

A brief guide to
**The Local Government
Pension Scheme**

April 2010



lgps look forward
with confidence

Highlights of the Local Government Pension Scheme (LGPS)

The LGPS gives you:

Secure benefits –

the scheme provides you with a future income, independent of share prices and stock market fluctuations.

At a low cost to you –

with tax-efficient savings and lower National Insurance contributions for most people under *State pension age*.

And your employer pays in too –

the scheme is provided by your employer who pays a large part of the cost.

You can look forward to your retirement with the LGPS with:

A secure pension –

the benefits you get when you retire are based on the length of your membership in the scheme and your final year's pay. The pension you build up during your employment keeps pace with your pay rises. And after you retire, your pension keeps pace with cost of living increases.

Tax-free cash –

you have the option to exchange part of your pension for some tax-free cash on your retirement.

Peace of mind –

your family enjoys financial security, with immediate life cover and a pension for your husband, wife, civil partner or nominated co-habiting partner and eligible children in the event of your death and, if you ever become seriously ill, you could receive immediate ill health benefits.

Early retirement –

you can choose to retire from age 60 and receive your benefits immediately, although they may be reduced for early payment. It's also possible to retire from age 55 and receive your benefits immediately, provided you have your employer's consent or you are made redundant or retired in the interests of business efficiency.

Flexible retirement –

if you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, draw some or all of the benefits you have built up, helping you ease into retirement, although your benefits may be reduced for early payment.

Options to pay extra –

you can boost your pension by paying more contributions. You get tax relief on these, too.

The scheme

This guide is a short description of the conditions of membership and main scheme benefits that apply if you pay into the LGPS on or after 1 April 2008.

What kind of scheme is it?

The LGPS is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972 and is contracted out of the State Second Pension scheme (S2P).

The benefits under the LGPS are based on the length of your membership and your final year's pay. It is very secure because the benefits are set out in law.

Who can join?

The LGPS covers local government and other organisations that have chosen to participate in it. To be able to join the LGPS you need to have a contract of employment that's for at least 3 months and be under age 75 and if you are employed by a designating body, such as a town or parish council, or an admission body, you can only join if your employer nominates you for membership of the scheme. Police officers, operational firefighters and teachers are not allowed to join.

If you are eligible for membership of the scheme you will **automatically** become a member unless you are employed by an admission body in which case you would have to opt to join. You have the right not to join the scheme.

An admission body is an employer that chooses to participate in the scheme under an admission agreement. These tend to be employers such as charities and contractors.



The scheme

How do I ensure that I have become a member of the LGPS?

To secure your entitlement to the scheme benefits it is important that you complete and return the joining form.

On receipt of your form, relevant records will be set up and an official notification of your membership of the LGPS will be sent to you.

You should check your pay slip to make sure that pension contributions are being deducted.

Can I opt-out of the LGPS and re-join at a later date?

You can leave the LGPS at any time by giving your employer notice in writing, although you will only be entitled to a refund of contributions if you leave the scheme within 3 months of joining. If you opt-out, you can opt back into the scheme provided at that time you have a contract of employment that's for at least three months and you are under age 75.

You may wish to obtain independent financial advice before you make a decision to opt-out of the LGPS.

What do I pay?

Your contribution rate depends on how much you are paid but it will be between 5.5% and 7.5% of your *pay*. The rate you pay depends on which pay band you fall into.

If you work part-time, your rate will be based on the whole-time pay rate for your job, although you will only pay contributions on the *pay* you actually earn.

The contribution rate for those manual workers who joined the scheme before 1 April 1998 and were protected to pay contributions at a rate of 5% will be gradually increased, bringing it into line with the standard pay band rates by 1 April 2011.



The scheme

Here are the pay bands and the rates that apply from April 2010

If your whole-time pay rate is:	You pay a contribution rate of:
Up to £12,600	5.5%
£12,601 to £14,700	5.8%
£14,701 to £18,900	5.9%
£18,901 to £31,500	6.5%
£31,501 to £42,000	6.8%
£42,001 to £78,700	7.2%
More than £78,700	7.5%

The pay band ranges will be increased each April in line with the cost of living.

Do I get tax relief?

As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your **pay** and you will be contracted out of the State Second Pension scheme (S2P).

Whilst you are a member of the LGPS you will, prior to **State pension age**, pay reduced National Insurance contributions.

Does my employer contribute?

