GMB Guide to LGPS

The new Local Government Pension Scheme – LGPS 2014 – was introduced in England and Wales on 1 April 2014. The scheme's introduction followed many months of intensive negotiations and successful industrial action from GMB members in 2011.

The new LGPS 2014 will continue to provide secure pension income on a defined benefit basis, meaning that members' pensions cannot be subjected to short term fluctuations if investment markets change.

This booklet covers how the new LGPS 2014 will work – what you pay in, what you get out of it and when you can get it.

Summary

In keeping with principles for the LGPS 2014 that were agreed with GMB members, the new scheme has the following features:

	LGPS 2014
How Pension is Built Up	Defined Benefit Career Average basis
Accrual Rate	$1/49^{th}$ of Pensionable Pay
Pensionable Pay	Salary and wages paid to the employee including all overtime
Revaluation of Pension Already Built Up	Increased in line with CPI Price Inflation

Pension Age	Normal Pension Age is your State Pension Age (minimum 65) Pension can be started anytime between age 55 and 75
Contributions	Average Member Contribution of 6.6% Tiered Contributions based on Actual Pensionable Pay ranging from 5.5% to 12.5%
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit
Death Benefits	Lump sum Payments (if member dies before age 75) and Survivor Pensions are payable
Ill Health Benefits	Payable if Member is Permanently incapable of carrying out duties. 3 Tiers of Benefit are Payable based on Your Ability to Work Elsewhere
Vesting Period	2 years – If you leave before you have completed 2 years membership you will receive a refund of your contributions.

1. What You Pay - Contributions

The Contribution you pay towards LGPS is based on your Pensionable Pay.

Pensionable Pay includes all of your salary and wages, including overtime and anything else specified as being pensionable in your contract. It does not include allowances, pay in lieu of holidays or in lieu of notice, pay in lieu of a motor vehicle, returning officer fees or compensation payments (excluding arrears of pay) for equal pay cases.

Your employer should look at your Pensionable Pay each April and determine which of the Pay Bands in the table below you is appropriate. You will then pay contributions in line with that Pay Band. If your job or hours change over the course of a year, your Pensionable Pay can be reviewed and you can be put into a different Pay Band.

Pay Band for the Year April 2014 to March 2015	Contribution Rates	Contribution After Tax Relief
Up to £13,500	**5.5%**	**4.40%**
£13,501 - £21,000	**5.8%**	**4.64%**
£21,001 - £34,000	**6.5%**	**5.20%**
£34,001 - £43,000	**6.8%**	**5.44% or 4.08% if higher rate tax payer**
£43,001 - £60,000	**8.5%**	**5.10%**
£60,001 - £85,000	**9.9%**	**5.94%**
£85,001 - £100,000	**10.5%**	**6.30%**
£100,001 - £150,000	**11.4%**	**6.84%**
More than £150,000	**12.5%**	**6.88%**

Example 1

In April 2014, Jenny works 3 days a week on her contract and is paid £13,000. She also works regular non-contractual overtime which increases her pay by £1,000pa. Her total pensionable pay is £14,000; meaning that her contribution rate is 5.8%. She pays £67.67 a month in pension contributions.

In September 2014 her non-contractual overtime ceases and her employer re-assesses her Pay Band. As her pensionable pay is now £13,000, her contribution rate drops to 5.5%. She now pays £59.58 a month in pension contributions.

2. Your Pension Benefit

From April 2014, for each year you are in the LGPS 2014 you will build up a pension based on your pensionable pay for that year. Each year runs from 1 April to 31 March, and the pension you build up is 1/49th of your Pensionable Pay for that year.

Example 2

For the Year from 1 April 2014 to 31 March 2015, Matt's pensionable pay is £16,000. In that year, he builds up a pension equal to £16,000 × 1/49 = £326.53. That pension is then revalued (increased) each year up until his retirement.

Under LGPS 2014, the increase that is applied to the pension you have built up is in line with changes to the Consumer Prices index (CPI) as published by the Office for National Statistics.

