Worcestershire County Council Pension Fund

PENSION UPDATE - March 2016

FOR MEMBERS OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

1. ANNUAL BENEFIT STATEMENT (ABS) – have you checked yours?

A career Average Revalued Earnings scheme (CARE) provides a yearly build-up of pension and we are asking members to check their Annual Benefit Statement carefully.

At the end of August we issued you with an Annual Benefit Statement, if you were an active member of the scheme on 31 March 2015. You may have noticed that this statement looked different from previous years'. This is because it was the first statement since the LGPS changed to a CARE scheme on 1 April 2014.

Final salary Vs. CARE
In the previous Final Salary Scheme your pay in the last 365 days before you left the Scheme would determine the pension you would receive upon retirement. However, in a CARE scheme your pension is set by the pay you receive each year you are a member and then added together to form your total CARE pension.

As a result of the introduction of a CARE scheme it is more important than ever that your employer provides accurate pay information and that you check your ABS each year.

FAQs

What do I need to help me check my statement?
When you get your statement you should check all personal information in the statement is correct, and most importantly, that the pay supplied by your employer is accurate. To do this you will need access to your payslips from April to March for the year you are checking.

I have two pay figures on my ABS. Do I need to check them both?
Yes, you should check both. The pay used to calculate your LGPS benefits, is known as your pensionable pay which is also the pay from which contributions to the scheme are deducted. Not all the payments you receive from your employer are pensionable and when the LGPS changed on the 1 April 2014, a new definition of pensionable pay was introduced. This change means that the LGPS uses two definitions of pensionable pay to calculate the different parts of your pension benefits. The two definitions are known as the 2008 Final Salary definition and the 2014 CARE definition.

What is the difference between the 2008 and 2014 definitions of pensionable pay?
The 2014 CARE definition of pensionable pay now includes non-contractual (as well as contractual) overtime and also includes any additional hours worked. These payments (except for contractual overtime) are not included in the 2008 Final Salary definition of pensionable pay.

How do I check the pay figures on my statement?
If your pay is the same amount each month, or you work full time and haven't received any additional payments or pay awards throughout the year, then your pay on your statement should be the total gross on the cumulative figure on your March payslip. This will be the same for both CARE and Final Salary pensionable pay.

If your pay changes each month; you work part time, have received a pay award or have had any breaks in service, or periods of no pay, throughout the year, you will need to check with your payroll provider as to how they have calculated your pay as it may not be clear from your payslips. If any of the above circumstances do apply to you, here are some points to consider when checking your payslip:

Do you work part time?
If so, your contributions to and benefits from the 2014 CARE Scheme will be based on your actual pensionable pay. This means that your 2014 CARE pensionable pay will not be converted into full- time equivalent like your 2008 Final Salary pensionable pay is.

Have you had any periods of reduced or no pay?
If you have had any periods of reduced pay as a result of sickness/injury or ordinary child related leave, your 2014 CARE pensionable pay will include periods of assumed pensionable pay (APP) which is calculated by your employer.

Have you been on secondment or had any periods of acting up?
If you have received any additional payments for periods of acting up or secondment, these will count as additional payments. You should check that these payments have been included in your 2014 CARE pensionable pay.

Have you paid extra contributions?
If you have paid extra contributions throughout the year either to increase your pension via Additional Pension Contributions (APC's) or to cover any periods of lost pension because of absence, then you will need to check that your statement shows this.

What should you do if you think the pay on your ABS is wrong?
Contact your employer as soon as possible. If you are still not satisfied, you have the right of appeal.

2. LGPS PROTECTIONS: ARE YOU COVERED?

In recent years, the LGPS has seen significant changes to its legislation. Some of the changes include protection for certain members who were in the scheme at the time of change. Some of the main protections are listed below but remember to always contact the Pension's Team before making any decisions about your benefits.

Normal Pension Age (NPA)
Any pension built up before 1 April 2014 has a protected NPA, which is age 65. If you retire and draw all of your pension at your protected NPA, your pension built up in the scheme before 1 April 2014 will be paid in full.

If you choose to take your pension before your protected NPA the pension you have built up before 1 April 2014 will normally be reduced taking account how many years early it is being paid. The benefits you build up under the CARE Scheme from April 2014 have a NPA linked to your State Pension Age (SPA) (but with a minimum age of 65). All pension benefits built up pre and post 2014 have to be drawn at the same time (except in the case of Flexible Retirement).

Reduction in pay
If you joined the LGPS before 31 March 2014 you will have membership in the Final Salary Scheme and your benefits, in respect of pre April 2014 service, will be based on your Final Salary at leaving. If you have a pay cut – for example because of a pay and grading exercise – there are some protections which continue to apply from the Final Salary Scheme.

