

The Local Government Pensions Committee
Secretary: Mike Walker

CIRCULAR

Please pass on sufficient copies of this Circular to your Treasurer/Director of Finance and to your Personnel and Pensions Officer(s) as quickly as possible

No. 183 – MARCH 2006

ANNUAL UPDATE

Purpose of this Circular

1. This Circular has been issued to bring the following to the attention of authorities:
 - the annual increase to be applied to qualifying pensions from 10 April 2006 is 2.7% and the increase to be applied from 6 April 2006 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is also 2.7%;
 - the earnings factors to be used, from 6 April 2006, in the calculation of a scheme member's Guaranteed Minimum Pension have been updated;
 - National Insurance contribution rates change from 6 April 2006;
 - the maximum "weeks pay" for calculating a statutory redundancy payment increased from 1 February 2006 from £280 per week to £290 per week; and
 - the Earnings Cap is to be removed from 6 April 2006.

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INVESTOR IN PEOPLE

Annual Pensions Increase

2. LGPS administering authorities and those employers who pay their own annual compensation benefits should note that the increase to be applied from 10 April 2006 to a qualifying pension which began (i.e. has a pensions increase date) before 11 April 2005 will be 2.7%. The percentage, and part year percentages, are detailed in the Pensions Increase (Review) Order 2006 [SI 2006/ 741] which can be viewed at http://www.opsi.gov.uk/si/si2006/uksi_20060741_en.pdf
3. LGPS administering authorities should note that the increase to be applied from 6 April 2006 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is 2.7%. This is set out in the Guaranteed Minimum Pensions Increase Order 2006 [SI 2006/673] which can be viewed at: http://www.opsi.gov.uk/si/si2006/uksi_20060673_en.pdf

The Social Security Revaluation of Earnings Factors Order 2006 [SI 2006/496]

4. LGPS Administering Authorities may wish to note that the Social Security Revaluation of Earnings Factors Order 2006 [SI 2006/496] comes into force on 6 April 2006 (i.e. the earnings factors used to calculate a scheme member's GMP). The Statutory Instrument may be viewed at: http://www.opsi.gov.uk/si/si2006/uksi_20060496_en.pdf

National Insurance changes

5. In his Pre-Budget Report on 5 December 2005 the Chancellor of the Exchequer announced that the relevant NI limits and thresholds for 2006/2007 will be as follows:

From 6 April 2006	Lower Earnings Limit	Earnings Threshold	Upper Earnings Limit
Weekly	Below £84	£97	£645
Monthly	Below £364	£420	£2,795
Yearly	Below £4,368	£5,035	£33,540

6. The Contracted-Out and Not Contracted Out Tables are appended to this Circular for your information.

Redundancy Payments

7. The Employment Rights (Increase of Limits) Order 2005 (SI 2005/ 3352) came into force on 1 February 2006. It increased the maximum “week’s pay” for calculating a statutory redundancy payment from £280 per week to £290 per week where the appropriate date falls on or after 1 February 2006. In the case of entitlement to a redundancy payment by virtue of section 135(1)(a) [dismissal by reason of redundancy] or section 135(1)(b) [lay-off or short time] of the Employment Rights Act 1996, the appropriate date means the relevant date as defined by, respectively, sections 145 or 153 of the Act.

The Earnings Cap

8. Up to 6 April 2006, class A members of the LGPS (i.e. members who joined the Scheme on or after 1 June 1989¹) are not permitted to pay pension contributions on, or have benefits under the Scheme in respect of local government membership² calculated upon, earnings in excess of the earnings cap. This is a HMRC requirement. The earnings cap for 2005/2006 is £105,600. However, as from 6 April 2006 the HMRC requirement for schemes to apply an earnings cap is being removed. We understand that the earnings cap is to be removed from the LGPS from that date. This will mean that if an employer has an employee or employees to whom the Earnings Cap applies as at 5 April 2006, the LGPS pension contributions and any Additional Voluntary Contributions (AVCs) the employee is paying which are deducted as a percentage of pensionable pay will, from 6 April 2006, be payable on all of the employee’s pensionable pay. Thus, a capped employee earning, for example, £158,400 who is also paying 4% in AVCs will, as from 6 April 2006, move from paying:

Basic LGPS contributions of 6% x £105,600 = £6,336 and
AVCs of 4% x £105,600 = £4,224

to paying:

Basic LGPS contributions of 6% x £158,400 = £9,504 and
AVCs of 4% x £158,400 = £6,336

¹ Or members who joined pre 1 June 1989 but who have since

- had a break which does not meet one of the continuity conditions set out in paragraph 1(1) of Schedule 4 to the LGPS Regulations or
- had a continuity break as defined in paragraph 1(1) of Schedule 4 to the LGPS Regulations

² A member of the Scheme who transfers benefits from another pension scheme where he/ she was not subject to the earnings cap can have benefits in respect of the transferred in service based on the uncapped salary whereas the benefits in respect of membership accruing after the date of joining the LGPS are based on the capped salary.

