The Highland Council
Comhairle na Gàidhealtachd

Local Government Pension Scheme

Active Members of the LGPS

Sgeama Peinnsein an Riaghaltais Ionadail

Buill Ghnìomhach de SPRI

2012

Newsletter Cuairtlitir

Annual Benefit Statement

The enclosed benefit statement shows your current and projected pension benefits in the Local Government Pension Scheme (LGPS).

In addition, we like to keep you informed with any pieces of news and explain areas of your Pension Scheme that we feel will be of interest to you.

Please note that the pensionable pay figure that we have used in your annual benefit statement is based on your full time equivalent earnings as at 31 March 2012.

Your actual retirement benefits are calculated on your pensionable pay rates in the 365 days leading up to your date of leaving or any of the 2 previous years if higher.

Should a Pension Sharing Order apply to your benefits, then this has not been reflected in your annual benefit statement.

Security of Pension

The rules of the LGPS are written under statute, which means that your pension benefits are safe, secure and fully guaranteed.

Independent Public Service Pensions Commission

On 10 March 2011 Lord Hutton released his final report on the work of the Independent Public Service Pensions Commission, setting out 27 recommendations to the Government for the reform of public sector pension arrangements. The report followed a fundamental structural review by the Commission of public service pension provision using a framework of principles determined in the interim report that public service pensions should be:

- affordable and sustainable;
- adequate and fair;
- supporting productivity; and
- transparent and simple.

More recently in May 2012, the Department for Communities and Local Government have released details on the new look "Hutton style" LGPS 2014 for England and Wales. The proposals for Scotland have not yet been released and it is expected that the new look scheme in Scotland will not be implemented until 2015.

The Scottish Parliament has devolved powers in respect of the LGPS in Scotland. Historically the LGPS was similar in design both North & South of the border. However, the LGPS Scotland was a year behind in the last pension reform (2009 as opposed to 2008 in England and Wales) and now has a number of differences in their current design, one noticeable difference being employee contribution rates.

We will of course inform you of any proposals to change the LGPS in Scotland. There is no guarantee that it will mirror all the changes proposed in England & Wales, but for information, the key features of the LGPS 2014 scheme in England & Wales are shown below:

Key Features for the LGPS 2014 England & Wales

1	A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
2	The accrual rate would be 1/49th (the current scheme is 1/60th).
3	There would be no normal scheme pension age, instead each member's Normal Pension Age (NPA) would be their State Pension Age (the current scheme has an NPA of 65).
4	Average member contributions to the scheme would be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.

continues overleaf

5	Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).
6	For current scheme members, benefits for service prior to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.
7	Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

With any career average scheme the key parameters are the accrual rate and the rate of revaluation that will apply to the amount of pension earned each year.

One of the main reasons why Lord Hutton favoured a career average basis was on the grounds of fairness. Final salary schemes tend to provide better value for "high fliers" than for "low fliers" – i.e. those who enjoy more career progression will do better than those who do not enjoy much in the way of promotion.

Member Contributions

Another key issue in designing the new LGPS 2014 scheme was the level of member contribution.

There was a lot of valid concern that increasing levels of member contributions would lead to members opting out on the grounds of affordability, leading to some questions about the sustainability of the scheme and longer term, a much poorer retired population (or an elderly working population that can't afford to retire and free up jobs for those entering the job market).

The new scheme has recognised this and has proposed the following tariff of member contributions.

Actual Pensionable Pay	Gross Contributions	Net of Tax
Up to £13,500	5.50%	4.40%
£13,501 - £21,000	5.80%	4.60%
£21,001 - £34,000	6.50%	5.20%
£34,001 - £43,000	6.80%	5.40%
£43,001 - £60,000	8.50%	5.10%
£60,001 - £85,000	9.90%	5.90%
£85,001 - £100,000	10.50%	6.30%
£100,001 - £150,000	11.40%	6.80%
More than £150,000	12.50%	6.90%

The proposals are still subject to what may emerge from the consultation process and still need to reach the Statute book.

