

PENPAL

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LOCAL GOVERNMENT PENSION SCHEME

| Issue 18 Spring 2014



Introduction

Welcome to a special edition of Penpal, the Clwyd Pension Fund newsletter.

On 19th September 2013 the initial set of the Local Government Pension Scheme (LGPS) regulations 2013 were published. They detail the new scheme which will begin on 1 April 2014.

This issue has been designed especially to introduce you to the LGPS2014.

If you have queries regarding any of the information in this newsletter, please contact us. Our contact details are below.

Regards,

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Please ensure you notify the Clwyd Pension Fund, in writing (emails accepted), when you change your name, address, or marital status, and send copies of any relevant certificates. We are not able to accept notification of these changes over the phone.

Why has the scheme changed?

The release of the 'Hutton Report' on 10 March 2011 concluded that Public Sector pensions were unsustainable and unaffordable.

A working party, consisting of representatives from the Local Government Association (LGA), leading Trade Unions and the Department of Communities & Local Government (DCLG), were tasked to develop a new LGPS.

Following various periods of consultation, the LGPS regulations were laid before parliament on 19 September 2013.

The New LGPS 2014 will be introduced on 1 April 2014.

Protection for existing members

All existing 'active members' on 31 March 2014, will automatically transfer to the New LGPS 2014 on 1 April 2014.

Transitional protection has been given to all active members (as at 31 March 2014). Membership to 31 March 2014 will continue to be linked to your final salary upon retirement.

Additional protection has been awarded to members that were age 55 (within 10 years of their Normal Pension Age) as at 1 April 2012.

Upon retirement, your benefits will be assessed to ensure that they are at least equal to the benefits that you would have received under the 2008 Scheme i.e. the 'BEST OF BOTH'.

Who can join the new scheme?

There is no longer a lower age limit. The upper age limit, that benefits must be paid before age 75, remains unchanged.

You must have an employment contract of at least 3 months to be automatically entered into the scheme.

However, if you have an employment contract of less than 3 months you can opt to join.

Please note - This information is available in alternative formats for example Braille, large print, BSL Video/DVD, Audio tape and other languages on request.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Administered by
Sir y Fflint
Flintshire
COUNTY COUNCIL

How much will I contribute?

A contribution banding arrangement will remain. Your rate will be calculated using your annual 'actual pensionable pay' rather than your annual full time equivalent pay.

'Non-contractual overtime' will become pensionable from 1 April 2014.

Actual Pensionable Pay	Gross Rate (%)	Net Rate (%)
Up to £13,500	5.50	4.40
£13,501 to £21,000	5.80	4.64
£21,001 to £34,000	6.50	5.20
£34,001 to £43,000	6.80	5.44
£43,001 to £60,000	8.50	5.10
£60,001 to £85,000	9.90	5.94
£85,001 to £100,000	10.50	6.30
£100,001 to £150,000	11.40	6.84
£150,001 or more	12.50	6.88

What will my employer pay?

Your employer pays the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the scheme.

When will I be able to retire?

You can retire at anytime from age 55 to 75.

As an active member on 1 April 2014, you no longer need your Employer's Consent to retire and draw your benefits, between age 55 and 60. However, it will effect protection given by the 85 year rule, meaning your benefits will be reduced.

Your Normal Pension Age (NPA) will be linked to your 'current' State Pension Age (SPA)...

Born on or before 5 December 1953 > age 65

Born on or between
6 December 1953 & 5 April 1960 > age 66

6 April 1960 & 5 April 1977 > age 67

Born on or after 6 April 1977 > age 68

Any future change in State Pension Age, will mean a change to your Normal Pension Age.

How will my benefits be calculated?

You will no longer be contributing to a 'final salary' scheme from 1 April 2014.

The new Scheme will operate on a 'Career Average Re-valued Earnings' (CARE) basis.

Benefits will be calculated, using 'actual pensionable pay', (from 1 April to 31 March) and a '1/49th' accrual rate.

