NEW LOOK LGPS – SUMMARY OF KEY CHANGES

1. **Eligibility** – An individual can only be a member of the scheme if they have a contract of employment for 3 months or more. This will include casuals if there is 'mutuality of obligation' and will include employees engaged on contracts for less than 3 month if the contract is renewed beyond 3 months before the expiry of the existing contract. Eligibility will therefore need careful management by HR/Payroll.

2. **Employee's contributions** – There are 7 different bands, which will change each year. The lowest contribution rate is 5.5% for employees earning up to £12k (08/09), the highest is 7.5% for employees over £75k. There will be a phased rise for those employees currently paying 5% between now and 1 April 2011.

3. **Final Pay** – 'Best of the last 3 years' remains but is extended to include average 3 years in the last 10. As a result Certificates of Protection will no longer be issued when pay is reduced, eg as a result of a restructure.

4. **Service** – Service will be based on 60ths and not 80ths which will serve to increase benefits for most members. There will not be an automatic lump sum but rather the ability to commute annual pension to lump sum on a ratio of 12:1. The maximum lump sum is 25% of capital value. Transition arrangements apply to all these changes.

5. **Increasing Benefits** – The ability to purchase additional service will cease from 1 April 2008 (honoured for those doing so as at 31 March 2008). Instead individuals can make Additional Regular Contributions (ARCs). This will allow the purchase of extra scheme benefits in multiples of £250 up to £5000. The employer can also grant additional pension up to £5000pa in addition to augmenting service. The cost of this to employers is not yet known. The employer must make a policy statement on this.

6. **Flexible Retirement** – Pension Benefits (all or a proportion) may be paid while the member continues in employment, but they take a reduction in salary or hours. This will be possible from 55 (50 for some employees who are protected). The employer must make a policy statement on this. Benefits will be actuarially reduced therefore there is no cost to the employer unless the employer waives the reduction, or the 85year rule is met. Full details on what the employee can draw down are still awaited.

7. **Ill Health Benefits** – Two tiers are currently published and a third tier is to be considered. The first two tiers are based on the individual's degree of disability and likelihood of gaining future employment. The first tier would provide the employee with their benefits as if they had worked until normal retirement age as a result of permanent incapacity/unlikely to work again. The second tier is a 25% pension enhancement if the individual is permanently unable to do their job but likely to work again before their normal retirement age. The proposed third tier would be paid for by the employer based on the employee being able to gain employment in a 'reasonable'

period, but it is not known what this will be. If adopted it would also be the responsibility of the employer to check continual eligibility. Overall it will become more difficult to gain ill health retirement.

8. **Other Changes**

- Increase in early retirement to age 55 (this will need to be reflected in the Severance Scheme)
- Death Benefits increasing to 3 x salary
- Employer Contribution changes