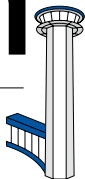


# Pension News



**Aberdeen City Council**  
Pension Fund

Issue 11

January 2008

Proposed  
changes  
from  
December

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Part-time  
Single  
Status  
and your  
pension

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What's happening with Additional Voluntary Contributions?

# PROPOSED CHANGES TO THE SCHEME AS FROM 15 DECEMBER 2007

## Civil Partners' Pensions

Civil Partners' Pensions were introduced in the Local Government Pension Scheme as from 5 December 2005, but in the event of the member's death the pension payable to the civil partner would be based only on membership from 6 April 1988. Amendments have been made to the LGPS which will allow members to pay for membership before 6 April 1988 to increase the civil partner's pension. For example if you joined the Local Government Pension Scheme in April 1985 you could pay for three more years to be counted in calculating your civil partner's pension.

**An election to purchase pre 6 April 1988 membership must be made within 6 months of:**

- a) 10 December 2007, or if later
- b) the date of registration of your civil partnership

If you wish to be informed of the cost please contact the Pensions Section either by email or in writing. Contact details can be found at the end of the Newsletter.



## Additional Voluntary Contributions

Since the regulations changed on 6 October 2006, allowing members, subject to HMRC limits, to take the AVC fund as tax-free cash at retirement, the number of contributors has increased greatly.

As from 15 December 2007 the rules on AVCs will be updated. You will no longer be able to pay single lump sums directly to Prudential, all payments must be made from your pay. This change does not affect transfers of AVCs from other AVC arrangements. These can still be transferred to your AVC account with Prudential as a single lump sum.

## Ill health

In terms of the current regulations the ill health enhancement may have been restricted where the member had membership in excess of 33 1/3 years, so that the maximum membership that could have been counted would have been 40 years. This restriction has been removed so that the member's pension will be enhanced by either 6 years 243 days or the membership that would have accrued to age 65, whichever is the less.



# PROPOSED CHANGES TO THE PENSION SCHEME FROM 2009



You may remember in the last Pensions News (January 2007) that a new Local Government Pension Scheme is to be introduced in England and Wales on 1 April 2008. Discussions have been taking place for a new Local Government Pension Scheme for Scotland with a consultation document being issued by the Scottish Public Pensions Agency (SPPA).

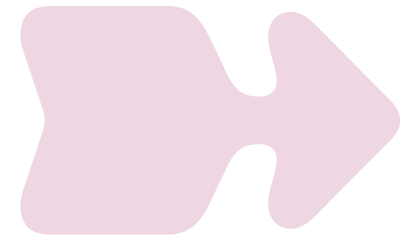
The consultation document was produced by the SPPA representing the Scottish Ministers after discussion with the Trade Unions representing Local Government employees and the Confederation of Scottish Local Authorities (COSLA) representing the employers.

Following the consultation period it is anticipated that draft regulations will be issued in January 2008 and the actual regulations will be in place by April 2008 for implementation in April 2009.

The main reason for the changes to the scheme is to provide a scheme which is affordable and sustainable into the future whilst maintaining a good quality scheme for the scheme members. The level of contributions payable by the scheme members has remained at 6% (with a diminishing number of members retaining their right to pay 5%). The contribution rate for most employers who participate in the Aberdeen City Council Pension Fund has risen from 165% of employee's contributions at re-organisation in 1996 to 285% for the year 2007/08 and 300% for the year 2008/09.

One of the main reasons for the increase in employers' contributions is the fact that people in general are living longer and drawing their pensions for a longer period of time.

The proposals contained in the Consultation Document are detailed on the following pages but you should remember that at this time, **THE CHANGES ARE ONLY PROPOSALS**. The actual changes will not be known until the actual regulations are issued by the SPPA.





## Final salary scheme

The new scheme will remain a final salary scheme. This means that your pension benefits will still be worked out on the basis of your final pay in the year to date of leaving or retirement and the length of your scheme membership.

The current formula for calculation your pension benefits is:

Annual pension -  $1/80\text{th} \times \text{final pay} \times \text{scheme membership}$   
 Lump sum -  $3/80\text{ths} \times \text{final pay} \times \text{scheme membership}$

## Accrual rates

As seen from the formula above the current accrual rates are 1/80th for pension and 3/80ths for lump sum. The new scheme will have an improved accrual rate for your pension of 1/60th of final salary but no automatic lump sum, although the option will be available for you to give up a proportion of pension in favour of a lump sum. The conversion factors will be the same as are currently in use and further details of the current option of taking an additional lump sum are detailed on page ?

