 2015	Contribution Rates/50:50 Section	Contribution After Tax Relief
Up to £16,500	5.5% / 2.75%	4.40%
£16,501 – £25,900	5.8% / 2.9%	4.64%
£25,901 – £42,100	6.5% / 3.25%	5.20%
£42,101 – £53,300	6.8% / 3.4%	5.44% or 4.08% if higher rate tax payer
£53,301 – £74,700	8.5% / 4.25%	5.10%
£74,701 – £105,900	9.9% / 4.95%	5.94%
£105,901 – £124,800	10.5% / 5.25%	6.30%
£124,801 – £187,200	11.4% / 5.7%	6.84%
More than £187,201	12.5% / 6.25%	6.88%

Membership Before 2014



The terms on which pension was built up in the previous iterations of scheme will be honoured in full. So for those who LGPS members prior to April 2014, they will have more than one LGPS pension calculated in different ways:

Pension Built Up Before April 2008

This is payable from your 65th birthday, and is calculated as $1/80 \times \text{Length of Service before April 2008} \times \text{Final Pay at Retirement (or leaving LGPS, if earlier)}$

In addition, a tax free lump sum of three times this amount is payable.

Pension Built Up Between April 2008 and March 2014

This is payable from your 65th birthday, and is calculated as $1/60 \times \text{Length of Service between April 2008 and March 2014} \times \text{Final Pay at Retirement (or leaving LGPS, if earlier)}$

You can exchange pension entitlement for lump sum if desired.

Pension Built Up From March 2014 onwards

This is payable (normally) from your State Pension Age, and is calculated in line with the above.

Defined Benefit Schemes – Final Salary

An employer-sponsored scheme where the eventual pension is based on your final salary

For Example

Final Salary at Retirement = £35,000 p.a.

Length of employment = 29 years (1st April 1990 to 31st March 2019)

1995 Section: $18/80^{\text{th}}$ of £35,000 = £7,875 p.a.; Lump Sum of £23,625 (3 x Pension)

2008 Section: $6/60^{\text{th}}$ of £35,000 = £3,500 p.a.; Possible Lump Sum of £10,500 by reducing pension by (25%) to £2,625

2015 Section: Career Average; See Next Slide

Career Average Re-evaluated Earnings (CARE)

How it Works

Year	Total Pension carried over from end of previous year	Revaluation rate (CPI)	Revalued Pension (A increased by B)	Pensionable Salary for this Year	Pension Accrued in this Year (=D /49)	Total Pension (+C+E)
	A	B	C	D	E	F
1 (2015/16)	-	-	-	£30,000	£555.56	£555.56
2 (2016/17)	£555.56	2%	£566.67	£31,000	£574.07	£1,140.74
3 (2017/18)	£1,140.74	2%	£1,163.55	£32,500	£601.85	£1,742.59
4 (2018/19)	£1,742.59	3%	£1,794.87	£35,000	£648.15	£2,390.74

	1995 Section (A)	2008 Section (B)	2015 Section (C)	Total (A+B+C)
Membership	1st April 1990 - 31st March 2008	1 April 2008 to 31 March 2014	1 April 2014 - 31st March 2019	
Pension Type	1/80th of Final Salary	1/60th of Final Salary	1/54th Annual Salary/Career Average	
Length in Section	18yrs	7yrs	4yrs	
Amount of Pension (FS = £35,000)	$(£35,000/80 \times 18 =)$ £6,562.50	$(£35,000/60 \times 6 =)$ £3,500	(See Table) £2,390.74	£12,453.24
Lump Sum	3 x Pension = £19,687.50	Up to 25% (£875) of Pension at 12:1 Min Lump Sum = £0 Max Lump Sum = £10,500 Min Pension = £2,625	Up to 25% (£597.69) of Pension at 12:1 Min Lump Sum = £0 Max Lump Sum = £7,172.78 Min Pension = £1,793.05	Min Lump Sum = £19,687.50 Max Lump Sum = £37,359.78 Min Pension = £10,980.55 Max Pension = £12,453.24

Benefits

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- ▶ Tax Relief on Contributions
- ▶ 50:50 Section
- ▶ Early Retirement – leads to Actuarial reduction

Years Until State Pension Age	Reduction in Pension (%)	Reduction in Lump Sum for Membership to 31 March 2008 (%)
1	4.9	1.7
2	9.3	3.3
3	13.5	4.9
4	17.4	6.5
5	20.9	8.1
6	24.3	9.6
7	27.4	11.1
8	30.3	12.6
9	33	14.1
10	35.6	15.5
11	39.5	N/A
12	41.8	N/A
13	43.9	N/A

Benefits

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- ▶ **Late Retirement Factors;** If you take your pension after your normal pension age (max 75yrs), your pension and lump sum is increased by the following percentage per day:

Years Late	Pension Increase (%)
1	0.0098
2	0.0107
3	0.0117
4	0.0129
5	0.0141
6	0.0156
7	0.0171
8	0.0189
9	0.0208
10	0.0230

