

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Pension Fund Investment Board

**Date of Committee** 17 February 2006

**Report Title** LGPS Draft Regulations for Consultation

**Summary** Report setting out the position with regard to the consultation process for draft Regulations.

**For further information please contact:** Phil Triggs  
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**Would the recommended decision be contrary to the Budget and Policy Framework?** No.

**Background papers** None

**CONSULTATION ALREADY UNDERTAKEN:-**

Details to be specified

- Other Committees  .....
- Local Member(s)
- Other Elected Members  Cllr Davis - Chair of Pension Board
- Cabinet Member  .....
- Chief Executive  .....
- Legal  Jane Pollard, Assistant County Solicitor
- Finance  David Clarke, Strategic Director of Resources - reporting officer
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....
- Police  .....
- Other Bodies/Individuals  .....

**FINAL DECISION YES**

**SUGGESTED NEXT STEPS:**

Details to be specified

- Further consideration by this Committee  .....
- To Council  .....
- To Cabinet  .....
- To an O & S Committee  .....
- To an Area Committee  .....
- Further Consultation  .....

## Agenda No

### Pension Fund Investment Board - 17 February 2006

#### LGPS Draft Regulations for Consultation

#### Report of the Strategic Director of Resources

##### **Recommendation**

That the PFIB note the following proposed changes to the Local Government Pension Scheme.

#### **1. Introduction**

- 1.1 The Office of the Deputy Prime Minister (ODPM) has issued draft regulations for consultation. Following the revocation on 1 August 2005 of the changes that were introduced to the scheme with effect from 1 April 2005, talks have been taking place between the ODPM, the Local Government Employers and the Trade Unions on the future of the Local Government Pension Scheme (LGPS).
- 1.2 In particular, these talks focus on the cost of the scheme to the employer and the pension scheme member. Following these discussions, the ODPM published draft regulations for consultation on 10 December 2005.
- 1.3 In addition, the ODPM has introduced proposed changes to the scheme which are required as a result of the Finance Act 2004 which itself comes into force on 6 April 2006

#### **2. Key Changes**

- 2.1 If approved, the key changes to the LGPS are:

##### **From 6 April 2006:**

- 2.2 The 40-year limit on contributions will be removed. For example, an employee joining the scheme at age 18 and retiring at age 60 will not be restricted to 40 years service.
- 2.3 Members currently part way through a contribution holiday will have the opportunity to reinstate this service by paying the contributions they would have been required to pay but for the contribution holiday.

- 2.4 The introduction of an annual limit on pension contributions payable and a lifetime limit on the value of pension benefits. Members will continue to pay 6% of their pensionable pay to the LGPS and it may be that the pension scheme retains a 15% limit (i.e. an extra 9%) for the purchase of additional service. However, under the proposed changes members, can investigate further pension provision up to the listed limits below. Naturally, members are best advised to discuss their options with their financial advisor.
- a. A maximum annual contribution equal to the employee's salary, subject to an annual limit of £215,000. Members earning less than £3,000 per annum may contribute up to £3,000 per annum.
  - b. A lifetime capital value of pension benefits limit of £1.5m. This limit is likely only to affect those earning in excess of £130,000 per annum and who have been scheme members for 40 years or more.
- 2.5 Flexible retirement introduced with employer consent. Members aged over 60 may be allowed to draw part of their pension and carry on working with reduced hours or reduced level of responsibility.
- 2.6 New increased lump sum at retirement introduced. Members will be able to increase the tax-free lump from the standard 3/80ths lump sum by giving up part of their annual pension. The exchange rate will be £12 for each £1 of pension given up.
- 2.7 Removal of the Pensions Cap, currently at £106,500. The removal will only affect those members earning in excess of £106,500 per annum and who first joined the LGPS since 1 June 1989.

### **From 1 October 2006:**

- 2.8 Removal of the 'rule of 85' from the scheme.
- 2.9 Normal retirement age of 65.
- 2.10 Members may choose to retire after age 60 with a reduction in benefits (but see transitional protection below). The member may nominate a chosen individual retirement age between 60 and 65 and make possible further contributions to offset possible actuarial reductions in pension benefits.

## **3. Transitional Protection**

- 3.1 Benefits earned in respect of service to 30 September 2006 are protected for all scheme members.
- 3.2 Members who are aged 60 and over by 31 March 2013 will continue to receive the protection that was provided to them under the regulations in force prior to 1 April 2006, i.e., unreduced benefits payable if member has 25 years membership or reduced benefits payable under the existing provisions if the member has less than 25 years membership.

## **4. Recommendation**

- 4.1 That the PFIB note proposed changes to the Local Government Pension Scheme.

DAVID CLARKE  
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February 2006