

Local Government Pension Scheme

Existing Benefits

Things changed from April 2008 so calculating eventual pension and lump sums is a bit complicated but, if you email and request it, I can send you a spreadsheet that will help you to make an estimate.

It is, however, a 'defined benefit' scheme with a predictable pension, based upon our final salary.

Its Normal Retirement Age (NRA) is now 65 with limited protection for some staff already over 60.

In the event of redundancy within ten years of NRA (currently over 55), it will pay an unreduced pension based on the accrued value to the day of leaving.

In event of permanent ill health, preventing us from working, it will pay out a pension at a level set by the medically assessment of our ongoing ability but could be as much as if we had reached NRA.

In the event of death in service, before retirement, it will pay out up to three times our salary and pay a pension to our spouse and dependent children within certain limits.

In the event of premature death after retirement, it will pay out the balance of ten years pension and provide a spouse/dependents pension.

Although now using CPI rather than RPI, pension payments are index linked.

With the exception of Company Directors, MPs and some very small schemes it is, probably, the best pension scheme in the civilised world! And, despite the changes likely, and proposed, it will still be our deferred wages, set aside to allow dignity in retirement.

Peter King
16th September 2011

Career Average Re-valued Earnings

Lord Hutton's Review included a recommendation to switch from Final Salary to a CARE Scheme. (At least this remains a Defined Benefit one.)

This could occur from the end of this parliamentary term ~ 2015.

Put very simply, a CARE Scheme will hit hard, the high-flyers who spend the last few working years on very high salaries! For those with modest careers it need not alter the eventual pension very much.

However, it is a bit complicated!

Each year you (and your employer) contribute some money that earns a % towards your pension. The following year, that value is re-assessed by applying an index. And so on and so forth each year until you retire when all the past year's values are added together to make a pension.

Hutton has stated that the index should be in line with average earnings increases. If this happens it is, generally, better than CPI and RPI and could benefit staff with little (or no) career progression!

However, since 2008 the pension is accrued at $1/60^{\text{th}}$ of our salaries per year and the rather complicated way the above is calculated, means that to retain the equivalent to our existing final salary value we would need an accrual rate of $1/55^{\text{th}}$. (In this sense, the smaller the fraction, the better.)

The best rate mooted to date is $1/65^{\text{th}}$. The worst is $1/100^{\text{th}}$, 40% worse than our present model!

The above comments are my personal interpretation of current and proposed regulations and must not be regarded as absolutes. They are, however, my honest attempt to help you understand.

Peter King
22nd September 2011