Example of a late retirement calculation

- ▶ Your normal pension age (NPA) is 65. You were age 65 on 1 October 2019. You retired on 31 January 2020 (123 days after your NPA.)
- ▶ Your annual pension was £4,000 and your automatic lump sum was £10,000.
- ▶ Late retirement increases on your pension and lump sum are calculated as:
Pension: $£4,000 \times 123 \text{ days} \times 0.00010 = £4821.60$
Lump sum: £10,000 – No Change

Benefits (Contd)- Topping up your pension (1)

Additional Pension Contributions

- ▶ If you are in the main section of the LGPS, you can pay additional contributions to buy extra pension. The most that you can buy is **£7,579** of extra yearly pension. You can pay for the extra pension by paying Additional Pension Contributions (APCs) over a number of complete years or by paying a lump sum.
- ▶ The cost of buying extra pension depends on your age, how much yearly pension you buy and how you choose to spread the payments. The cost of buying extra pension is reviewed every few years. If you buy extra pension by paying regular contributions, the amount you pay each pay period may change in the future.
- ▶ You cannot buy extra pension if you are in the 50/50 section of the LGPS.
- ▶ If you wish to buy extra pension by paying a lump sum, there are two ways that you can do this:
 - through your pay – if you pay tax, you will receive tax relief through the payroll
 - pay your pension fund directly – you will need to arrange tax relief with HMRC. You can do this via your self assessment tax return or by contacting HM Revenue and Customs. You can read more about [Tax on your private pension contributions- This link opens in a new browser window](#) on the Government website.
- ▶ If you pay Additional Pension Contributions over a number of years, the regular contributions would be taken from your pay, just like your normal pension contributions and are subject to tax relief.
- ▶ The shortest period that you can spread APC payments over is 12 months. The maximum is the number of years to your [Normal Pension Age](#).
- ▶ If you are a year or less from your Normal Pension Age, you can only pay by lump sum.

Benefits (Contd)- Topping up your pension (2)

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Additional Voluntary Contributions

- ▶ When you pay Additional Voluntary Contributions (AVCs), you build up a pot of money which is used to provide benefits on top of your LGPS benefits. AVCs are taken directly from your pay before your tax is worked out, so if you pay tax, you receive tax relief automatically.
- ▶ All local government pension funds have an arrangement with an AVC provider that you can invest money in – an in-house AVC. The AVC provider is often an insurance company or building society. You have your own personal account and you decide how the money in your pot is invested.
- ▶ You can pay AVCs if you are in the main or 50/50 section of the LGPS.
- ▶ You can pay up to 100% of your pensionable pay into an in-house AVC. Your employer can also pay towards your AVC at their **discretion**. This is known as a Shared Cost AVC.
- ▶ You can also pay AVCs to provide extra life cover. As an active member of the LGPS, you already have cover of three times your pay if you die in service. You can pay AVCs to increase this cover and to provide additional benefits for your dependants if you die in service. Any extra cover you buy will stop when you retire or leave. Not all AVC providers offer extra life cover.

Independent Financial Advice

Pension Wise - 0800 138 3944

Lighthouse Financial Services – 08000 85 85 90

LGPS - <https://www.lgpsmember.org/>

Benefits (Contd)

Three Tiers of Ill Health Retirement

- **Tier 1** – The member is **unlikely** to be capable of undertaking **any** gainful employment before normal retirement age. Full pension is payable from termination date as if the member had worked until normal retirement age.
- **Tier 2** – The member is **unlikely** to be capable of undertaking gainful employment **within 3 years** of leaving employment. The member receives their pension as it stands from termination date plus 25% of what the member would have received if they worked until normal retirement age.
- **Tier 3** – The member is **likely** to be capable of undertaking gainful employment within 3 years of leaving employment. The member receives an unreduced pension which is payable for a maximum of 3 years but can be reviewed up to Tier 2 after 18 months.

Benefits (Contd)

Redundancy and efficiency retirement

- ▶ If you are made redundant or retired in the interests of business efficiency when you are over age 55, you will receive immediate payment of the pension you have built up – providing you have met the two year vesting period. Any additional pension you have bought would be reduced if you are under your Normal Pension Age when you retire.

Flexible retirement

- ▶ Flexible retirement helps you ease into retirement. If you reduce your working hours or move to a less senior position, you may be able to take some or all of the benefits you have built up. You may wish to consider flexible retirement if:
 - you are over age 55
 - you have met the two year vesting period
 - your employer agrees.
- ▶ Your benefits may be reduced for early payment if you retire flexibly before your Normal Pension Age.

Benefits (Contd)

Death Benefits

Pension for Dependants and Death Grants are available to LGPS members

Will a Pension be paid to my partner when I die?

Your spouse, civil partner or eligible cohabiting partner will receive part of your pension. It will be paid for the rest of their life. Generally, this is:

- 30.625% of the pension you built up from April 2014
- 37.50% of the pension you built up between April 2008 and March 2014
- 50% of the pension you built up before April 2008.

- Your eligible children will receive part of your pension when you die. The amount paid will depend on how many eligible children you have and whether a pension is also being paid to your partner.

Death Grants are also available

For both Survivor Pensions and Death Grants there are numerous qualifying rules and differences between each Administering Authority. You should check your entitlement via www.lgpsmember.org or via your annual benefit statement

Current Issues

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Tier 3 Ill Health



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Any Questions?





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Thanks for Listening