You may wonder whether this new accrual rate leaves you better or worse off. In fact a '60ths scheme' gives you more pension for each year of membership, even after swapping pension for lump sum. For information purposes example calculations are shown on page ? of this newsletter.

## Benefits built up to 31 March 2009

Draft regulations which will be issued in January 2008 will provide us with more details of how pension benefits up to 31 March 2009 will be calculated. However if Scotland were to follow the line of England and Wales members retiring after 1 April 2009 will have their pension benefits calculated in two parts:

### Part One

Pension benefits based on scheme membership prior to 1 April 2009 will be calculated on 1/80th for pension and 3/80ths for lump sum.

### Part Two

For pension benefits on membership accrued on or after 1 April 2009 the pension will be based on 1/60th with the option to swap pension for lump sum.

## New contribution rates

Under the present scheme members pay 6% in pension contributions with some protected workers paying 5%.

The proposed new scheme may be based on a tiered contribution rate, with the average contribution rate being around 6.3%. Employees who do not work full time will pay contributions at a rate based on the 'whole time' equivalent pay of a full time employee in the same post.

The three options contained in the consultation document are :

#### Option 1

Up to £18,000 of earnings	5.5%
£18,000 up to £40,000	8.5%
Over £40,000	11%

#### Option 2

On the first £12,000 of earnings	5.5%
£12,000 up to £18,000	6.5%
£18,000 up to £38,000	7.5%
£38,000 up to £75,000	9%
Over £75,000	10%

#### Option 3

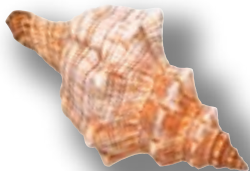
On the first £12,000 of earnings	5.5%
£12,000 up to £14,000	5.75%
£14,000 up to £18,000	6.5%
£18,000 up to £30,000	7.5%
£30,000 up to £40,000	9.5%
£40,000 up to £75,000	9.5%
Over £75,000	10.5%

## Employer's contribution rate

The proposed new scheme has been calculated by the actuaries to cost 19.6% of pensionable payroll. The average employee contribution rate estimated at 6.3% leaves the employer liable for the remaining cost of 13.3%, roughly a 2:1 ratio. The employer would also still be responsible for past deficits.

## Normal retirement age

The proposed new scheme will still have a normal retirement age of 65. You will still be able to retire and draw your pension benefits once you attain age 60, without your employer's consent, but these benefits may be subject to reduction as they are being paid before normal retirement age. If you decide to work beyond age 65 you will continue to pay contributions and your pension benefits will be paid at retirement, based on your membership and final pay up to date of retirement. Pension benefits must be paid prior to age 75.



## Redundancy or efficiency retirement

In the current scheme your pension is paid immediately if you are over age 50 and are made redundant or retired on the grounds of efficiency, and your pension is not reduced for early payment.

Under the proposed new scheme if you leave on these grounds after 1 April 2009, then your employer will still pay your pension immediately if you are aged 50 or over, so long as this is before 1 April 2010. For new members and current members who retire after 1 April 2010 the earliest age at which benefits would be payable would be age 55.

## Lump sum death in service benefit

Under the proposed new scheme the lump sum death in service benefit will be increased from two times to three times pay. There will however no longer be any 'short term' pensions paid to widows/widowers or civil partners. The 'short term' pension is normally your rate of pay for a period of three months.



## Death in retirement

In the current scheme if you die within five years of retirement, a lump sum death grant equal to five times your pension less the amount of pension already paid is payable to your nominated beneficiary. Under the proposed new scheme the lump sum death grant will be improved to ten years pension less the pension already paid, where a scheme member dies before age 75.

## Purchase of additional pension

The current scheme allows you to purchase additional scheme membership, up to a maximum of 6 years and 243 days. The proposed new scheme introduces the ability for you to purchase additional pension in blocks of £250 per annum, up to a maximum of £5,000. You can

also continue to improve your pension benefits by making additional voluntary contributions (AVCs) to the approved provider, Prudential.

## Partners' pensions

In the current scheme, in the event of a member's death, a pension would only be payable to a widow/widower or civil partner. The proposed new scheme will introduce partner's pensions in respect of 'nominated' dependent partners. Partners' pensions will be based on scheme membership from 1 April 1988 in line with the pensions payable to civil partners' pensions.

## Widows/widowers/civil partners' and partners' pensions

Survivors' pensions will be calculated at 1/160th accrual rate as in the current scheme.

## Ill health retirement

The Consultation document gives the option of a two or three tier ill health retirement system.

### Tier 1

The member has no reasonable prospect of working at any job before age 65 – the benefits would be enhanced based on potential membership to age 65.