However on the basis that the proposals are enacted, then the proposals do seem to tick most, if not all, of Lord Hutton's boxes, and do look like they will sustain the LGPS for the considerable future.

Auto Enrolment

The Pensions Act 2008 laid the foundations for a fundamental change to workplace pensions in the UK, in that workers should have access to a standard workplace pension scheme.

The LGPS will satisfy the criteria of an automatic enrolment scheme, meeting the minimum requirements as it is a UK tax registered defined benefit scheme that is contracted-out of the State Second Pension on a salary related basis.

There are some minor amendments required for the LGPS but the intention is that participating employers may use the LGPS to auto-enrol all employees who are not already members of a qualifying scheme.

The new legislation will override the current arrangements, so past opt-outs who are eligible jobholders will need to be re-enrolled from the employer's staging date (the date that applies to your employer) and every three years thereafter if they continue to opt out.

Annual Allowance (AA)

In 2006, the HM Revenue and Customs (HMRC) "simplified" tax change introduced some very complicated legislation which largely affected high earners.

One of these changes was the amount by which the value of your pension could grow from one year to the next.

From tax year commencing April 2011, the HMRC introduced a new AA limit of £50,000. Anything that exceeds £50,000 is liable for a tax charge, although you can use any unused AA in the previous 3 years to offset any tax liability.

In the LGPS growth in pension value for the year (the Pension Input Period) for comparison to the annual allowance is calculated by working out the difference in the values of pension, calculated as if you had left pensionable service at the start and end of the year with the start figure increased by pensions increase (CPI), then multiply the difference in pension by 16, and add to that, the amount that any separately accruing lump sum has increased in the year, as follows:

[(Pension End) – (Pension Start x Pensions Increase)] x 16

Plus Lump Sum End – (Lump Sum Start x Pensions Increase)
(where the lump sum accrues separately and is not provided through commutation)

Plus any AVC contributions that are made over the year.

Where the resulting figure is less than the £50,000 annual allowance, no additional tax charge arises; where it exceeds the annual allowance, any unused allowance in the preceding three years can be used and where this is still exceeded, a tax on the excess sum will be charged at your marginal rate of income tax.

Members whose pension value grows by more than £3,125 over a year (16 x £3,125 = £50,000) could be affected, in particular those who have substantially increased their hours of work or pay.

However, given the ability to utilise unused allowance in the preceding three years, it is anticipated that only high earners will routinely be affected by the changes. The allowance for the three years prior to April 2011 will be assumed to be £50,000.

Tax can be paid via self assessment; the excess over the annual allowance is classed as income to the individual and the income tax that would be due on that income.

Alternatively, in cases where the tax due exceeds £2,000, should the charge be unmanageable then you may elect to meet some or all of the tax charge from your pension benefits, known as 'scheme pays'. Basically, the pension scheme will pay your tax liability and reduce your pension benefits to account for this payment.

Should you wish to use 'scheme pays' then you have to make an irrevocable election for the pension scheme to pay by 31 July following the relevant self assessment filing deadline.

Lifetime Allowance

The new "simplified" HM Revenue and Customs rules for taxation of pension came into force on 6 April 2006 (A Day). One of the changes was the setting of a lifetime allowance, whereby if a member exceeded this limit then a tax liability, in addition to normal income tax would be applied. The lifetime allowance for 2012/13 is set at £1.5 million. Your lifetime allowance is calculated as 20 times your annual pension plus your lump sum, plus the value of your AVC fund if this applies. When your pension benefits come into payment you will be asked for details of any other pension benefits that you have accrued in order that the Pension Section can calculate if you have exceeded your lifetime allowance. This new limit is unlikely to affect all but the highest earners in the immediate future.