To ensure your benefits are calculated using the best possible pay you can:

- Choose to have your benefits calculated on the best year's pay in the last three years.
- Choose to have your benefits based on the best 3 years average in the last 10 years, if you have received a pay cut from your employer.*

**This option is a request under regulation 10 of the LGPS regulations 2008. For this regulation to apply your employer must have caused your pay to be reduced or restricted, in one employment, and you must request this from your employer no longer than one month prior to your leaving the Scheme. Please ensure you keep any paper work relating to the ay cut, in case you are required to produce details in the future.*

Underpin
From 1 April 2014, if you were nearing retirement we will ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed. This protection is known as the underpin.

The underpin applies to you if you were:

- Paying into the Scheme on 31 March 2012 and,
- You were within 10 years of your NPA on 1 April 2012,
- You haven't had a disqualifying break in service of more than 5 years,
- You've not drawn any benefits in the LGPs before NPA and,
- You leave with an immediate entitlement to benefits.

The underpin will not apply if you opt out of the Scheme before your protected NPA (65) or before the scheme changed, and may not apply if you voluntarily draw benefits at a time when you would have required employer consent to do so under the pre 1 April 2014 scheme (normally pre age 60). If you are covered by the underpin, the Pensions Team will carry out the underpin check when you retire.

Rule of 85

The rule of 85 protects some or all of your benefits from early payment reduction. To have the rule of 85 protection you must have been a member of the LGPS on 30 September 2006 and if your age at the date when you draw your pension plus your scheme membership (each in whole years) must add up to 85 years or more.

The only occasion where the protection does not automatically apply is if you choose to voluntarily draw your pension at or after age 55 and before age 60.

If you would not satisfy the rule of 85 before you are age 65, then all your benefits would be reduced if withdrawn before your NPA. The reduction will be based on how many years before your NPA (age 65 for pension built up to April 2014 and before your SPA for pension built up from April 2014) you draw your benefits.

If you will be age 60 or over by 31 March 2016 and choose to draw your pension between age 60 and your NPA, then the benefits you build up to 31 March 2016 will not be reduced.

But, if you qualify for the full rule of 85 protection to 31 March 2016 and you decide not to retire until after 31 March 2016, any benefits built up from 1 April 2016 will be reduced if you retire before your SPA.

3. HOW YOUR PERSONAL INFORMATION IS USED

Worcestershire County Council is the Administering Authority for the Worcestershire County Council Pension Fund and is registered with the Information Commissioner's Office as a Data Controller.

Your information is kept for the sole purpose of administering your pension. Your personal details are retained to establish any future entitlement to benefits. The Fund may pass certain details to a third party, where the third party is carrying out an administrative function of the Fund, or where we are legally obliged to do so.

To protect your personal information held electronically, Worcestershire County Council is registered under the Data Protection Act 1998. This allows you to check your details held by the Fund. If you wish to apply to access your data you should contact the Information Access Team at: dataprotection@worcestershire.gov.uk

The Fund's Actuary, Mercer, also acts as joint data controller with the Fund and have published information on how it handles your personal data on their website: http://goo.gl/NZoU96

The Fund is also taking part in the National Insurance Database. Here's how it affects you:

What is the LGPS National Insurance Database?
Worcestershire County Council Pension fund will be participating in a data sharing exercise with other LGPS pension funds in England, Wales and Scotland. This is to help comply with legal requirements contained in the LGPS's Regulations.

If a member of the LGPS dies with an entitlement to a death grant, it is necessary for the Scheme's administrators to know if the individual also had other periods of LGPS membership elsewhere in the country so that the correct death benefits are paid out.

As the LGPS is locally administered, each pension fund has its own membership records and it can be difficult to tell if an individual has other LGPS records and if so where these are held. To comply with the requirements set out above, a National Insurance Database has been developed that will enable funds to check if their members have LGPS pensions records in other funds.

What data is shared?
For each member of the LGPS, the Database holds a short entry containing:
- The individual's National Insurance number,
- A number to denote the individual's membership status,
- The last calendar year that the membership status changed, and
- A four digit number confirming the LGPS pension fund where the member's record is held.

Who hosts the Database?
The Database is hosted at the South Yorkshire Pensions Authority, a LGPS pension fund.

How will the data held on the Database be processed?
The data held on the Database will be processed in accordance with the Data Protection Act 1998 and other relevant legislation.