### Tier 2

The member is currently unable to work but is likely to be able to undertake gainful employment before age 65. 'Gainful employment' is paid employment of at least 30 hours per week for a period of at least twelve months. The benefits would be enhanced based on 25% of the potential membership to age 65.

### Possible Tier 3

Short term payment if employee is likely to be capable of undertaking gainful employment with a reasonable period of time, 3 – 5 years.

## Flexible retirement

Currently a member over age 50 (age 55 from 2010) can, with their employer's consent, step down to a lower graded post or reduce their hours, and - again with their employer's consent - claim their pension benefits. If however the member does not achieve the rule of 85 then the pension benefits are paid at a reduced rate, unless the employer chooses to waive the reduction. The proposed new scheme applies the same rules as far as requiring the employer's consent to step down or reduce their hours, but if the member is age 60 or over the employer's consent is not required as far as claiming their pension benefits. The rule of 85 was removed from the current scheme in December 2006, though transitional rules are in place to protect existing members; contact the Pensions Service for more details.



# COMPARISON OF PENSION BENEFITS UNDER CURRENT AND PROPOSED SCHEME

A member has 30 years service, final pay £24,000 and retires at age 65.

## EXISTING PENSION SCHEME

The basic benefits would be:

Annual Pension  $30/80 \times £24,000 = £9,000$

Lump sum  $30/80 \times 3 \times £24,000 = £27,000$

Since 6 October 2006 the member has had the option to give up part of their pension (25% of the capital value of their pension benefits) in order to receive a bigger lump sum.

Benefits based on taking maximum lump sum would be:

Annual pension £7,232.15

Lump sum £48,214.20

## PROPOSED NEW SCHEME

The basic benefits, with no automatic lump sum would be:

Annual pension £12,000

The benefits payable, based on the member electing for the maximum lump sum would be:

Annual pension £7714.29

Lump sum £51428.57



## SINGLE STATUS

We have received quite a few queries regarding single status and what will happen if a scheme member continues to work 36.25 hours instead of 37. Scheme members are not happy that for pension purposes we consider anything less than 37 hours per week to be part time. This method of calculation is required in terms of the regulations, and will have no adverse effect on your pension benefits.

For pension purposes 37 hours will be the full time hours and if a member works less than 37 hours per week their membership for that period will be based on a proportion of the full time hours, i.e. 36.25/37.00. However the 'final pay' figure will be based on the Full Time Equivalent (FTE) pay – that is, as if they had worked and been paid for a 37 hour week.

For example purposes two calculations are shown below – one based on how the pension benefits will be calculated and the second showing that the pension benefits would be slightly less if 36.25 hours were treated as full time.

**In the calculation it is assumed the member has 17 years 259 days up to the date the new hours were implemented, with final pay and membership to retirement being as follows:**

	36.25/37 hours per week	36.25 hours per week
Final pay	£24,201 (FTE)	£23,710.44
Membership to retirement	11 years 277 days	12 years

### EXAMPLE 1 – MEMBERSHIP TREATED AS LESS THAN FULL TIME

Employee has 17 years 259 days membership up to date of single status implementation. They decide to continue to work 36.25 hours instead of 37. At retirement their pension would be calculated as –

	Years	days
Membership to date of change:	17	259
Membership to date of retirement:	11	277 (12/37x 36.25)
Total membership:	29	171

Annual pension:	$29,171/365 \times 1/80 \times £24,201 = £8,914.59$
Lump sum:	$29,171/365 \times 3/80 \times £24,201 = £26,743.76$

### EXAMPLE 2 – IF 36.25 HOURS PER WEEK WAS TREATED AS FULL TIME

If the member had been treated as full time when continuing to work 36.25 hours per week the calculation would be as follows:

	Years	days
Membership to date of change:	17	259
Membership to date of retirement:	12	-
Total membership:	29	259

Annual pension:	$29,259/365 \times 1/80 \times £23710.44 = £8,805.34$
Lump sum:	$29,259/365 \times 3/80 \times £23710.44 = £26,416.02$

Clearly, calculating the pension benefits in accordance with the pension scheme regulations as in example 1 is to the member's advantage.

Another important point to note is that whether the member works 36.25 or 37 hours per week will have no relevance to the rule of 85. The rule of 85 is based on their actual length of membership, not the membership which may be reduced because the member is treated as only working a proportion of the full time hours for the post.

Another issue raised is how a reduction in pay because of Single Status will affect members' pension benefits.

