

The Local Government Pensions Committee

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. 196 - APRIL 2007

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 9 April 2007 is 3.6% and the increase to be applied from 6 April 2007 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is also 3.0%;
 - the earnings factors to be used, from 6 April 2007, in the calculation of a scheme member's Guaranteed Minimum Pension have been updated;
 - National Insurance contribution rates change from 6 April 2007; and
 - the maximum "weeks pay" for calculating a statutory redundancy payment increased from 1 February 2007 from £290 per week to £310 per week
 - the standard Lifetime Allowance and Annual Allowance for 2007/08 have been set at, respectively, £1.6 million and £225,000.

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Annual Pensions Increase

Managing Director Jan Parkinson

Local Government Employers' Pension Benefits and Employers Organisation for Local Government, a company limited by guarantee, registered in England and Wales, number 2676611
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2. **LGPS administering authorities and those employers who pay their own**
annual compensation benefits should note that the increase to be applied from 9 April 2007 to a qualifying pension which began (i.e. has a pensions increase date) before 10 April 2006 will be 3.6%. The percentage, and part year percentages, are detailed in the Pensions Increase (Review) Order 2007 [SI 2007/ 801] which can be viewed at http://www.opsi.gov.uk/si/si2007/uksi_20070801_en.pdf

3. LGPS administering authorities should note that the increase to be applied from 6 April 2007 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is 3.0%. This is set out in the Guaranteed Minimum Pensions Increase Order 2007 [SI 2007/686] which can be viewed at:
http://www.opsi.gov.uk/si/si2007/uksi_20070686_en.pdf

The Social Security Revaluation of Earnings Factors Order 2007

4. LGPS Administering Authorities may wish to note that the Social Security Revaluation of Earnings Factors Order 2007 [SI 2007/781] comes into force on 6 April 2007 (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/si2007/uksi_20070781_en.pdf

National Insurance changes

5. In his Pre-Budget Report on 6 December 2006 the Chancellor of the Exchequer announced that the relevant NI limits and thresholds for 2007/2008 will be as follows:

| From 6 April 2007 | Lower Earnings Limit | Earnings Threshold | Upper Earnings Limit |
|-------------------|----------------------|--------------------|----------------------|
| Weekly | Below £87 | £100 | £670 |
| Monthly | Below £377 | £435 | £2,904 |
| Yearly | Below £4,524 | £5,225 | £34,840 |

The weekly figures are confirmed in the Social Security (Contributions) (Amendment) Regulations 2007 [SI 2007/118] which can be viewed at http://www.opsi.gov.uk/si/si2007/uksi_20070118_en.pdf

6. The Contracted-Out and Not Contracted Out Tables are appended to this Circular for your information. It should be noted that the Contracted-Out rebate for employers increases for 2007/2008 from 3.5% to 3.7%.

Redundancy Payments

7. The Employment Rights (Increase of Limits) Order 2006 (SI 2006/3045) came into force on 1 February 2007. It increased the maximum “week’s pay” for calculating a statutory redundancy payment from £290 per week to £310 per week where the appropriate date falls on or after 1 February 2007. 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.

Standard Lifetime Allowance and Annual Allowance

8. The Registered Pension Schemes (Standard Lifetime and Annual Allowance) Order 2007 [SI 2007/494] came into force on 6 April

2007. It increases the Annual Allowance and the standard Lifetime Allowance as follows:

| Tax year | Annual allowance | Lifetime Allowance |
|----------|------------------|--------------------|
| 2007/08 | £225,000 | £1,600,000 |
| 2008/09 | £235,000 | £1,650,000 |
| 2009/10 | £245,000 | £1,750,000 |
| 2010/11 | £255,000 | £1,800,000 |

The Annual Allowance limits the amount of tax-free 'savings growth' an individual may have each year. Exceeding the Annual Allowance will result in a tax charge payable by the individual.

The standard Lifetime Allowance is the total value of pension savings an individual may accrue without incurring an extra tax charge.

Some individuals may have Primary and / or Enhanced Protection. Those who have registered for Primary Protection have a 'Lifetime Allowance enhancement factor' (the 'primary protection factor') which means they will have an individual Lifetime Allowance that is higher than the standard Lifetime Allowance.

Enhanced protection, in broad terms, exempts the individual from any application of the Lifetime and Annual Allowance tax charges, provided that benefit accrual and contributions in respect of service after 5 April 2006 falls within very strict limits.

Actions for administering authorities

9. 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 LGE website at:

<http://www.lge.gov.uk/lge/core/page.do?pagelid=71952>

Terry Edwards
Head of Pensions
April 2007

Class 1 Earnings Limits and Thresholds and NICs Rates from April 2007

Class 1 Contribution rates for Contracted-out Salary Related Schemes (COSR) 2007- 2008

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 £87.00 weekly, Below £377.00 monthly, Below £4,524.00 yearly | Nil | Nil | Nil | Nil | Nil | Nil |
| £87.00 to £100.00 weekly, or £377.00 to £435.00 monthly or £4,524.00 to £5,225.00 yearly | 0% | 0% | 0% | 0% | 1.6% on earnings from £87.01 up to and including £100.00 (or monthly or annual equivalents) | 3.7% on earnings from £87.01 up to and including £100.00 (or monthly or annual equivalents) |
| £100.01 to £670.00 weekly, or £435.01 to £2,904.00 monthly or £5,225.01 to £34,840.00 yearly | 9.4% on earnings above the ET | 4.85% on earnings above the ET | 1% on earnings above the ET | 9.1% on earnings above the ET | | |

| | | | | | | |
|--|--|--|---|---|--|--|
| <p>Over £670.00 weekly, or over £2,904.00 monthly, or over £34,840.00 yearly</p> | <p>9.4% on earnings above the ET, up to and including the UEL, and 1% on earnings above the UEL</p> | <p>4.85% on earnings above the ET, up to and including the UEL, and 1% on earnings above the UEL</p> | <p>1% on all earnings above the ET</p> | <p>9.1% on earnings above the ET, up to and including the UEL, then 12.8% on all earnings above the UEL</p> | | |
|--|--|--|---|---|--|--|

Class 1 contribution rates for Not Contracted-out Schemes - 2007/2008

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 £87.00 weekly, Below £377.00 monthly, Below to £4,524.00 yearly | Nil | Nil | Nil | Nil | Nil |
| £87.00 to £100.00 weekly, or £377.00 to £435.00 monthly or £4,524.00 to £5,225.00 yearly | 0% | 0% | Nil | 0% | 0% |
| £100.01 to £670.00 weekly, or £435.01 to £2,904.00 monthly or £5,225.01 to £34,840.00 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 £670.00 weekly, or over £2,904.00 monthly, or over £34,840.00 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 |

Distribution sheet

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