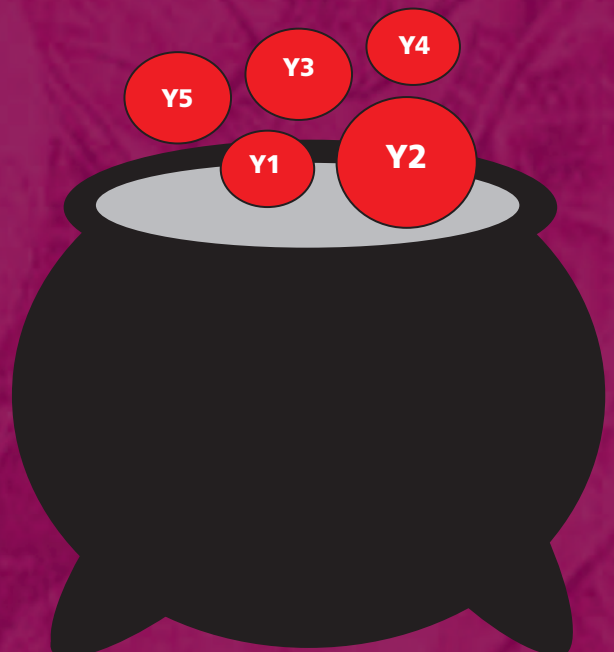
You will have a 'pension pot' for each of your employments, which will be credited annually with the amount of pension built up for that year (from 1 April to 31 March).

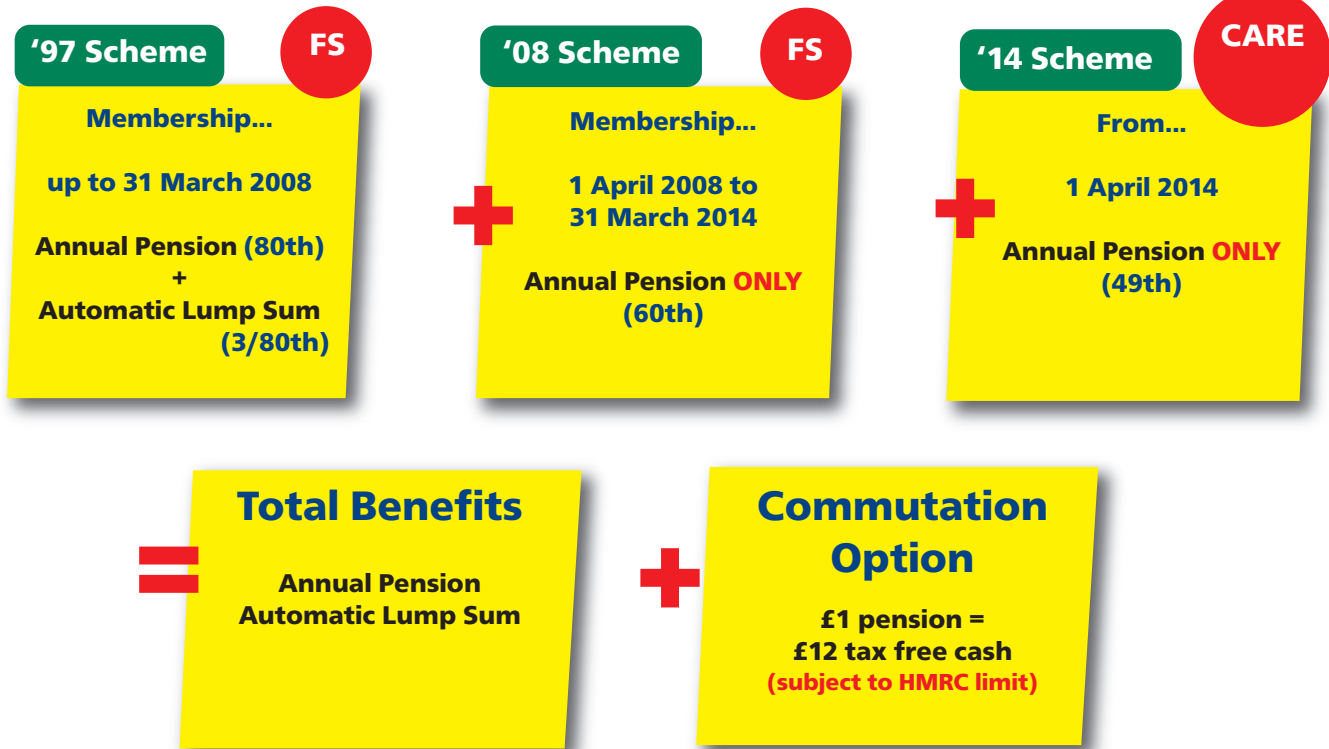
Your pot will then accumulate and will be re-valued annually in line with Treasury Orders (TO).

