



## **Local Government Pension Scheme (LGPS)**

### **East Sussex Pension Fund Employers Newsletter December 2013**

## **Local Government Pension Scheme (LGPS) 2014**

As an employer in the East Sussex Pension Fund you may be aware that Regulations amending the Local Government Pension Scheme (LGPS) were laid before Parliament on 19 September 2013 (<http://www.legislation.gov.uk/ukxi/2013/2356/made/data.pdf>) and will come into force on 1 April 2014. This newsletter is designed to provide you with some general information on the background to the impending changes to the LGPS and information in preparing for April 2014.

As you might expect when bringing forward major changes to a large public sector pension scheme such as the LGPS there are still a number of issues to be resolved, but in the main the more significant policy intentions have been agreed. This newsletter has been prepared on the basis of regulations (actual and draft) as they stand as at December 2013. Any significant changes from the information we currently have available will be notified to you as we become aware of them. But in the meantime, detailed information can be found on the LGPS 2014 website at: [www.lgps2014.org](http://www.lgps2014.org)

**Please see below some major changes for employers' to be aware of:**

- More employee contribution rate bands
- A 50/50 option whereby members pay 50% contribution for 50% of the pension benefit. This will be cancelled on auto enrolment
- A new definition of pensionable pay
- A Final Pay Protection for existing members
- A greater importance of good record keeping

**Employee Contribution rate** – average 6.5% in both the LGPS 2014 and LGPS 2008.

(In the LGPS 2014 part-time members will have their contribution rates based on their actual pay and not the whole time equivalent pay).

Actual pay from	Actual Pay to	Rate
Up to £13,500		5.5%
£13,501	£21,000	5.8%
£21,001	£34,000	6.5%
£34,001	£43,000	6.8%
£43,001	£60,000	8.5%
£60,001	£85,000	9.9%
£85,001	£100,000	10.5%
£100,001	£150,000	11.4%
£150,001 or more		12.5%

### The 50:50 Option

The new LGPS contains two sections – the main or 100/100 section and the 50/50 section.

Important to note that these sections (100/100 and 50/50) are separate sections of the same scheme.

A movement between sections can only occur from the beginning of a pay period.

Payroll systems must be able to provide for movement between the separate sections in a Scheme year (i.e. moving between the 100/100 section and 50/50 section) and separate cumulative pensionable pay figures must be held for each section (and for each job) per Scheme year.

Employers' should align with auto enrolment. Every three years at an employer re-enrolment date those scheme members in the 50/50 section must be re-enrolled into the main section of the scheme.

A member must elect in writing to opt for the 50/50 section of the scheme, it cannot be enforced or encouraged by the employer. Scheme members can elect for the 50/50 section as often as they choose to.

Once an election is received the scheme member is brought into the 50/50 section from the next available pay period.

### A new definition of pensionable pay

A major difference to the new definition of pensionable pay is that from 1 April 2014 non-contractual overtime will be pensionable (pensionable pay will still include the value of emoluments specified in the employee's contract as being pensionable e.g. child care vouchers).

Any excess hours that part-time staff are paid for over and above their contractual hours will also become pensionable from 1 April 2014.

Exclusions from pensionable pay will be listed in scheme regulations (see regulation 20(2) of the LGPS Regulations 2013). Unless an item of pay is listed on the exclusion list it's included for pensionable pay from 1 April 2014.

### Understanding “assumed pensionable pay” (APP)

APP is a new facility from 1 April 2014. This replaces the concept of notional or ‘as was’ pay. APP will be the average of 12 weeks’ or 3 months’ pay (in complete pay periods) prior to the date when the individual went onto reduced or no pay. The average figure is then grossed up to an annual figure to be added to the cumulative pay.

Employer contributions are due on assumed pensionable pay.

#### An APP example:

Month paid	Pay (pensionable)
April - September	£7,852.35
October	£1,251.55
November	£1,056.58
December	£1,159.87
January	£200.50 – Absent 6 – 31 Jan
February	£989.56 – Absent 1 – 7 Feb
March	£1,125.65

\*3 months prior to absence (October to December) = £3,468

Annualise = £3,468 x 12/3 = £13,872

So the assumed pensionable pay for the period of reduced pay is –

6 – 31 January £13,872/12 x 26/31 = £969.55

Plus

1 – 7 February £13,872/12 x 7/28 = £289.00

The assumed pensionable pay (to be added to the actual pensionable pay) is £1,258.55

### A Final Pay Protection for existing members near to State Pension Age

Any scheme member who was an active member on 31 March 2012 and within 10 years of their normal pension age (NPA) on 1 April 2012 who retires at NPA (2008 Scheme definition – normally age 65) or continues working beyond NPA who hasn't had a disqualifying break of more than 5 years and has not drawn any benefits before NPA will be subject to the

underpin. The underpin is calculated at NPA (including for those who continue working beyond NPA).