Your employer pays the balance of the cost of providing your benefits in the LGPS. Every three years an independent review is undertaken to calculate how much your employer should contribute to the scheme. Increases or decreases in the cost of providing the scheme may, in future, need to be shared between members and employers, in accordance with government guidance.

The scheme

Can I pay more to increase my benefits?

You can pay extra to increase your retirement benefits. You can do this either by paying ***Additional Regular Contributions (ARCs)*** to buy extra LGPS pension, or by making payments to the scheme's ***Additional Voluntary Contributions (AVCs)*** arrangement. And you can pay extra to increase your dependant's benefits.

Your pension fund can give you more information on these options. Contact details are at the end of this guide.

You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice.

You may wish to take independent financial advice before you make a decision about paying extra.

Can I transfer pension benefits into the LGPS?

Generally speaking, benefits that you have previously built up in the LGPS or in other pension arrangements can be transferred into the LGPS. An option to transfer must be made within twelve months of joining or such longer period as your employer allows.

What if I'm already receiving an LGPS pension – will it be affected?

If you are re-employed in local government or by an employer who offers you membership of the LGPS you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the scheme in your new position or not. If you are in receipt of a LGPS ill health pension which is of the type that is stopped if you are in any gainful employment, your pension may be affected and you must inform the employer who awarded you that pension if you take up employment.

In either case, a check will then be made to see whether the pension you are being paid should be reduced or stopped.

Retirement

To be entitled to LGPS retirement benefits you have to have at least three months membership, or have transferred other pension rights into the LGPS, or already have a deferred benefit in the LGPS in England and Wales.

When can I retire?

You can retire and receive your LGPS benefits in full once you have reached age 65. The scheme also makes provision for the early payment of your LGPS benefits.



What are my LGPS retirement benefits?

When you retire, you will receive a pension and have the option to take part of your pension as a tax-free lump sum. If you joined the LGPS before 1 April 2008, your standard benefit package will include an automatic tax-free lump sum as described in **The benefits** section.

Can I retire before age 65?

You can elect to retire and receive your LGPS benefits from age 60 onwards.

You may be able to voluntarily retire and receive your LGPS benefits from age 55 but only if your employer agrees.

Employer's consent to draw benefits before age 60 is an employer discretion. Your employer must set out their policy on this in a published statement.

Retirement

Are there any penalties for retiring before 65 and drawing immediate benefits?

If you voluntarily retire before age 65 your LGPS benefits, initially calculated as set out in **The benefits** section, will be reduced to take account of their early payment and the fact that your pension will be payable for longer.

However, if you joined the LGPS before 1 October 2006 and would have at least 21 years scheme membership if you stayed in the scheme to age 65 you will:

- a) have some protection from the reduction in respect of benefits you build up in the scheme up to 31 March 2016 if you will be 60 by then, or
- b) in any other case, have some protection from the reduction in respect of any benefits you've built up in the scheme up to 31 March 2008. Also, if you will be 60 between 1 April 2016 and 31 March 2020, you may have some further protection on a sliding scale in respect of benefits you build up between 1 April 2008 and 31 March 2020 provided your combined age

and scheme membership, both in whole years, would be 85 or more by 31 March 2020.

What if I lose my job through redundancy or business efficiency?

If you are aged 55 or over you will be entitled to the immediate unreduced payment of your LGPS benefits.

What happens if I have to retire early due to ill health?

If you have to leave work at any age due to permanent ill health, which has to be certified by an occupational health physician appointed by your employer, the scheme provides a tiered ill health retirement package. This could give you benefits, paid straight away, and which could be increased if you are unlikely to be capable of gainful employment within 3 years of leaving.

Retirement

What if I want to have a gradual move into retirement?

This is known as flexible retirement. From age 55, if you reduce your hours or move to a less senior position, and provided your employer agrees, you can draw some or all of the pension benefits you have built up – helping you ease into retirement.

If you take flexible retirement before age 65 your benefits may be reduced to take account of their early payment unless your employer agrees to waive the reduction in whole or in part.

You can continue paying into the LGPS on your reduced hours or in your new role, building up further benefits in the scheme.

Flexible retirement is at the discretion of your employer and they must set out their policy on this in a published statement.

What if I carry on working after age 65?

If you carry on working after age 65 you will continue to pay into the scheme, building up further benefits. We will pay your pension when you retire, or when you reach the eve of your 75th birthday, or if you take flexible retirement with your employer's consent, whichever occurs first.

