



A Day

The 6 April 2006 was **A Day**. This is when the changes to the tax rules governing pension schemes, as a result of the Finance Act 2004, came into force. The Local Government Pension Scheme has been amended to take account of these changes.

Lifetime Allowance Pension benefits will no longer be limited to 40 years membership but to a Lifetime Allowance. For 2006/7 this is £1.5 million. Each time you retire and receive pension benefits, (Benefit Crystallisation Event), you will receive a statement showing how much of the Lifetime Allowance you have used. This is calculated by multiplying your pension by 20 and adding the lump sum ('pension pot').

Tax Free Cash You will be able to take up to 25% of your 'pension pot' calculated as above as tax free cash. This will be done by converting pension to lump sum in the ratio of 1:12 to make up the difference between the 3/80ths lump sum and the 25% figure. This will not reduce the widow/er's or surviving civil partner's pension. Full details will be given to you before you retire so that, if you wish, you can elect to increase your lump sum.

Contributions Currently basic pension contributions are 6% of pay but maximum pension contributions will no longer be restricted to 15% of pay. You will be able to contribute up to the whole of your salary. There will be no limit on AVCs but the purchase of additional membership will be restricted to 6 2/3 years.

Membership Employees can now join the Scheme at any time up to age 75.

Retirement Age If you continue in employment beyond age 65, you will now be able to remain a member of the Scheme until age 75. When you retire your benefits will be increased.

Flexible Retirement When you reach 50, if your employer agrees, you will be able to reduce your hours or the grade you are in and elect to receive payment of your pension. The benefits will be reduced but your employer can waive all or part of the reduction. You would not be subject to the normal rules for reduction of pension following re-employment. You will be able to rejoin the Scheme and continue to earn pension benefits.

Children's Pensions Where a pension is payable to a child who is over 17 and in full time education, payment will now cease at age 23 even if the education continues.

Other Pension Arrangements You are able to pay contributions to other pension arrangements whilst you are a member of the Scheme. These contributions will be taken into account with your Scheme contributions to assess the maximum you can pay.

Removal of the 85 Year Rule (*Age in completed years plus membership in completed years equals at least 85*)

Retirement under the 85-year rule

(1) If you could not have satisfied the 85-year rule before age 65, your benefits are not affected by these changes.

(2) If you are retiring before age 65 because you satisfy the 85-year rule and are age 60 before 1 April 2013, your benefits for membership before 1 April 2013 will not be reduced.

(3) If you could have satisfied the 85-year rule before age 65 and are not covered by (2) above, the benefits for your membership before 1 October 2006 are not affected by the changes.

Please see overleaf for some examples of calculations of pension benefits

Mr A will satisfy the 85-year rule in 2016 when he will be age 62. He has 13 years membership before October 2006 and 10 years after. His pension benefit calculation looks like this;

Pension	$13 \times 1/80 \times \pounds 20,000 = \pounds 3,250$	Lump Sum	$13 \times 3/80 \times \pounds 20,000 = \pounds 9,750$
plus	$10 \times 1/80 \times \pounds 20,000 = \pounds 2,500$	plus	$10 \times 3/80 \times \pounds 20,000 = \pounds 7,500$
less	$\pounds 2,500 \times 22\% = \pounds 550$ (reduction for early payment)	less	$\pounds 7,500 \times 7\% = \pounds 525$ (reduction for early payment)
Total	£5,200	Total	£16,725

Mrs B will satisfy the 85-year rule in 2020 when she is age 60. She has 20 years membership before October 2006 and 14 years after. Her pension benefit calculation looks like this;

Pension	$20 \times 1/80 \times \pounds 20,000 = \pounds 5,000$	Lump Sum	$20 \times 3/80 \times \pounds 20,000 = \pounds 15,000$
plus	$14 \times 1/80 \times \pounds 20,000 = \pounds 3,500$	plus	$14 \times 3/80 \times \pounds 20,000 = \pounds 10,500$
less	$\pounds 3,500 \times 27\% = \pounds 945$ (reduction for early payment)	less	$\pounds 10,500 \times 11\% = \pounds 1,155$ (reduction for early payment)
Total	£7,555	Total	£24,345

Miss C will satisfy the 85-year rule in 2010 when she is age 60. She has 15 years membership. Her pension calculation looks like this;

Pension	$15 \times 1/80 \times \pounds 20,000 = \pounds 3,750$	Lump Sum	$15 \times 3/80 \times \pounds 20,000 = \pounds 11,250$
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Buying Back the Reduction We expect that there will be regulations made which will allow those members who will now receive reduced pension benefits at the 85 year rule date, (Mr A and Mrs B above), to buy back the reduction.

Purchase of Additional Membership If you have made an election to purchase additional membership before 1 October 2006, the contract will cease on the date already agreed. The membership purchased will count as pre October 2006 membership and so will be protected as above.

Briefing Sessions

We will hold some briefing sessions on the changes to the Scheme in the early autumn. If you are interested in attending please e-mail pensions@rbk.kingston.gov.uk. We will hold some in the Guildhall but if you can get a group of no less than 15 colleagues together and have a suitable venue we will be happy to come to you.

HOW TO CONTACT US

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