

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Pension Fund Investment Board  
**Date of Committee** 3 August 2007  
**Report Title** The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2007

**Summary**

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**Would the recommended decision be contrary to the Budget and Policy Framework?**

**Background papers**

**CONSULTATION ALREADY UNDERTAKEN:-**

Details to be specified

- Other Committees  .....
- Local Member(s)  .....
- Other Elected Members  Cllr Davis, Chair of Pension Fund Board
- Cabinet Member  .....
- Chief Executive  .....
- Legal  Tony Maione
- 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 - 3 August 2007

#### The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2007

#### Report of the Strategic Director of Resources

#### Recommendation

That the Board note the contents of the report.

### 1. Introduction

- 1.1 The Department for Communities and Local Government (DCLG) has issued amending regulations clarifying several aspects of the current 1997 regulations.
- 1.2 There are three amendments to bring to the Board's attention:
  - election to pay additional voluntary contributions (AVCs);
  - power of employing authority to increase total membership;
  - commutation: small pensions.

### 2. Election to pay AVCs

- 2.1 The changes to the Local Government Pension Scheme (LGPS) introduced as a consequence of tax simplification (6 April 2006) enabled members to contribute up to 100% of pay, or £3,600 if their pay was less than £3,600, as an AVC.
- 2.2 Thus, members approaching retirement could maximise the total lump sum payable (in excess of the standard 3/80ths retirement grant) by contributing up to 100% of pay to the in-house AVC plan and using the accrued fund as a lump sum.
- 2.3 The DCLG became concerned that this type of financial planning was undermining the future financial security of the LGPS. This was because the option for members to maximise their retirement lump sum was intended to encourage members retiring to take a lower pension to fund the higher lump sum alternative.
- 2.4 The DCLG has issued amending regulations limiting the maximum a member may pay to the in-house AVC to 50% of pay.

- 2.5 The DCLG has also amended the regulations restricting members to contributing to the AVC fund via deductions from pay only.

### **3. Power of employing authority to increase total membership**

- 3.1 Regulation 52 enables an employer to award a member additional service. This service is purchased up front. Following the withdrawal of the ability of employers to award Compensatory Added Years on retirement, augmentation (as it is known) is being utilised to award service on retirement or to enable the member to forego an enhanced severance lump sum and receive additional service, with the lump sum funding the additional pension
- 3.2 The DCLG has issued amending regulation enabling employers to increase membership to a maximum of ten years rather than the existing 6 years 243 days.

### **4. Commutation: small pensions**

- 4.1 Previous scheme regulations enabled members and beneficiaries to receive a single lump sum payment if the annual pension payable was less than £195 and £260 respectively. Members retiring had to have attained pensionable age.
- 4.2 Tax simplification has introduced an enhanced limit of a £5,000 capital value of pension benefits encompassing all pension provision.
- 4.3 This amendment brings the LGPS in line with Revenue and Customs legislation.

### **5. Recommendation**

- 5.1 That the Board note the contents of the report.

DAVID CLARKE  
Strategic Director, Resources  
Shire Hall  
Warwick  
July 2007