

LGPS 2014 - Mythbusting

Introduction

The Local Government Pension Scheme (LGPS) is changing from 1 April 2014. A series of topic based leaflets and videos have been developed to explain the main changes to the LGPS. These can be found on the LGPS 2014 website: www.lgps2014.org

From April 2014, pensions will be worked out in a different way as the scheme becomes a career average scheme. Benefits built up from April 2014 will be worked out using actual pay each scheme year rather than final salary when you leave. Protections are in place for all the benefits built up in the final salary scheme. The LGPS continues to be an excellent defined benefit scheme.

A number of myths are circulating regarding the LGPS and, in particular, surrounding the reality of what the changes from April 2014 mean for scheme members. These myths include:

- The cost of the scheme will increase
- A career average scheme isn't as good as a final salary scheme
- There is no tax-free cash lump-sum
- Members have to work longer before drawing their pension
- Membership built up before April 2014 is affected by the changes.

The information that follows sets out the facts about the new scheme and dispels the myths above.

Myth: The cost of the scheme will increase

From April 2014, the scheme won't cost more for most members. For part-time members it could cost less, as the contribution rate is assessed on part-time pay instead of the full time equivalent. For higher paid members, contributions rates from April 2014 will increase.

To find out more about contributions and the cost of the scheme from April 2014, visit www.lgps2014.org

Myth: A career average scheme isn't as good as a final salary scheme

For some members, the benefits built up from April 2014 in the career average scheme will be better than those they would have built up if the scheme remained a final salary scheme.

A career average scheme is often a better fit for those members whose opportunity for promotion is limited or who have a short period of service in the scheme. Final salary tends to suit some career patterns, usually those with promotion opportunities. Each individual will have their own circumstances, but it's incorrect to suggest that a career average scheme isn't as good as a final salary scheme.

In fact the improved rate at which pension builds up from April 2014 could mean that some members build up better pensions. Ultimately the scheme is still a defined benefit, but one which is career average rather than final salary.

To find out more about how the new career average scheme works, visit www.lgps2014.org

Myth: There is no tax-free cash lump-sum

In the new scheme, members can still exchange some pension to get a tax-free cash lump-sum. For every £1 of pension a member gives up they get £12 of tax-free lump-sum (subject to HM Revenue and Customs limits).

Myth: Members have to work longer before drawing their pension

The normal pension age is linked to a member's state pension age for benefits built up from April 2014 (but with a minimum of age 65). Normal pension age is simply the age members can take their pension without it being reduced or increased. All members have the ability from April 2014 to retire between age 55 and 75.

To find out more about benefit flexibility from April 2014, visit www.lgps2014.org

Myth: Membership built up before April 2014 is affected by the changes

All pension built up before 1 April 2014 is fully protected. That means that all membership up to 31 March 2014 will still be worked out using your final salary when you leave. It is only the membership built up from April 2014 which is worked out differently – under the career average scheme rules. For those members who have an existing rule-of-85 protection, this will continue in the new scheme and will automatically be applied to your benefits (except if you voluntarily take your pension on or after age 55 but before 60 – as this is a new option in the scheme from April 2014).

To find out more about protections for membership built up before April 2014, visit www.lgps2014.org

Further leaflets available:

There are three further leaflets available in this series:

- Member contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?

Later in 2013, a leaflet giving more information on the protections for those who were members of the scheme before April 2014 will be published. For more information and to view videos explaining the new scheme, please visit www.lgps2014.org



Disclaimer

This is a brief leaflet explaining the changes to the LGPS from 1 April 2014 for employees in the LGPS in England or Wales. It reflects the known changes at the time of publication in November 2013. In the event of any dispute over your pension benefits, the appropriate legislation will prevail. This leaflet does not provide any contractual or statutory rights, and does not override any legislation.