Where a member's rate of pay is reduced or the rate at which it may be increased is restricted in such a way that it is likely that the rate of retirement pension will be adversely affected, the employer may issue, automatically, a Certificate of Protection of Pension Benefits. The three Councils, Aberdeen, Aberdeenshire and Moray Council, have been advised that they should issue this Certificate to all employees who have been subject to a reduction or restriction of pay.

A copy of the Certificate will be sent to the Pensions Section to be recorded on your pension record. This certificate will be used to protect and guarantee the level of pensionable pay used to calculate any LGPS benefits for a period of ten years after the Certificate is issued.

Where a Certificate has been issued the final pay periods that can be used in the calculation of benefits (if applicable) are:

- the best year in the last five years, up to date of retirement, or
- the average of three consecutive years during the period of three years prior to the date of Certificate and ten years after the date of Certificate.

The period end date will always be the anniversary of the date of leaving/retirement.

## NEW DEVELOPMENT

### Internet Member Self Service

Axise Member Internet is a secure area within the pension fund website where members can view and update their personal details. Financial and membership details are available as well as your current beneficiary nomination. To make sure you continue to receive your statement and newsletter any future change of address can be submitted by way of an electronic form. All communications between the member and webserver are encrypted by way of an SSL certificate. To access this facility click on the link Axise Member Internet from the home page of the pension fund website – [www.accpf.org.uk](http://www.accpf.org.uk)

## CHANGES TO THE PENSIONS SECTION

The Pensions Section has been re-structured with the Benefits Section and the Investments Section being combined. Gail Lindsay, the Manager of the Benefits Section, will be retiring at the end of December and Joanne Hope, the Manager of the Investment Section, will take sole charge as Pensions Manager.

The management structure of the Section will be:

Joanne Hope – Pensions Manager

Kenny Lyon - Principal Pensions Officer – Benefits

Gary Gray – Principal Pensions Officer – Technical and Communications

Laura Goodchild – Principal Pensions Officer - Investments

A Communications Officer, Lyndsay Jarvis, has also been appointed.

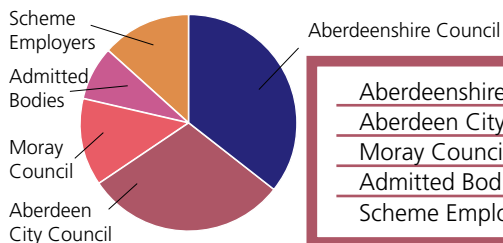
If you have any questions or concerns about the issues discussed in this Newsletter, or wish to talk to us about your pension, please do not hesitate to contact us.

### Contact details:

Helpdesk telephone	01224 814949
Fax	01224 814969
Email	<a href="mailto:Pensions@accpf.org.uk">Pensions@accpf.org.uk</a>
Website	<a href="http://www.accpf.org.uk">www.accpf.org.uk</a>

Address	Pensions Section AECC – 2nd Floor Balgownie One Conference Way Bridge of Don Aberdeen AB23 8AQ
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## Scheme Membership



Aberdeenshire Council	<b>8937</b>
Aberdeen City Council	<b>7479</b>
Moray Council	<b>3314</b>
Admitted Bodies	<b>1893</b>
Scheme Employers	<b>3284</b>

## Investment Portfolio

UK Equities	<b>£407 million</b>
Overseas Equities	<b>£336 million</b>
Fixed Interest	<b>£224 million</b>
Unit Trusts	<b>£41 million</b>
Pooled Vehicle	<b>£529 million</b>
Direct Property	<b>£180 million</b>
Others	<b>£59 million</b>

## Top Ten Equity Holdings as at March 2006

	<b>Company</b>	<b>£</b>
1	Royal Bank of Scotland	<b>20.29 million</b>
4	BG	<b>20.28 million</b>
2	Barclay	<b>18.51 million</b>
3	Glaxosmith	<b>17.38 million</b>
5	BP	<b>13.22 million</b>
6	Brit American	<b>12.96 million</b>
7	Man Group	<b>12.44 million</b>
8	Wolseley	<b>12.30 million</b>
9	Imperial Tobacco	<b>10.16 million</b>
10	HSBC	<b>9.49 million</b>

## Accounts

<b>Value at start of year</b>	<b>1,662 million</b>
<b>Income to Fund</b>	
Employees contributions	<b>22 million</b>
Employers contributions	<b>67 million</b>
Transfers received	<b>5 million</b>
Investment Income and Gains	<b>65 million</b>
Increased Asset Value	<b>34 million</b>
<b>Expenditure</b>	
Pension Benefits	<b>62 million</b>
Leavers and Transfers	<b>5 million</b>
Fund Administration Costs	<b>1 million</b>
<b>Value at end of year</b>	<b>1,787 million</b>