Example of Capital value of pension benefits

Your annual pension is £15,000 plus a lump sum of £45,000	
Annual pension £15,000 x 20	£300,000
Plus lump sum	£45,000
Total	£345,000

Additional Voluntary Contributions

The provisions of our Additional Voluntary Contribution Scheme (AVCs) have changed over the years providing greater flexibility in the way your AVC fund may be used at retirement:

Your options are as follows:

- Purchase an annuity (pension) from an insurance company.
- If you commenced payments before 30 June 2005 you may elect to transfer your AVC fund into the LGPS to purchase additional service. This would increase your pension but not your lump sum. You can elect to transfer anytime after age 50 and before retirement.
- You can take all, or part of your AVC fund as a lump sum (subject to 25% of your Lifetime Allowance). Any remaining amount would be used to purchase an annuity from an insurance company.
- You do not need to use your AVC at the same time as your LGPS benefits. You can defer payment until later, but it must be used before you reach your 75th birthday. If you did this then you would have the option of taking up to 25% of your AVC

fund as a cash lump sum with the remaining amount being used to purchase an annuity from an insurance company.

To find out more about the AVCs that we offer then please contact the Pension Connection at the Prudential on 0845 607 0077, who will be able to send you an information pack.

Re-joining the LGPS – New Legislation

New legislation introduced on 14 November 2011 gives current LGPS members the opportunity to combine any of their previous deferred benefits to their current membership. However you must elect to do this by **31 March 2013**. If you leave and re-join the scheme in the future you will be given the opportunity to combine your previous benefits within 12 months of re-joining.

If you are currently working for an LGPS employer and have deferred benefits with any another LGPS employer, you can elect to combine the deferred period/s of membership to your current membership.

If you decide to combine your deferred benefits with your current membership you will receive one set of retirement benefits, calculated using:

- Your total membership (from your previous and your current employment).
- Your final year's full time equivalent pensionable pay in your current employment or any of the 2 previous years if higher.

If you elect to retain separate benefits you will receive separate pensions for each of your periods of LGPS membership on retirement.

Your Deferred Benefits will be based on:

- Your membership in your previous employment.
- Your final year's full time equivalent pensionable pay to the date you left your previous employment, increased in line with inflation to the current date.

Your Retirement Benefits from your current period of membership will be based on:

- Your membership in your current employment.
- Your final year's full time equivalent pensionable pay in your current employment or any of the 2 previous years if higher.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

The Pension Fund has a statutory obligation to participate in the NFI and your pension data will be used along with other authorities and government organisations like the Department of Work and Pensions to share and compare information.

Industrial Action

Absence from duty due to strike action for one or more complete days will not count as a period of Scheme membership and, consequently, will not be included in the calculation of your benefits.

You can re-instate the period of Scheme membership if you make payment of 16% of the pensionable pay that you would otherwise have received during the period of industrial action. The payment will attract full tax relief in the same way as normal contributions.

The dispute which saw one day's industrial action on the

30th November 2011 has not yet been settled. If you were on strike, your employer will contact you once the dispute is settled to give you the opportunity to pay to allow the unpaid day to count for pension purposes.

Actuarial Valuation 2011

Every three years The Highland Council Pension Fund is required to obtain a valuation of the Fund from an independent actuary.

The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.

The results of the previous valuation as at 31 March 2008 indicated that the assets of the Fund represented 98% of the accrued liabilities of the Fund.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2011 and indicates that our funding level is now 97%. This was due to a number of factors but primarily due to lower than assumed investment returns.

Although there has been a slight drop in our funding level, we are pleased that the contribution rate for our employers has remained stable and will be relatively unchanged for the next 3 years.

Change of Name/Marital Status/Gender

If you change your name, title, marital status or gender then please advise the Pension Section, in writing, enclosing a copy of the relevant certificate.

Change of Address

It is important that to be able to keep you advised of the value of your pension benefits, you notify the Pension Section of any change of address.

Further Information

If you have any queries on the enclosed statement, or feedback regarding the information provided, please do not hesitate to contact the Pension Section, quoting your national insurance number.

Pension Section, Finance,

The Highland Council HQ,

Glenurquhart Road,

Inverness IV3 5NX

Email: **pensions.section@highland.gov.uk**

Website: **www.highland.gov.uk** (under P for Pensions)

Alternatively you can telephone from 9am to 5pm (Monday to Friday) **(01463) 702441**

lgps look forward with confidence

PR12-139-F