9. All employers should bring this change to the attention of their payroll section / payroll provider. Employers should also inform the relevant employee(s) as their take-home pay from April 2006 will reduce. Any such employees paying AVCs may wish to reconsider the amount of AVCs they pay each month.

Actions for administering authorities

10. In consequence of the items in this Circular, administering authorities may wish to update relevant scheme literature and guides issued to employees and employers participating in their Fund. They may also wish to consider copying this Circular to employers in their Fund (other than to Local Authorities to whom this Circular has already been sent direct) or bring the Circular to the attention of employers by directing them to the Circular on the LGPC website at: <http://www.lg-employers.gov.uk/pensions/circulars.html>

Terry Edwards
Assistant Director (Pensions)
March 2006

Class 1 Earnings Limits and Thresholds and NICs Rates from April 2006

Class 1 Contribution rates for Contracted-out Salary Related Schemes (COSR) 2006- 2007

Category Letters D (Standard Contracted-out rate), E (Married Woman's Reduced Contracted-out rate) and L (Contracted-out deferment rate).
 These rates should only be used where the employer operates a COSR occupational pension scheme.

Earnings Bands	Employee's contribution: Category letters			Employer's contribution: Category letters	Employee's NIC Rebate on earnings above the LEL, up to and including the ET (Applies to category letters D & L only)	Employer's NIC Rebate on earnings above the LEL, up to and including the ET
	D	E	L	D, E and L		
Below £84.00 weekly, Below £364.00 monthly, Below £4,368.00 yearly	Nil	Nil	Nil	Nil	Nil	Nil
£84.00 to £97.00 weekly, or £364.00 to £420.00 monthly or £4,368.00 to £5,035.00 yearly	0%	0%	0%	0%	1.6% on earnings from £84.01 up to and including £97.00 (or monthly or annual equivalents)	3.5% on earnings from £84.01 up to and including £97.00 (or monthly or annual equivalents)
£97.01 to £645.00 weekly, or £420.01 to £2,795.00 monthly or £5,035.01 to £33,540.00 yearly	9.4% on earnings above the ET	4.85% on earnings above the ET	1% on earnings above the ET	9.3% on earnings above the ET		
Over £645.00 weekly, or over £2,795.00 monthly, or over £33,540.00 yearly	9.4% on earnings above the ET, up to and including the UEL, and 1% on earnings above the UEL	4.85% on earnings above the ET, up to and including the UEL, and 1% on earnings above the UEL	1% on all earnings above the ET	9.3% on earnings above the ET, up to and including the UEL, then 12.8% on all earnings above the UEL		

Class 1 contribution rates for Not Contracted-out Schemes – 2006/2007

Category Letters A (standard rate), B (Married Woman's Reduced Rate), C (Employer only rate) & J (Not Contracted-out deferment rate)

Earnings Bands	Employee's contribution: Category letters				Employer's contribution: Category letters
	A	B	C	J	A, B, C & J
Below £84.00 weekly, Below £364.00 monthly, Below to £4,368.00 yearly	Nil	Nil	Nil	Nil	Nil
£84.00 to £97.00 weekly, or £364.00 to £420.00 monthly or £4,368.00 to £5,035.00 yearly	0%	0%	Nil	0%	0%
£97.01 to £645.00 weekly, or £420.01 to £2,795.00 monthly or £5,035.01 to £33,540.00 yearly	11% on earnings above the ET	4.85% on earnings above the ET	Nil	1% on earnings above the ET	12.8% on earnings above the ET
Over £645.00 weekly, or over £2,795.00 monthly, or over £33,540.00 yearly	11% on earnings above the ET up to and including the UEL, and 1% on earnings above the UEL	4.85% on earnings above the ET up to and including the UEL, and 1% on earnings above the UEL	Nil	1% on all earnings above the ET	12.8% on all earnings above the ET

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Website

Visit the EO's website at:
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