

TECHNICAL BULLETIN

NO.17

JULY 2006



TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

Local Government Pension Scheme (LGPS)

Draft Regulation Changes July 2006

Draft regulations have been issued by the Scottish Public Pensions Agency (SPPA) with significant changes to the Scheme proposed from 1 October 2006 (although some of the changes relating to the new tax rules are to be effective retrospectively from 6 April 2006).

The main changes *proposed* are as follows.

Summary of proposed changes arising from the new tax regime

- Removal of existing scheme limits on benefits and contributions
- Maximum age of member raised to 75
- Earnings cap removed from 1/10/06 and capped members' membership between 1989 - 2006 to be reduced pro-rata
- Employer discretion to waive contributions when 40 years service achieved before age 60 removed (from 1/10/06)
- Commutation of pension to lump sum available, up to 25% of capital value of benefits, at £12 for every £1 pension (from 1/10/06)
- AVCs can be paid as a lump sum as long as within the 25% limit
- Flexible retirement introduced from 1/10/06 where hours or grade reduced

Summary of proposed changes arising from age discrimination legislation

- All members' Normal Retirement Date regularised to age 65
- Rule of 85 removed (benefits to be reduced if taken before age 65)
- Transitional protection introduced for existing members;
 - All members who elect to retire before age 65 and who would satisfy the rule of 85:
 - Benefits based on membership up to 31 March 2008 will not be reduced
 - Members who reach age 60 before 1 April 2020, and elect to retire before age 65 and who would satisfy the rule of 85:
 - Benefits based on membership up to 31 March 2020 will not be reduced

Other changes

- Option to take greater pension in lieu of lump sum removed
- Added years' contracts restricted to 6.66 years

Where to find the draft regulations and consultation details

You can find the draft regulations and information on the consultation process on the SPPA website.

The link is: www.sppa.gov.uk/pension_reform/PRLGPSConsultations.htm

Draft regulations expected

In addition, changes to the Discretionary Regulations are expected within the next six months which may include:

- Power to award added years to be removed
- Discretion to pay "compensation for redundancy" lump sums to be increased to two years' pay

Implications

Elements of the draft legislation will almost certainly change before the Regulations are finally made depending on the outcome of the consultation exercise. SPFO's own response will highlight some apparent drafting errors and inconsistencies. Many of the proposed changes are significant and will have substantial implications both for employers and Scheme members. But the detailed implications will not be clear until the final regulations are made. Further guidance will be provided at that time or as the implications become clear.

In the meantime, if you have any questions regarding this matter please contact your SPFO Liaison Officer. Alternatively you can contact Tom Hammond on 0141 287 7441 or Sarah Mallon on 0141 287 7348 to discuss any issues.