Membership in each scheme, (up to 31 March 2008, 1 April 2008 to 31 March 2014 and from 1 April 2014) will be calculated separately and added together to establish your retirement benefits.

Calculating your 'CARE' benefits

- o Actual Pensionable Pay ÷ 49
- o Pension deposited to 'pension pot'
- o Pension pot is re-valued annually by Treasury Orders to follow inflation





STEP 1 - Calculating the 'CARE' element...

For the purposes of this example, TO has been predicted to be 2%. This is for illustration purposes only. Pay rises of 1% have also been included.

Period	Annual pension calculation	Running total
Year 1 (2014/15)	$1/49 \times \pounds 29,000 = \pounds 591.84$	£591.84
Re-valued = $\pounds 591.84 + \pounds 11.84 (2\%) = \pounds 603.68$		
+ Year 2 (2015/16)	$1/49 \times \pounds 29,290 = \pounds 597.76$	£1,201.44
Re-valued = $\pounds 1,201.44 + \pounds 24.03 (2\%) = \pounds 1,225.47$		
+ Year 3 (2016/17)	$1/49 \times \pounds 29,582 = \pounds 603.71$	£1,829.18
Re-valued = $\pounds 1,829.18 + \pounds 36.58 (2\%) = \pounds 1,865.76$		
+ Year 4 (2017/18)	$1/49 \times \pounds 29,877 = \pounds 609.73$	£2,475.49
Re-valued = $\pounds 2,475.49 + \pounds 49.51 (2\%) = \pounds 2,525.00$		
+ Year 5 (2018/19)	$1/49 \times \pounds 30,175 = \pounds 615.82$	£3,140.82
Total value of 'CARE Pension Pot'		£3,140.82

STEP 2 - Calculating 'Final Salary' element...

Membership from

1 April 2000 to 31 March 2008: 8 years

1 April 2008 to 31 March 2014: 6 years

Final pay as at 31 March 2019: £30,175

Annual Pension:

$(8 \div 80 \times \pounds 30,175 = \pounds 3,017.50)$

$+ 6 \div 60 \times \pounds 30,175 = \pounds 3,017.50$ = £6,035

Automatic Lump Sum:

$8 \div 80 \times \pounds 30,175 = \pounds 3,017.50 \times 3$ = £9,052.50

STEP 3 - Total value of Pension Benefits...

CARE pension pot...

Annual Pension: £3,140.82

Final Salary element...

Annual Pension: £6,034.00

Automatic Lump Sum: £9,052.50

Total Value of Annual Pension: £9,174.82

Automatic Lump Sum: £9,052.50

STEP 4 - Commutation Option...

Annual Pension: £9,174.82

Automatic Lump Sum: £9,052.50

Amount of Annual Pension

to be given up: £2,791.86

Remaining Annual

Pension: $(\pounds 9,174.82 - \pounds 2,791.86)$ = £6,382.96

Maximum Tax Free Lump

Sum: $(12 \times \pounds 2,791.86 + \pounds 9,051)$ = £42,553.28

At retirement, you can choose to convert any amount of annual pension up to the maximum. Her Majesty's Revenue & Customs limit your maximum tax free cash to 25% of your total pension pot.

Will my benefits be reduced?

Benefits payable before 'Normal Pension Age' (NPA) will continue to be actuarially reduced to take account of early payment.

Exclusions to the rule... benefits payable on the grounds of ill health, redundancy or efficiency.

Benefits paid later than your NPA will continue to be actuarially increased to take account of late payment.

The Government Actuary Department (GAD) have yet to release any factors for the New LGPS 2014.

The 'Transitional Regulations' will contain further information on how existing '85 Year Rule' protections' are to be treated from 1 April 2014.

Can I increase my benefits?