If you draw your pension after age 65, it will be increased to reflect the fact that it will be paid for a shorter time. Your pension has to be paid by your 75th birthday.

If you voluntarily retire, you can defer drawing your benefits but you must draw them before age 75



The benefits

How much will my pension be?

Your pension is based on the length of your membership in the scheme and your final year's pay.

If you are part-time, your scheme membership will count at its part-time length when working out your pension and your final year's pay is increased to what you would have received had you been full-time.

For membership you build up after 31 March 2008 you receive an annual pension based on 1/60th of your final year's pay. **The examples on the next page** show how benefits based on membership in the LGPS built up after 31 March 2008 are calculated.

What pay is used to calculate retirement benefits?

Your retirement benefits will be calculated on your final year's pay. That is, the **pay** due in respect of your final year. If you are part-time, your final year's pay is increased to what you would have received had you been full-time.

However, your benefits can be calculated on one of the two previous years' pay if better. Also, if your **pay** is reduced, or increases to your **pay** are restricted, in your last 10 years of continuous employment with your employer, you have the option to have your benefits based on the average of any 3 consecutive years' pay in the last 13 years (ending on a 31 March), provided you opt to do so by writing to the pension fund no later than one month before leaving.

Can I exchange part of my pension for a lump sum?

You can exchange part of your annual pension for a one off tax-free cash payment. You will receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum providing the total lump sum does not exceed £450,000 (2010/11 figure) less the value of any other pension rights you have in payment.

Details of the maximum tax-free cash payment you can take will be given to you shortly before your retirement. It is at that time you need to make a decision.

The benefits

Example of pension and lump sum option calculation for membership after 31 March 2008

Full-time employee

On retirement at age 65, a scheme member has 20 years total membership and has final year's pay of £15,000.

Their **annual pension** is:

$$20 \text{ years} \times 1/60 \times £15,000 = \mathbf{£5,000}$$

If they decide to give up £1,000 pension for a cash lump sum, then their **reduced annual pension** is:

$$£5,000 \text{ less } £1,000 = \mathbf{£4,000}$$

And they will get a **tax-free lump sum** of:

$$£1,000 \times 12 = \mathbf{£12,000}$$

Part-time employee

If the same employee had worked half-time (ie 20 years at half-time =10)

Their **annual pension** would be:

$$10 \text{ years} \times 1/60 \times £15,000 = \mathbf{£2,500}$$

If they decide to give up £500 pension for a cash lump sum, then their **reduced annual pension** is:

$$£2,500 \text{ less } £500 = \mathbf{£2,000}$$

And they would get a **tax-free lump sum** of:

$$£500 \times 12 = \mathbf{£6,000}$$

If you joined the LGPS before 1 April 2008

Your benefits for membership before 1 April 2008 are calculated differently. For LGPS membership you have built up to 31 March 2008 you receive an annual pension based on 1/80th of your final year's pay **and** an automatic tax-free lump sum of three times your pension.

Like the pension, the automatic lump sum is based on your LGPS membership before 1 April 2008 and your final year's pay.

You can also exchange part of your pre April 2008 pension for extra lump sum as described earlier.

The benefits

Taking AVCs as cash

If you pay *Additional Voluntary Contributions (AVCs)* via the LGPS you may elect to take up to 100% of the accumulated fund in your AVC account as a tax-free lump sum if you draw it at the same time as your LGPS pension benefits, **provided** when added to the LGPS lump sum it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £450,000 (2010/2011 figure) less the value of any other pension rights you have in payment.

Details of this option will be given to you shortly before your retirement.

Will my pension increase?

The LGPS provides statutory pension increases. This means that on retiring on or after age 55 your pension will be increased each year in line with the *Retail Prices Index (RPI)*.

Ill health pensions are increased each year in line with the *Retail Prices Index (RPI)* regardless of age.



Protection for your family

What benefits will be paid if I die?

If you die in service as a member of the LGPS the benefits shown below are payable.

- A lump sum death grant of 3 years pay. If you are part-time, it's 3 years part-time pay.
- Pensions for *eligible children*
- A widow's, widower's, civil partner's or, subject to certain qualifying conditions, a nominated co-habiting partner's pension, equal to 1/160th of your final year's pay times the total membership you would have built up in the LGPS to age 65. If you are part-time, membership to age 65 is calculated assuming you had remained part-time through to then.