Example 3

Matt (from the last example) sees his pensionable pay rise to £16,500 in his second year of service. In this second year he builds up a pension of £16,500 × 1/49 = £336.73. However the pension that he built up in Year 1 (from Example 2) is also added to this. It was £326.53, but will now be revalued (at an assumed CPI rate of 2%) to £333.06.

This revalued pension is added to the one he has built up meaning that after 2 years, Matt has built up a total pension of £333.06 + £336.73 = £669.79

Similarly for the third and fourth years of Matt's membership in LGPS the position is summarised as below

Year	Total Pension	Revaluation	Revalued Pension	Pensionable Salary for	Pension Accrued	Total Pension

	carried over from end of previous year	rate (CPI)	(A increased by B)	this Year	in this Year (=D /49)	(+C+E)
	A	B	C	D	E	F
1 (2014/15)	-	-	-	£16,000	£326.53	£326.53
2 (2015/16)	£326.53	2%	£333.06	£16,500	£336.73	£669.79
3 (2016/17)	£669.79	2%	£683.19	£17,000	£346.94	£1,030.13
4 (2017/18)	£1,030.13	3%	£1,061.03	£18,000	£367.35	£1,428.38

After 4 years, Matt has built up an annual pension of £1,428.38. This will continue to be increased in line with CPI; and he will also build up further pension for any future years in which he contributes to the scheme.

a. Tax free Lump sum

At the time of your retirement you can elect to give up some of your annual pension in exchange for a one-off tax free lump sum. There are limits to the amount that can be taken and specific terms apply.

3. The 50/50 Section

LGPS 2014 offers members an opportunity to pay a reduced level of contribution for a reduced level of benefit. The 50/50 Section allows you to pay half of the contribution rate you would normally pay, and in return you would only build up half the level of benefit (i.e. you build up 1/98th of pensionable pay for periods you are in the 50/50 Section).

The 50/50 is intended to be used for periods of financial hardship when members might typically have looked to opt out of pension saving. You can move between 50/50 and the full level of pension as often as you like by advising your employer. If you do remain in the 50/50 Section for prolonged periods of time, your employer is required to enrol you back into the full Section every three years.

Example 4

The example below demonstrates how 50/50 would work for someone who elects to participate in their 2nd and 4th years of membership.

Year	Section	Pensionable Salary for this Year	Contribution rate	Contributions Paid	Pension Build Up rate	Pension Built Up in this Year (=A /D)
		A	B	C	D	E
1 (2014/15)	Full	£21,000	5.8%	£1,218	49	£428.57
2 (2015/16)	50/50	£21,000	5.8% ÷ 2	£609	98	£214.29
3 (2015/16)	Full	£24,000	6.5%	£1,560	49	£489.80
4 (2016/17)	50/50	£26,000	6.5% ÷ 2	£845	98	£265.31

4. Retirement from LGPS 2014

a. Normal Retirement

Date of Birth	**Normal Pension Age**
Up to 06/12/1953	65
06/12/1953 - 05/10/1954	Rising from 65 to 66
06/10/1954 - 05/04/1960	66
06/04/1960 - 05/04/1961	Rising from 66 to 67
06/04/1961 - 05/04/1977	67

06/04/1977 - 05/04/1978	Rising from 67 to 68
After 05/04/1978	68

The Normal Pension Age for the LGPS is no longer fixed, it is now linked to State Pension Age (SPA). SPA is subject to Government review and change. The government wishes to balance the amount of time people spend in retirement and their aim is for people to be in retirement for one third of their adult life. GMB will continue to lobby that more information than just pure national life expectancy needs to be taken in to account, including locality based life expectancy and the nature of employment.

b. Early Retirement

It is possible to take early retirement in the LGPS 2014 scheme from the age of 55. However, if you wish to take your pension before Normal Pension Age it will be reduced on the grounds that it should be paid to you for longer than if you retired later at Normal Pension Age. There is no consent needed to be able to access your pension from the age of 55.