You can improve your pension by paying more contributions. You might want to pay more for a number of reasons, maybe you joined the scheme later in life or you had a career break after having a family and missed out on paying into a pension.

In LGPS 2014 you have two tax efficient ways of making additional pension savings to increase your pension.

OPTION 1 Additional Voluntary Contributions (AVC)

As the appointed provider, Prudential administer the Clwyd Pension Fund In-house Additional Voluntary Contributions (AVC) scheme.

As a NEW contributor you are able to contribute up to 100% of monthly pensionable pay (previously 50%) and in full 'tax relief'.

However, the 100% tax free cash option (subject to HMRC limits) will not be available to NEW Contributors in the LGPS2014.

Options available upon retirement: tax free cash and / or scheme annuity (if retiring from active service)
OR

Annuity purchased with chosen provider or on open market.

AVCs are flexible and appeal to all ages:

- You can start, stop or change how much you pay in, to suit your circumstances
- Your choice of Lump Sum or Pension is made at retirement, not when you start
- No medical is required

If you are interested in AVCs, you can call the Pension Connection LG Team Freephone number on 0800 731 0466. Alternatively, you can visit www.pru.co.uk/localgov and click on 'Complete application' then 'online application form'.

OPTION 2 Additional Pension Contributions (APC)

Replaces the Additional Regular Contributions (ARC) option.

ALL existing 'Added Years' / ARC contracts will be honoured.

An in-house option to purchase an additional pension amount (maximum amount that can be purchased is £6,500).

The cost of the 'contract' is calculated using a factor table, issued by the Government Actuaries Department (GAD). The percentage of pay/total cost is based on factors including the length of contract, age and amount of pension purchased. The cost can be paid monthly via the payroll or as a 'one off lump sum'.

Contributions must NOT exceed 100% of your monthly pensionable pay. You receive tax relief on the additional contributions made.

Applications are subject to medical examination (as paid for by the member).

When topping up your pension, deductions from your pay are before tax.

For example:

- For 20% taxpayers, £100 is invested but your net pay will drop by £80.
- For 40% taxpayers, £100 is invested but your net pay will drop by £60.

Absence

APCs will be used to purchase pension lost through absence. For Authorised absence and maternity/paternity adoption based leave, you will pay 1/3 and your employer will pay 2/3. You will need to make your election to purchase this within 30 days of returning to work.

For strike and topping up your benefits you will cover the whole cost.

Can I pay less into the Scheme?

You can pay 50% of normal contribution, to receive 50% of benefits during that period (per employment) under the new 50 / 50 option.

For example... instead of paying 6.50% you can elect to pay 3.25% but benefits will then be calculated at a 1/98th for this period.

However, you will retain FULL ill health / death cover during the 50/50 period.

You will need to give written notice to your employer to 'start and stop' this option.

After three years you will be brought back into the full scheme automatically.

The 50/50 Contribution Arrangement

Band	Actual Pensionable Pay	Full Rate (%)	Half Rate (%)
1	Up to £13,500	5.50	2.75
2	£13,501 to £21,000	5.80	2.90
3	£21,001 to £34,000	6.50	3.25
4	£34,001 to £43,000	6.80	3.40
5	£43,001 to £60,000	8.50	4.25
6	£60,001 to £85,000	9.90	4.95
7	£85,001 to £100,000	10.50	5.25
8	£100,001 to £150,000	11.40	5.70
9	£150,001 or more	12.50	6.25

How will the 50/50 option affect my benefits?

Example:

Sian joined the LGPS on 1 April 2000 and is retiring on 31 March 2019 i.e. her Normal Pension Age (benefits will NOT be actuarially reduced). Sian has always worked full time.

* However, Sian opted for the 50 / 50 option from 1 April 2016 to 31 March 2018 and returned to the main scheme on 1 April 2018.

Calculating the 50/50 element

For the purposes of this example, TO has been predicted to be 2%. This is for illustration purposes only. Pay rises of 1% have also been included.

