Introduction

The Local Government Pension Scheme (LGPS) in Scotland is changing on 1 April 2015. The LGPS will remain available to councillors from 1 April 2015, and you will automatically be moved into LGPS 2015 if you are a councillor member on 31 March 2015.

In this briefing we will look at the **changes** to the scheme for councillor members from 1 April 2015 as well as the **protections** in place for benefits built up to 31 March 2015.

Main changes from 1 April 2015

The main changes for councillors to the LGPS from 1 April 2015 include:

The rate your pension builds up at is changing.

Pensions are built up at 1/49th of your pensionable pay* from April 2015. The pension you build up will be increased each scheme year in line with the cost of living, based on the Consumer Prices Index (CPI) The pay used to work out your pension will be your pensionable pay in each scheme year. In addition there is more flexibility as you can choose to pay half your normal contributions in return for half your normal pension, this is called **'50/50'**.

Your Normal Pension Age for pension built up from 1 April 2015 is changing.
Your Normal Pension Age is not fixed at age 65 but will be the same as your State Pension Age (but with a minimum of age 65).

*Under the Scheme regulations all remuneration received from the local authority is treated as pay. This guide refers to this remuneration as “pay” throughout.

Councillors will be in the same scheme as employee members

From 1 April 2015, councillors will not be in a different scheme from employee members. However, there are some provisions of LGPS 2015 that do **not** apply to councillors including:

- certificates of protection,
- shared cost Additional Voluntary Contributions (AVCs),
- shared cost Additional Pension Contributions (APCs),
- the award of additional pension, and
- flexible retirement.

Scheme rules also define pensionable pay and ill health retirement differently for councillors. The information in this briefing has been prepared taking the differing provisions for councillors into account.

Rate of pension build up in LGPS 2015

Each year, you will build up a pension at a rate of $1/49^{th}$ of the amount of pensionable pay you received in that scheme year (i.e. the main section of the scheme). The amount of pension you build up is added to your Pension Account at the end of each scheme year.

For any period you were in the 50/50 section, the pension you build up would be half your normal pension build up.

You can add extra amounts into your Pension Account - for example, if you decide to pay extra contributions to buy additional pension, or if you transfer pension from another pension scheme, the amount of extra pension bought will be added to your Pension Account.

In certain circumstances, amounts can be deducted from your Pension Account – for example, if a Court decides that part of your pension should be transferred to an ex-spouse or civil partner following divorce or dissolution of a civil partnership.

The amount of pension in your Pension Account at the end of each scheme year will be adjusted in line with the cost of living - as currently measured by the Consumer Prices Index (CPI) - to ensure it keeps its value.

How an LGPS 2015 pension will be worked out

Cllr Susan Jones is in the main section of the scheme from 1 April 2015 to 31 March 2016 and earned £19,000 in that year.

Scheme year:	2015/16
Section of scheme:	Main Section
Rate of build up:	$1/49^{th}$ of pensionable pay
Pensionable pay:	£19,000
Amount of pension built up:	£387.75 (i.e. £19,000 divided by 49)

So, at the end of the scheme year, £387.75 is added to Susan's Pension Account. To make sure the amount keeps it value, the total in the Pension Account will be adjusted in line with the cost of living. If inflation (Consumer Prices Index - CPI) was 3%, the £387.75 in Susan's account at the end of the scheme year (31 March 2016) would be increased on 1 April 2016 to £399.38.

Susan remains in the main section of the scheme during the next scheme year (1 April 2016 to 31 March 2017) and earns £20,000 in that year.

Scheme year:	2016/17
Section of scheme:	Main Section
Rate of build up:	$1/49^{th}$ of pensionable pay
Pensionable pay:	£20,000
Amount of pension built up:	£408.16 (i.e. £20,000 divided by 49)
Amount of pension brought forward:	£399.38
Total pension in Account:	£807.54

So, at the end of the second scheme year, Susan has an annual pension of £807.54 in her Pension Account. As before, to make sure the amount keeps it value, the total in the Pension Account will be adjusted in line with the cost of living. If inflation (CPI) was 3.1%, the £807.54 in the account at 31 March 2017 would be increased on 1 April 2017 to £832.57.

If Susan had been in the 50/50 section during those two scheme years, the amount in her Pension Account would be half the amounts shown above.

Cost of living adjustment

The amount of pension in your Pension Account at the end of each scheme year will be adjusted in line with the cost of living - as currently measured by the CPI - to ensure it keeps its value.

Normal Pension Age in LGPS 2015

For the pension you build up from 1 April 2015, your Normal Pension Age is not fixed at age 65 but, instead, is the same as your State Pension Age (but with a minimum of age 65).

You can use the Government's State Pension Age calculator to find out your State Pension Age at: www.gov.uk/calculate-state-pension

It's important to know that changes to State Pension Age are possible in the future. That means your Normal Pension Age could change. If your State Pension Age increases in the future then your Normal Pension Age for the pension you build up from April 2015 in the LGPS will also be increased.