Years Until State Pension Age	Reduction in Pension (%) Female	Reduction in Pension (%) Male
1	5	6
2	11	11
3	15	16
4	20	20
5	24	25
6	27	29
7	31	32
8	34	36
9	37	39
10	40	42

c. Late Retirement

If you decide to not claim your pension when you reach Normal Pension Age then the amount of pension you have will increase. For every year you do not claim your pension after Normal Pension Age your pension will be increased by 5.1%. You can also carry on contributing to your pension if you are still working after Normal Retirement Age up until the age of 75, this will build up extra entitlement for when you retire.

d. Ill Health retirement

The arrangements for Ill Health Retirement have not changed with the new pension scheme, there are still the three tiers applicable. To qualify for Ill Health Retirement, a member must be permanently incapable (i.e. to pension age) of carrying out their employment duties; and not be capable of undertaking gainful employment elsewhere.

Tier 1 – The member is unlikely to be capable of undertaking 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.

The member must have been in the pension scheme for two years if they joined after 1 April 2014 to qualify for ill health retirement. Ill health retirement needs to be certified by an Independent Registered Medical Practioner (IRMP).

The definition of gainful employment used in relation to the Ill Health Retirement process is ‘paid employment for not less than 30 hours in each week for a period of not less than 12 months’.

e. Redundancy

If you are made redundant and are aged 55 or over you can access your pension straight away without the reduction that you would receive if you left the service of the council for any other reason and wished to take your pension early.

f. Flexible Retirement – Drawing your pension while still in employment

Once you have reached age 55 then you can decide, with your employer's consent, whether you wish to take flexible retirement and claim your pension. It is possible for you to take flexible retirement and claim all, some or none of your pension but you must reduce either your working hours or grade of employment. There will be a reduction associated with taking your pension early but this will depend on how early and how much you take. It is also possible to keep paying in to your pension on your reduced hours or grade and build up your pension.

Example 8

Kim wants to take early retirement in April 2019 at age 60 with 5 years of pension. Kim wants to take 50% of the pension accrued. Kim will work reduced hours until normal retirement age of 66 and then take all of her pension.

Kim has built up a pension pot of £3000 in April 2019. Half of this pension is equal to £1500 this will then get reduced as it is taken 6 years early by 27% for females. Therefore the pension received is £1,095

When Kim comes to retire and decides to take the whole pension she will also receive the other 50% (£1500) unreduced, as well as the pension built up through her reduced hours employment between 60 and 66.

5. Membership from before April 2014

Prior to LGPS 2014, the previous Local Government Pension Scheme operated on a defined benefit final salary basis. Members received a portion of their final pay for each year of membership, payable from your 65th birthday. The terms on which pension was built up in the previous scheme will be honoured in full. This means that for members who were LGPS members prior to April 2014, you 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 × Length of Service before April 2008 × Final Pay at Retirement (or leaving LGPS, if earlier)

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

<u>Pension Built Up Between April 2008 and March 2014</u>

This is payable from your 65th birthday, and is calculated as

1/60 × Length of Service between April 2008 and March 2014 × Final Pay at Retirement (or leaving LGPS, if earlier)

You can exchange pension entitlement for lump sum if desired.

<u>Pension Built Up From March 2014 onwards</u>

This is payable (normally) from your State Pension Age, and is calculated in line with the Examples shown in previous sections to this guide.

<u>Example 5</u>

Alex is a LGPS member from April 1995 until reaching age 66 (his State pension Age) in April 2025, with 30 years of membership. Alex has 13 years built up before April 2008, 6 years between April 2008 and April 2014 and 11 years in LGPS 2014; and has a final pay of £25,000.