The underpin provides for a calculation to be undertaken at NPA (for those members outlined above) to check that the pension the member has built up at NPA is at least equal to that which they would have received at NPA in the LGPS 2008.

If the benefit they would have received at NPA in the LGPS 2008 is greater, the difference is added into the member's pension account.

**A greater importance of good record keeping** It must be emphasised that employers now have a greater responsibility in ensuring that payroll records are correctly maintained and that end of year (and leaving) pay details are correct. Pensions awarded under a CARE arrangement are relative to the period in which pay is received and not in respect of the period to which they relate. Only in extreme circumstances can a pension when awarded be corrected retrospectively.

## What you should now be doing –

- **Review your payroll elements** - identify the pay elements that will become pensionable from 1 April 2014
- **Identify individual member's pay** and determine their new contribution rate from 1 April 2014
- **Identify scheme members with more than one job** – each job must be treated as a separate employment and contribution bands etc applied appropriately.
- **Set up the new and extra contribution bands**
- **Review and adjust the contribution band for part time employees** in relation to their actual pay and not the whole time equivalent pay
- **Ensure that contributions are taken** on any pay received due to sickness or on maternity leave
- **Set up the payroll and individual records for the 50:50 option** and monitor along with sickness absence and auto re-enrolment dates
- **Set up the Payroll and ensure those involved understand assumed pensionable pay**
- **Review your discretionary policies** – revised policies on flexible retirement, funding of additional pension, award of additional pension and waiving of actuarial reduction must be with East Sussex Pension Fund by 1 July 2014. (please also see the attached)

This is a summary of the changes that will come into force from 1 April 2014.

Further information is available on the LGPS2014 website [www.LGPS2014.org](http://www.LGPS2014.org) or the Local Government Pension Association website [www.local.gov.uk/web/lgaworkforcepensions/home](http://www.local.gov.uk/web/lgaworkforcepensions/home)

## Future Scheme Cost Management

If the costs of the LGPS change beyond certain limits still to be agreed, there will be further negotiations between unions, employers and government about how to meet those cost changes.

**Please see below at a glance the main changes of the LGPS from 2014:**

The table below shows the main provisions of the proposed new Local Government Pension Scheme (LGPS 2014) for membership from 1 April 2014 compared with those of the current scheme (LGPS 2008).

	LGPS 2014	LGPS 2008
<b>Basis of Pension</b>	Career Average Revalued Earnings (CARE)	Final Salary
<b>Accrual Rate</b>	1/49th	1/60th
<b>Revaluation Rate</b>	Consumer Prices Index (CPI)	Based on Final Salary
<b>Pensionable Pay</b>	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
<b>Employee Contribution Rates</b>	See <a href="#">LGPS 2014 Employee Contribution Rate</a>	See <a href="#">LGPS 2008 Employee Contribution Rate</a>
<b>Contribution Flexibility</b>	Yes, members can pay 50% contributions for 50% of the pension benefit	No
<b>Normal Pension Age</b>	Equal to the individual member's State Pension Age	65
<b>Lump Sum Trade Off</b>	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
<b>Death in Service Lump Sum</b>	3 x Pensionable Pay	3 x Pensionable Pay
<b>Death in Service Survivor Benefits</b>	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement

	Tier 1 - Immediate payment with service enhanced to Normal Pension Age	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65)
<b>III Health Provision</b>	Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age	Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65)
	Tier 3 - Temporary payment of pension for up to 3 years	Tier 3 - Temporary payment of pension for up to 3 years
<b>Indexation of Pension in Payment</b>	CPI	CPI (RPI for pre-2011 increases)
<b>Vesting Period</b>	2 years	3 months

### Contact details

If you have any administration questions about the changes or any of the actions you need to complete you should contact:

SE Shared Services, Pensions Team, PO Box 2681, Uckfield, East Sussex, TN22 1QL

Pensions helpline: 01825 744544    **Email:** [escc.pensions@sesharedservices.org.uk](mailto:escc.pensions@sesharedservices.org.uk)

Any enquires concerning the contents of this Newsletter should be directed to:

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