Pensionable Pay in LGPS 2015

Your pensionable pay used to work out your pension each scheme year is the pay on which you normally pay pension contributions (gross pay before deductions). That is the remuneration paid to you by your council as a leader of the council, civic head, senior councillor or councillor, including payments in respect of functions as convenor or vice-convenor of a joint board.

Flexibility to pay less – the new 50/50 option

From April 2015 there is a new option in the scheme called '50/50'. You can elect for this option at any time, pay half your normal contributions and build up half your normal pension.

The main section of the scheme is where you will be automatically placed. Here you will pay normal contributions and get your normal pension build up.

The 50/50 section is a new option. You will be able to elect to move to this section if you wish. If you do so, you will then pay half contributions but, whilst you are in the 50/50 section, you will only be building up half the normal pension benefits. Anyone in the 50/50 section can move back to the main section whenever they wish.

Regardless of the section you are in, you get full life assurance cover and full ill health cover.

The 50/50 section is designed to be a short-term option for when times are tough financially. Because of this your council is required to re-enrol you back into the main section of the scheme roughly every three years. Your council will tell you when this is if you're in the 50/50 section of the scheme. If you wish to continue in the 50/50 section at that point you would need to make another election to remain in that section.

You can choose to revert back to the main section of the scheme at any time by informing your council in writing and you will then start to build up full benefits in the main section of the scheme from your next available pay period.

Other aspects of the LGPS from April 2015

In addition to the main changes outlined above it's important you understand how the following parts of the LGPS will work from April 2015:

- the contributions you will pay,
- options you have to pay more and increase your benefits,
- option to convert pension to lump sum at retirement,
- what happens if you leave before drawing your pension, and
- how are benefits increased after retirement.

Contributions from April 2015

The rate of contributions you pay from April 2015 will be calculated using the same tiered contributions approach as currently used.

Rate of pay	Contribution rates 2014/15
Less than £20,934	5.5%
Between £20,934 and £27,205	Between 5.6% and 6.0%
Between £27,206 and £34,152	Between 6.1% and 6.5%
Between £34,153 and £48,141	Between 6.6% and 7.5%
Between £48,142 and £54,235	Between 7.6% and 8.0%
Between £54,236 and £72,620	Between 8.1% and 9.0%
Between £72,621 and £109,862	Between 9.1% and 10.0%
More than £109,863	10.1% and over

Each April, your council will decide your appropriate rate of contributions by matching your actual pensionable pay to the appropriate band in the contributions table. The intention is that contribution rates and / or pay bands will be reviewed on a regular basis and may change in the future.

If your pay changes materially during the year, your council may decide to review your contribution rate. If this results in a change to your contribution rate, they will let you know.

Tax relief and reduced national insurance contributions

From April 2015 you will continue to receive tax relief on your pension contributions. To achieve this, your contributions are deducted from your pay before you pay tax.

You will also (in tax year 2015 / 2016) continue to pay reduced national insurance contributions. From April 2016 the UK Government will remove the 1.4% reduction in employee National Insurance contributions for all contracted-out pension schemes. Your council will continue to pay the balance of the cost of providing your pension benefits.

Flexibility to pay more – increasing your benefits

If you want to make additional pension savings to increase your pension benefits there are two tax efficient ways to do so from April 2015. These are Additional Voluntary Contributions (AVCs) and Additional Pension Contributions (APCs).

Additional Voluntary Contributions (AVCs)

AVCs allow you to pay more to build up extra savings for retirement. You can pay up to 100% of your pay towards an AVC, after allowing for any pension and National Insurance liability or any other existing deductions you may have. Contact your pension fund for more information on their AVC provider(s).

Additional Pension Contributions (APCs)

You can buy extra pension by paying APCs regularly, over a period of time (minimum 1 year up to your Normal Pension Age), or you can buy extra pension by paying in a one-off lump sum.

The amount it costs depends on how much extra pension you want to buy, the age you start paying the extra contributions and the length of time you want to pay them for.

You can only buy extra pension for yourself and not for additional dependants' benefits.
Your pension fund will be able to give you more information on APCs.

Lump sums at retirement

In the LGPS 2015 you can still exchange up to 25% of your pension to get a tax-free cash lump sum. For every £1 of pension you give up you will get £12 of tax-free lump sum (subject to HM Revenue and Customs limits).

Leaving before drawing your pension

The period after which you are entitled to benefits in the LGPS is 2 years. This means you need to have been a member of the scheme for 2 or more years to be awarded a pension unless you meet the requirement for some other reason including, for example, if you have received a transfer from another pension scheme or because you already have a deferred pension or a pension in payment with another LGPS Fund in Scotland. If you leave the scheme before meeting the requirement, you have the option of taking a refund of contributions from the scheme or a transfer out to another pension scheme.

Remember any future changes to State Pension Age will mean that your Normal Pension Age for the part of the deferred benefits built up from 1 April 2015 will also change. However, if you were in the scheme before 1 April 2015, the protected Normal Pension Age (age 65) for the part of the deferred benefits built up before 1 April 2015 will not change.