However, a nominated co-habiting partner's pension will be less than this if you have membership in the scheme before 6 April 1988, and you have not opted to pay additional contributions so that it counts towards a nominated co-habiting partner's pension.

A civil partnership is a relationship between two people of the same sex ("civil partners") which is formed when they register as civil partners of each other.

A co-habiting partner is someone you are living with as if you are married or in a civil partnership. To nominate a co-habiting partner for a survivor's pension your relationship has to meet certain conditions laid down by the LGPS. If you wish to make a nomination you can obtain a form from the pension fund.



Protection for your family

If you die after retiring on pension, a widow's, widower's, civil partner's or, subject to certain qualifying conditions, a nominated co-habiting partner's pension and pensions for *eligible children* are payable.

A widow's or widower's pension is equal to 1/160th of your final year's pay times the total membership your pension is based on unless you marry after retirement in which case it could be less.

A civil partner's pension is equal to 1/160th of your final year's pay times the total membership your pension is based on.

A nominated co-habiting partner's pension is equal to 1/160th of your final year's pay times your membership in the scheme from 6 April 1988, plus any of your membership before 6 April 1988 for which you have paid additional contributions so that it counts towards a nominated co-habiting partner's pension.

A death grant is payable if less than 10 years pension has been paid and you are under age 75 at the date of death, in which case the balance of 10 years of pension is paid as a lump sum.

The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from the pension fund. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

You can find out how to contact the pension fund at the end of this guide



Leavers without an immediate entitlement to benefits

Refunds of contributions

If you leave or opt out of the scheme with less than three months total membership, have not brought a transfer into the LGPS and do not already have a deferred benefit in the LGPS in England or Wales, you may take a refund of your contributions. There will be a deduction for tax and the cost, if any, of buying you back into the State Second Pension scheme (S2P).

Deferred benefits

If you leave before age 65 and your total membership is three months or more or you have transferred other pension rights into the LGPS, or you already have a deferred benefit in the LGPS in England or Wales, you will be entitled to deferred benefits within the LGPS.

Your deferred LGPS benefits will be calculated as described in **The benefits** section using the length of your membership up to the date that you left the scheme.

During the period your pension benefits are deferred, they will be increased each year in line with the *Retail Prices Index (RPI)*.



Leavers without an immediate entitlement to benefits

Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid at age 65, but:

- they may be put into payment earlier, and in full if, because of ill health, you are permanently incapable of doing the job you were working in when you left the LGPS and you are unlikely to be capable of gainful employment within three years of applying for the benefit or by age 65, whichever is the earlier; or
- you can, if you wish, elect to receive your deferred benefits early from age 60 onwards; or
- if your former employer agrees, you can elect to receive your deferred benefits from age 55. You must have your former employer's consent to draw your benefits before age 60; or
- you can, if you wish, elect not to draw your deferred benefits at age 65 and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid early, other than on the grounds of permanent ill health, may be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after age 65 will be increased.

If you die before your deferred benefits come into payment, a lump sum death grant equal to 5 years' pension will be paid.

The LGPS allows you to say who you would like any death grant to be paid to by completing an expression of wish form. This form is available from the pension fund. The scheme's administering authority, however, retains absolute discretion when deciding on who to pay any death grant to.

A widow's, widower's, civil partner's or, subject to certain qualifying conditions, a nominated co-habiting partner's pension and pensions for *eligible children* will also be payable.

A widow's or widower's pension is equal to 1/160th of your final year's pay times the total membership your deferred pension is based on unless you marry after leaving in which case it could be less.

Leavers without an immediate entitlement to benefits

A civil partner's pension is equal to 1/160th of your final year's pay times the total membership your deferred pension is based on.

A nominated co-habiting partner's pension is equal to 1/160th of your final year's pay times your membership in the scheme from 6 April 1988 plus any of your membership before 6 April 1988 for which you have paid additional contributions so that it counts towards a nominated co-habiting partner's pension.

To nominate a co-habiting partner for a survivor's pension your relationship has to meet certain conditions laid down by the LGPS. If you wish to make a nomination you can obtain a form from the pension fund.

Transferring your benefits

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into a new employer's scheme (if they are willing and able to accept it), into a personal or stakeholder pension scheme, or into a 'buy-out' insurance policy. You cannot transfer your benefits if you leave less than one year before age 65. An option to transfer must be made before age 64 or, if later, within 6 months of leaving.

The method of valuing the cash equivalent of your pension rights complies with the requirements of the Pension Schemes Act 1993 and any value quoted is guaranteed for three months.