Are there any other purposes that the Database will be used for?
An extract of the membership information contained in the Database will periodically be shared with Department for Work and Pensions (DWP) so that the LGPS can join the Tell Us Once Service. Tell Us Once is a service offered in most parts of the country when an individual registers a death. When the LGPS joins Tell Us Once and the death of an LGPS member is registered, the DWP systems will ensure that the LGPS pension fund is informed of the death, meaning that the member's records can be processed quickly and simply.

Who is the data shared with?
Other LGPS pension funds. These are all public bodies named in legislation as administering authorities of the LGPS. For the Tell US Once service, an extract of the Database containing individual's NI numbers will be securely shared with DWP every month so that they may maintain an up-to-date record of the LGPS's membership.

How long will this data sharing be undertaken for?
For as long as:

I. The relevant regulatory requirements remain, and
II. The LGPS participates in the Tell Us Once service

In the event that neither of the above apply, the data will cease to be undertaken.

Can I opt out of this data sharing?
No. As the data sharing is partly being undertaken to comply with a legal requirement, it is not possible for scheme members to opt out of data sharing.

What if I have any queries?
To find out more about this data sharing or if you have any questions, please contact the Pensions Team.

Our LGPS NI Database Privacy Notice can be viewed on our website at:
www.worcestershire.gov.uk/pensions

4. THE SUMMER BUDGET AND THE LGPS

In the Summer 2015 Budget some announcements were made which could potentially impact the tax paid by an individual in the LGPS. There are two tax measures that could affect LGPS members; the Annual allowance (AA) and the Lifetime Allowance (LTA).

Annual allowance (AA)
The AA is currently set at £40,000 a year and is the maximum pension savings an individual can make, in any one year, before incurring a tax charge,. From April 2016 a taper will come into force limiting the AA amount for some members.

How will the taper work?
Broadly, anyone whose adjusted annual income, including their own and their employer's pension contributions, is more than £150,000 will be affected by the taper. But anyone whose annual income (excluding the value of any pension contributions) is £110,000 or less will not be subject to the taper regardless of their adjusted income.

The taper will reduce the AA limit by £1 for every £2 of income received over £150,000, down to a minimum AA limit of £10,000. Any pension savings in excess of an individual's personalised AA limit will be subject to a tax charge at the individual's marginal income tax rate. The facility to carry forward up to three years' allowance will remain in force.

Change in Pension Input Period
For testing against the AA, benefits are valued over the 'pension input period' (PIP). The LGPS PIP is from 1 April to 31 March. The budget announced that all pension schemes will be required to align their PIPs with the tax year. All current PIPs will

end on the 8 July 2015 (the day of the Sumer Budget) and the new PIP will run from 9 July 2015 to 5 April 2016.

Lifetime Allowance (LTA)
The LTA will reduce from £1.25m to £1m from 6 April 2016 and is the limit on total pension arrangements an individual can draw over their lifetime before incurring a tax charge. The will be two transitional protections introduced alongside the reduction for members with pension savings close to or exceeding £1m.

They are:

- Fixed Protection 2016
- Individual Protection 2016

You will be able to apply for these new protections by using a new on-line self-service system which will be available from July 2016. The new self-service system is still being developed by HMRC and we will provide updates when this is available. See the Funds website for more information.

If you think you may be affected by the changes brought about by the budget, you should contact HMRC.

Contacting HMRC:
Telephone: 0300 200 3300
Write: HM Revenue and Customs, BX19 1AS. United Kingdom.

Asset Pooling
The Chancellor announced the government's intention to work with LGPS administering authorities to ensure that the assets of the 89 LGPS Funds in England and Wales are pooled into six new 'British Wealth Funds', each holding at least £25bn in assets. The objective of the pooling is to significantly reduce investment costs whilst maintaining overall investment performance.

Please find a copy of the Midlands Pool press release and information at:
www.worcestershire.gov.uk/pensions

5. CONSIDERING TOPPING UP YOUR BENEFITS

Here's what you need to know…

You may have some spare cash and want to pay more into your pension or you may want to cover 'lost pension' as a result of a period of unpaid absence such as child related leave.

Paying Additional Pension Contributions (APCs) either regularly from your salary or as a lump sum (subject to minimum limits) will allow you to top up your pension and/or make up the lost pension from a period of absence. Further information on how to make APCs including links to a calculator can be found on our website.

If you decide to cover 'lost pension' after a period of authorised absence, which resulted in reduced or no pay, and you make this election within 30 days of returning to work, your employer covers two thirds of the cost. This is called Shared Cost

Additional Pension Contributions (SCAPCs). In the case of lost Pension due to an unauthorised absence, for example, industrial action, your employer will not contribute towards the cost. For cases such as sickness absence your contributions are deemed as being paid.