Checking your Pension Account

Your council will, at the end of each scheme year, pass details of your pensionable pay for your employment to your pension fund. That information will be used to update your Pension Account. You will have an opportunity to check the amount in your Pension Account each year as the information will be shown on the Annual Statement. Your Annual Statement will also show the value of any pre 2015 benefits you have built up. It's important that you check your Annual Statement each year.

Protection for benefits built up to 31 March 2015

On 1 April 2015 if you are paying into the LGPS you will automatically join the new career average pension scheme. All the pension you have built up in the LGPS before this date is fully protected.

When you leave or retire, an average of your revalued pay over the whole period of your LGPS membership, including pre and post 2015 membership, will be used to work out your pension benefits for your membership built up to April 2015.

All membership you build up in the scheme before 1 April 2015 will continue to be worked out using the rules of the scheme up to that date. Only membership you build up from April 2015 onwards is calculated under the rules of the new career average scheme.

Your Normal Pension Age is also protected. This means that the benefits you build up before April 2015 retain their Normal Pension Age - 65.

How career average pay for benefits to 31 March 2015 is worked out

When you leave or retire, an average of your revalued pay over the whole period of your LGPS membership, including pre and post 2015 membership, will be used to work out your pension benefits for your membership built up to April 2015.

Each year's pay is increased using the Retail Prices Index (RPI) and the total is divided by your membership to calculate your career average pay. This is the figure used to calculate your pension benefits built up to 31 March 2015.

Using the example above of Cllr Susan Jones who joined the LGPS on 1 April 2013 here is an example of how her career average pay is worked for her membership to 31 March 2015 if she left the scheme on 31 March 2017.

Year	Pay	RPI increase	Revalued Pay
1 April 2013 to 31 March 2014	£16,500	£1,237.50 (7.5%)*	£17,737.50
1 April 2014 to 31 March 2015	£18,600	£799.80 (4.3%)*	£19,399.80
1 April 2015 to 31 March 2016	£19,000	£380 (2.0%)*	£19,380.00
1 April 2016 to 31 March 2017	£20,000	£0	£20,000.00
Career average pay (£17,737.50 + £19,399.80 + £19,380.00 + £20,000.00) = £76,517.30 / 4 = **£19,129.32**			

**Pay for each year or part year ending 31st March is adjusted (other than the final year's pay) by the change in the cost of living, as measured by RPI between the end of that year and the last day of the month in which membership of the scheme ends. The total revalued pay is then divided by the period of membership to calculate the career average pay. This is then the figure used to calculate pension benefits.* Note: *the figures quoted for 2015/16 are assumed figures as the RPI rate for 30 September 2015 is not yet known.*

Protected Normal Pension Age

Your pension built up before 1 April 2015 has a protected Normal Pension Age of 65.

The protection means that if you retire and draw your benefits at age 65, the pension you have built up in the scheme before 1 April 2015 will be paid in full.

If you choose to take your pension before age 65 the pension you have built up in the scheme before 1 April 2015 will normally be reduced, as it's being paid earlier. If you take it later than age 65 it will be increased because it's being paid later. Please note that you have to leave your post to draw your benefits.

The amount of any reduction or increase will be based on how many years earlier or later than age 65 you draw the pension you have built up in the scheme to 31 March 2015.

You cannot take your benefits built up to 31 March 2015 separately from the benefits you build up from April 2015.

How benefits built up to 31 March 2015 are worked out

Susan was in the Scheme for two years prior to 31 March 2015 (from 1 April 2013 to 31 March 2015).

The rate of pension built up for that membership is 1/60th of the rate of career average pay calculated as shown below:

Membership to 31 March 2015	2 years
Rate of build up:	$1/60^{th}$ of career average pay
Career average pay:	£19,129.32 (as worked out above)
Amount of pension built up:	£637.64 (i.e. £19,129.32 * 2 years divided by 60)

In this example there will be no automatic lump sum as membership built up after March 2009 does not include an automatic lump sum. However, you do have the option to exchange some of your pension for extra tax-free lump sum.

If you were in the Scheme before 31 March 2009, you receive a pension of 1/80th of your career average pay plus an automatic tax-free lump sum of 3 times your pension for your pre 1 April 2009 membership.

Susan's total pension at retirement

Susan's pension for the years 1 April 2015 to 31 March 2017 in the career average scheme will be added to her pension built up to 31 March 2015. The two amounts will be added together and paid at one time when the member retires.

Membership period	Annual pension	Normal Pension Age
To 31 March 2015	£637.64 (from last section)	65
From 1 April 2015 to 31 March 2017	£832.57 (from earlier calculation on page 3)	State Pension Age (min 65)

Other protections

Protection if you are nearing retirement

If you are nearing retirement, you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2015. 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 age 65 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 age 65 and
- you leave with an immediate entitlement to benefits.

The underpin will not apply to you if you elect to opt out of the scheme before your protected Normal Pension Age of age 65.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at age 65 if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2015.

If it isn't, the difference will be added to your pension. If you are covered by the underpin, your Pension Fund will carry out the underpin check when you leave the scheme.

Further information

Further information can be found on the LGPS 2015 website: http://scotlgps2015.org/councillors

Please remember that there are some provisions of LGPS 2015 that will not apply, making some of the material on the website not applicable to councillors.

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