Alternatively, if you return to employment with an employer participating in the LGPS, then you may elect for the pension rights that you have built up to be added to your new period of membership in the scheme. Such an election must be made within twelve months of re-joining the scheme or such longer period as your employer allows.

You can find out how to contact the pension fund at the end of this guide



Help with pension problems

Who can help me if I have a query or complaint?

If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact the pension fund. They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If your query is about your contribution rate, please contact your employer's personnel/HR or payroll section so they can explain how they have calculated your contribution rate.

If you are still dissatisfied with any decision made in relation to the scheme you have the right to have your complaint reviewed under the Internal Disputes Resolution Procedure and, as the scheme is well regulated, there are also a number of other regulatory bodies that may be able to assist you.

The various procedures and bodies are:

- **Internal Disputes Resolution Procedure**

In the first instance you should write to the person nominated by the body who made the decision about which you wish

to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining, or such longer period as the nominated person may allow. The nominated person will consider your complaint and notify you of his or her decision. If you are dissatisfied with that person's decision, (or their failure to make a decision), you may apply to the scheme's administering authority to have it reconsidered.

[A leaflet explaining the Internal Disputes Resolution Procedure including relevant time limits is available from the pension fund.](#)

- **The Pensions Advisory Service (TPAS)**

TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pensions query they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

11 Belgrave Road
London SW1V 1RB
Telephone 0845 601 2923

Help with pension problems

- **Pensions Ombudsman**

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the scheme or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

11 Belgrave Road
London SW1V 1RB
Telephone 0207 630 2200

- **The Pensions Regulator**

This is the regulator of work based pension schemes. The Pensions Regulator has powers to protect members of work based pension schemes and a wide range of powers to help put matters right, where needed.

In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

Napier House, Trafalgar Place
Brighton BN1 4DW
Telephone 0870 606 3636

How can I trace my pension rights?

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with relevant contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to the scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to:

The Pension Tracing Service
The Pension Service
Tyneview Park, Whitley Road
Newcastle upon Tyne NE98 1BA
Telephone 0845 600 2537

Don't forget to keep your pension providers up to date with any change in your home address.



Some terms we use

Additional Regular Contributions (ARCs)

These are extra payments to buy up to £5,000 of extra annual LGPS pension in blocks of £250.

Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover.

All local government pension funds have an AVC arrangement in which you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

Eligible children

Eligible children are your children. They must, at the date of your death:

- be under 18 and be wholly or mainly dependent on you; or
- be aged 18 or over and under 23, be dependent on you, and be in full-time education or undertaking vocational training (although a dependant child who commences full-time education or vocational

training after the date of your death may be treated as an eligible child up to age 23); or

- in some cases, a dependant child of any age who is disabled may be classed as an eligible child.

In all cases, the children must have been born before or within a year of your death.

Pay

The pay on which you normally pay pension contributions is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, maternity pay, paternity pay, adoption pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any payment by way of compensation to achieve equal pay, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

Some terms we use

Retail Prices Index (RPI)

This shows the changes in the cost of living. It reflects the movement of prices covering a range of goods and services over time.

The amount by which pensions are increased annually is based on the movement in the retail prices index during the 12 months to the previous September.



State pension age

This is the earliest age you can receive the state basic pension and is currently age 65 for men.

From 2010 the State pension age for women is as shown in the table below, so that by 2020 State pension age for men and women will have been equalised at age 65.

Date of Birth	State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	Between 60 & 61
6 April 1951 - 5 April 1952	Between 61 & 62
6 April 1952 - 5 April 1953	Between 62 & 63
6 April 1953 - 5 April 1954	Between 63 & 64
6 April 1954 - 5 April 1955	Between 64 & 65
After 5 April 1955	65

The State pension age will be increased for men and women from 65 to 68 between 2024 and 2046.

Further information and disclaimer

This guide cannot cover every personal circumstance and does not cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the lifetime allowance (£1.8 million in 2010/11) or whose pension benefits increase in any tax year by more than the annual allowance (£255,000 in 2010/11), those who are subject to a special annual allowance tax charge, those to whom protected rights apply, or those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This short guide does not confer any contractual or statutory rights and is provided for information purposes only.

Employees in England and Wales - April 2010

Further information

More detailed information about the scheme is available from the national website for members of the LGPS at www.lgps.org.uk

Contact details

You can find contact details for your Pension Fund in the 'Contact Us' section of the website.