Alex has 3 parts to pension:

1. 13/80 × £25,000 = £4,063 (plus a lump sum of £12,188). This is increased as it is being paid one year late (See Section 5.c).
2. 6/60 × £25,000 = £2,500. This too is increased as it is being paid one year late.
3. Total Career Average Pension of £5,600 built up every year between 2014 and 2025

a. Underpin Protection for Members born before 1 April 1957

There is an underpin arrangement in the LGPS 2014 scheme for those close to reaching normal retirement age. The two main qualifying attributes are the member was paying in to the scheme 31 March 2012 and was within 10 years of their retirement age on 1 April 2012 (i.e. aged 55 and above at this date). The protection makes sure that whichever is the best pension calculation, 2008 and 2014 or just 2008, the member receives that one.

Example 6

Sam is a LGPS member from 1 April 2011 and will reach 65 on April 1 2021. This means that Sam is covered by the underpin. The scheme will calculate using both the 2008 & 2014 and just the 2008 rules.

2008 & 2014

3/60 x Final Salary + (7/49 x CARE – 6% for males or 5% for females) = total pension

There is a reduction under this calculation because under the 2014 scheme the retirement age is linked to state pension age and by 2021 the state pension age will be 66. Therefore the member will receive a reduction for taking their pension one year early.

2008

10/60 x Final Salary = total pension

There is no reduction because under the 2008 rules the normal retirement age is 65.

b. Early Retirement with Rule of 85

For those members covered by transitional protection following the removal of the Rule of 85 from the old LGPS, retiring early will entail a slightly more complicated calculation of benefits.

The relevant members are those who were members of the old scheme at 30th September 2006, at the time of retiring will be at least 60 years of age and whose age plus length of membership total at least 85 when added together. These members have different levels of protection depending on when they retire.

If these members retire before 1st April 2016 then all their service will be protected and their pension will be paid unreduced.

If these members retire between 1st April 2016 and 1st April 2020 all their service up to 1st April 2008 is paid unreduced. Pension built up between 1st April 2008 and retirement will be reduced for early payment but by less than the full reduction

If these members retire after 31st March 2020 then all their pension earned up to 1st April 2008 will be paid unreduced and all the pension earned on their service between 1st April 2008 and retirement will be reduced in line with the standard early retirement reduction factors (see the guide to early retirement for more details).

6. Death benefits

There are several death benefits linked to the LGPS.

Death in Service – If you die while an active member of the scheme, the person or organisation you have named on your 'expression of wish' form will be entitled to a lump sum of 3 x current pensionable pay. There are also survivor benefits for those who leave a spouse, civil partner or cohabiting partner. The survivor's pension is equivalent to the amount of pension accrued and the pension that would have been accrued if the member had not died and had worked until normal retirement age. However, it is not worked out at 1/49th but at 1/160th. If the member leaves behind an eligible child then the child will be given a survivor pension worked out in the same way as above but at the accrual rate of 1/320th if there is more than one eligible child it will be worked out at 1/160th and then shared equally between them. If there isn't a spouse/civil partner/cohabiting partner but there is an eligible child the pension will be worked out the same but at the accrual rate of 1/240th or for more than one child 1/120th and shared equally.

Death in Retirement – If a member receiving a pension dies before they are 75 then a death grant will be paid to a spouse, civil partner or cohabiting partner that is equal to 10 times the annual pension amount minus the amount of pension already received. The survivor's pension is equivalent to the amount of pension accrued but it is not worked out at 1/49th but at 1/160th. If the member leaves behind an eligible child than the child will be given a survivor pension worked out in the same way as above but at the accrual rate of 1/320th if there is more than one eligible child it will be worked out at 1/160th and then shared equally between them. If there isn't a spouse/civil partner/cohabiting partner but there is an eligible child the pension will be worked out the same but at the accrual rate of 1/240th or for more than one child 1/120th and shared equally.

Eligible children are your own legitimate children, adopted children or children under your care for whom you have financial responsibility. The children must be either under 18 or in full-time education and not reached the age of 23 or not have the physical or mental capacity to participate in gainful employment and not reached the age of 23.

Those members in the 50:50 scheme keep the same maximum death benefits with only difference that they may have accrued less pension in total due to them being in the 50:50 scheme.