Period	Annual pension calculation	Running total
Year 1 (2014/15)	$1/49 \times £29,000 = £591.84$	£591.84
Re-valued = $£591.84 + £11.84 (2\%) = £603.68$		
+ Year 2 (2015/16)	$1/49 \times £29,290 = £597.76$	£1,201.44
Re-valued = $£1,201.44 + £24.03 (2\%) = £1,225.47$		
+Year 3 (2016/17)	$1/98 \times £29,582 = £301.86$	£1,527.33
Re-valued = $£1,527.33 + £30.55 (2\%) = £1,557.88$		
+Year 4 (2017/18)	$1/98 \times £29,877 = £304.87$	£1,862.75
Re-valued = $£1,862.75 + £37.25 (2\%) = £1,900.00$		
+Year 5 (2018/19)	$1/49 \times £30,175 = £615.82$	£2,515.82
Total value of 'CARE Pension Pot'		£2,515.82

What if I choose to leave the Scheme?

You can opt out of the Scheme at any time. You MUST obtain an Opt Out form from the Clwyd Pension Fund and return it directly to your employer.

Vesting period has increased from 3 months to 2 years. If you have been in the Scheme for two years or more, and you leave before age 55, the amount of pension you've built up is deferred.

Deferred pensions are increased every year in line with the cost of living - as currently measured by the Consumer Prices Index (CPI) - to ensure it keeps its value.

Your deferred benefit will be paid at your Normal Pension Age. You can choose to take it earlier, from age 55 (when it would normally be reduced to account for receiving it for longer) or later (when it would be increased).

If you leave the Scheme with less than two years membership, you will receive a refund of your pension contributions unless you choose to transfer your pension to another pension provider.

However, if you were in the Scheme before 1 April 2014 and subsequently leave with more than 3 months but less than 2 years membership, you will have the choice of:

- o a refund of contributions
- o a deferred pension or
- o transferring your pension to another pension provider

What are the other changes?

Ill health... enhancements will be up to new Normal Pension Age.

- o The same 3 tier arrangement will apply.
- o Payable from any age, if you have 2 years membership.

Redundancy / Efficiency... NO CHANGE

- o Immediate payment of unreduced pension benefits.
- o Payable from age 55, if you have 2 years membership.

Flexible... NO CHANGE

- o With employer consent... subject to a reduction in working hours or grade.
- o Payable from age 55, if you have 2 years membership.

What happens if I die?

Life cover in the scheme doesn't change from April 2014. If you die in service whilst an active member of the scheme the scheme will still provide a lump sum payment of three times your annual pensionable pay.

The only difference from April 2014 is that pay from non-contractual overtime is included in your annual pensionable pay figure. Therefore:

- Active members - 3 x 'assumed pensionable pay' (inc. non-contractual overtime)
- Deferred members - 5 x annual pension
- Pensioner members - 10 x annual pension (less any already paid)

Survivor's Pension

- Will continue to be calculated at a rate of 1/160th.
- Automatically payable to a Spouse & registered Civil Partner.
- Now automatically payable to a Co-habiting Partner.
- Pensions still payable to any 'eligible children'.

Important to note

Only pension benefits built up after 1 April 2014 will accrue under the new pension scheme rules.

Protections will be in place to ensure that:

- pension benefits built up under current pension regulations
- deferred (frozen) pensions
- pensions in pay

will not be affected by the changes.

Annual Allowance for Pension Savings

Anyone who pays into a pension scheme has an Annual Allowance (AA).

The AA, set by the Government, is the amount of pension you can accrue in a financial year before a tax charge is payable.

The current Allowance is £50,000. However, in April 2014 the Annual Allowance will reduce to £40,000 per annum.

Details of the changes and how AA is calculated were highlighted in our January 2011 edition of Pensions Extra. The Pensions Extra newsletter is available on the "members' literature" section of our website: www.clwydpensionfund.org.uk

To help you determine if you are within the AA limit, your AA information is included on your Annual Benefit Statement.

Alternative communication

The Clwyd Pension Fund uses many forms of communication to keep our active, deferred and pensioner members up to date.

This may include generic information such as details of different contribution options available or changes to the scheme.

If you are happy to receive this information by email in the future, please contact us via the pensions inbox, (pensions@flintshire.gov.uk) and confirm the email address you wish to register.

Your email address will only be used by Clwyd Pension Fund or the in-house AVC provider for the above purposes only.