

To: LGPS Pension Managers

Following on from the first Q&A sent to you on 15 May, I am now pleased to be able to attach the second Q&A briefing in the series.

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Q1. Should protections in definition of alternative final pay periods cover change of employment?

There is a need to avoid the potential risk of the last employer being responsible for pension increases where a pension has been calculated against an earlier salary with a different employer when an individual chooses to step down by changing jobs. However, it is also recognised that by excluding the use of salary with a different employer when an individual moves for higher pay (as is more usually the case) the last employer automatically takes on the responsibility for pension increases..

Q2. How do we know if a provision covers only active members?

The sequence of the regulations is intended to avoid such confusions, with everything up to regulation 28 primarily dealing with actives, regulations 29 to 34 with deferred members, and 35 to 37 with pensioners. Some further cross referencing may be helpful in removing any ambiguity as to which members a particular regulation applies to. Regulations 38 to 40 are common provisions.

Q3 Do the provisions for extra pension include survivor benefits?

Due to the method of calculating a survivor pension any extra pension granted by the employer (up to a maximum of £5,000) or purchased by the member (in multiples of £250 up to a maximum of £5,000) will not automatically generate extra survivor benefits. However, a member electing to purchase extra pension will be able to add within that election extra survivor benefit (payable in addition to the standard survivor benefits). This will be at member's choice and will be reflected in the guidance produced by GAD, which will also cover the effect of additional pension being taken early.

Q4. Why is there a need for a reduction in hours or grade before flexible retirement can be considered?

This is one of the areas within the regulations which are dependant on employer practices, and its usage will be further monitored by the Policy Review Group. But it is intended that flexible retirement be used as a means of easing the transition from full time work to full retirement which is reflected in the concept of some form of stepping down.

It is intended that the decision to release benefits on flexible retirement should still rest with the employer and this will be set out in the regulations before they come into effect.

Q5. Will further guidance be issued concerning the calculation of flexible retirement benefits and how this impacts on other benefits?

It is envisaged that in the short to medium term most early and flexible retirements will have to give consideration to rule of 85 protections, which are covered by the amendments made to the 1997 Regulations. Guidance will be produced to enable scheme guides to cover how flexible retirement benefits are to be calculated and how this will impact on membership and benefits, particularly where the member takes

only part of their benefits upon flexible retirement. Some of the mechanics may prove to be not dissimilar to approaches taken to pension debits applied following the application of a Pension Sharing Order. Members will be able to accrue more membership after taking flexible retirement.

Q6. What is the reasoning behind a 5 year guarantee for deferred members and a 10 year guarantee for pensioner members?

In the current scheme a deferred member receives an automatic lump sum, and for pensioners there is an initial short term pension, so there is already a difference in approach. There has been an improvement to the overall benefit package which in part reflects the current position and deals with the removal of short term survivor benefits.

Q7. What has happened to elected member provisions?

The opportunity is being taken to recast these provisions as certain concepts within the Benefit Regulations, and indeed in the 1997 Regulations, do not tidily relate to a career average arrangement. The consultation exercise will allow final decisions to be made, in particular on contribution rates and the revaluation of accrued rights.

Q8. Is it intended that all new children's pension should be paid until age 23 (even where they are not in full-time education)?

The regulation allows for the waiving of the suspension of a pension during short breaks. It therefore follows that if full time education does not continue the pension can be suspended. In the light of comments made so far on intention and construction, the regulation might need changing to confirm the position as now should apply. .

Q9 Why has the facility to provide commutation of benefits due to exceptional ill-health gone?

A combination of growing reluctance to certify life expectancy of less than one year, together with the facility to take more tax free lump sum at point of departure and the increase in post retirement death benefit guarantee has meant that members can now be offered better provision via other means in terms of total payments available not for member at the point of retirement].