7. Topping up your Pension

a. Assumed Pensionable Pay

If a member is on reduced or nil pay due to a situation such as sickness absence or maternity leave the employer still pays their contribution on the amount the employee should have been earning, their assumed pensionable pay. Pension benefits are then based on this assumed pensionable pay. The employee may have to pay some contribution if they are receiving some part of their pay.

b. Shared Cost Additional Pension Contribution (SCAPC)

If you decide to take extra maternity or paternity leave that is unpaid then the employer is not mandated to make pension contributions as above. However, if you decide and contact your employer within 30 days of returning to work expressing that you wish to buy the pension for the period of unpaid leave, then you can enter a SCAPC. In this arrangement you can buy back the pension lost by the unpaid leave, the employee contributes 1/3 and the employer 2/3 to the cost of this. This shared cost mechanism can also be applied to periods of authorised absence.

c. Added Pension Contribution

If you wish to (and you aren't participating in the 50:50 section) you can buy extra pension within the LGPS, up to a maximum of £6,500 per year (as at 01/04/14). This can be paid for by lump sum or through pay roll over a minimum of 12 months and a maximum until normal retirement age. Regular payment contributions can be taken from payroll and will be subject to tax relief. Your employer does not have to make any contributions to this and in most cases won't. Any Added Pension Contribution (APC) that you make will not be included in the calculation for any Death Benefits.

d. **AVCs**

If you wish to build up additional pension then you can through AVC (Additional Voluntary Contribution). If you decide to take up the option of paying AVC the money is not built up in the same way or as part of your pension pot. The AVC funds that you put in are managed by an AVC provider and your local scheme will be able to provide you details of the provider they use. Some employers may contribute to your AVC arrangement but this is completely at their discretion. When you come to retirement, there are several options of what you can do with your AVC money, buy top-up LGPS pension, take some as a cash lump sum or buy an annuity.

e. **Industrial Action**

If you take strike action then for the day(s) that you are not at work you will not contribute and your employer will not contribute to your pension. This will have the effect of reducing your salary for that year, which will have an effect on your career average pension. If you are within 12 months of retiring and have previous service before April 2014 it may affect what your final salary which your pension prior to this date was worked out on. It is possible to buy back your pension for the day(s) absent from work through industrial action, the cost of this depends on the amount of pension lost and your age. If buying back pension lost due to industrial action, the amount will be equivalent to both the employee and employer contribution.

8. Leaving Service

a. Refund of Contributions

If you leave the pension scheme with 2 years of joining then your contributions will be refunded to you in full, less any appropriate deductions made for tax purposes.

b. Deferred pension

If you leave the pension scheme and you have more than two years' service then you will have a deferred pension. This is a pension that will be paid to you upon reaching retirement age or you may take when you reach 55 but there will be a reduction for taking it early before your normal pension age. Every year your pension is deferred it will be increased in-line with CPI (Consumer Price Index).

c. **Re-joining Service later**

If you leave the LGPS but remain with the same employer and decide at a later date that you wish to re-join the scheme, you will need to contact your employer and make them aware of this and that you have a previous pension in the same scheme. If you leave LGPS when you change employer, when you re-join you need to make the new scheme aware of where your deferred pension is within 12 months so that they can combine your benefits if you want them to.

d. **Death in Deferment**

If the deferred member dies then a death grant will be paid to a spouse, civil partner or cohabiting partner that is equal to 5 times the annual pension expected if the member had been able to draw pension on the day that they died. The survivor's pension is equivalent to the amount of pension accrued but it is not worked out at 1/49th but at 1/160th. If the member leaves behind an eligible child than the child will be given a survivor pension worked out in the same way as above but at the accrual rate of 1/320th if there is more than one eligible child it will be worked out at 1/160th and then shared equally between them. If there isn't a spouse/civil partner/cohabiting partner but there is an eligible child the pension will be worked out the same but at the accrual rate of 1/240th or for more than one child 1/120th and shared equally.