You can also pay Additional Voluntary Contributions (AVCs) with our in-house AVC provider, Scottish Widows, who can be contacted at:

www.scottishwidows.co.uk/worcestershire

6. EMPLOYERS' DISCRETION POLICIES

Thinking of flexible or early retirement? Don't forget to check your employer's policy!

Under the LGPS Regulations, each Scheme employer must create, publish and keep under review a discretions policy outlining certain pension discretions they can exercise in relation to their employees. These discretions cover decisions such as, in what circumstances to agree flexible retirement or when to agree a request to increase benefits.

Want to know what your employer's policy is?
Please contact your employer.

7. EXIT PAYMENT CAP – more regulation changes ahead?

Exit Payment Cap – more regulation changes ahead?

The Government has confirmed that it plans to introduce a cap to exit payments made to employees of public sector bodies as part of the Enterprise Bill. The proposed cap of £95k would cover the total value of exit payments (before tax) made by an employer and will cover all forms of exit payments including additional paid leave, the strain costs of early payment of pension and redundancy payments. It is proposed to exclude any payments in respect of death or ill health retirements. The introduction of the cap will potentially have a major impact for some individuals in the LGPS, as there is a statutory requirement for employers to pay immediate and unreduced benefits, as a result of redundancy to members over the age of 55. At the time of going to press the Fund is still awaiting on further information from the Government as to how this will be implemented. Further information will be published on our website once it is known.

8. THE REMOVAL OF CONTRACTING OUT

From April 2016, the Government is removing the National Insurance (NI) contribution rebate for all contracted out pension schemes like the Local Government Pension Scheme (LGPS). This means that the LGPS will no longer after that date be a Contracted- Out Scheme.

What does this mean for LGPS members?
Members who pay NI contributions will be contributing towards the Basic State Pension but are contracted out of the Additional State Pension known as SERPS or State Second Pension (S2P). Currently, LGPS members receive a rebate for this part of NI contributions. However, from April 2016, all current LGPS members will no longer receive this rebate and will see a rise in NI contributions of around 1.4% from this date. The Government is also introducing a new single tier State Pension from April 2016.

Contracted-out Pension Equivalent
From November 2015, the Department of Works and Pensions (DWP) are including a Contracted-out Pension Equivalent (COPE) amount within State Pension statements. This is to help people, who have been contracted-out, understand why they may not be entitled to the full amount of the single Tier State Pension.

As a LGPS member who will be contracted-out until April 2016, you will receive a pension through the LGPS. Please note your pension from the LGPS may be more or less than the COPE amount shown on the statement. The COPE will be based on all periods of contracted out service but if you have been a member of more than one contracted out scheme your state pension will not show a breakdown.

9. AUTOMATIC ENROLMENT – WILL YOU BE AFFECTED?

The Department of Works and Pensions (DWP) has successfully introduced Automatic Enrolment to workplace pensions for large and medium-sized employers, who account for around 20 million workers, according to a report from the National Audit Office.

The Government continues to face significant challenges, however, as a further 1.8 million smaller employers are required to enrol their eligible jobholders by 2018.

You may have seen in newspapers and in adverts the 'workie'. This campaign is part of DWPs drive to promote the responsibility employers have to offer a workplace pension.

For local authority pension funds many larger employers (County and District Councils) will be re-enrolling their employees to the Local Government Pension Scheme (LGPS) or if they delayed the introduction of Automatic Enrolment, enrolling them for the first time.

For many existing members of the LGPS you probably won't notice a difference but for some members you may. Here are some examples:

"I am currently contributing to the 50/50 scheme"
Your employer will notify you that from the re-enrolment staging date you will be enrolled back to the main scheme and that you have the option to continue or re-join the 50/50 scheme by completing another election form.

"I have more than one employment and have chosen not to pay into the LGPS in some of these posts"
Your employer will notify you that from the re-enrolment staging date you will be enrolled in to the LGPS in the posts in which you have previously chosen not to pay contributions. If you do not want to contribute in these posts you can again opt out by completing the necessary form(s).

If you have any questions concerning Automatic Enrolment and how it affects you, please contact your employer who is responsible for ensuring it takes place.

CONTACTING THE PENSIONS TEAM

Email: pensions@worcestershire.gov.uk

Website: www.worcestershire.gov.uk/pensions

Letter: Pensions Service, Commercial & Change Directorate, County Hall, Spetchley Road, Worcester. WR5 2NP.