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30 January 2009

Circular 01/2009

To: Human Resources Officers
Salaries & Wages Officers
All Employing Authorities

Dear Colleagues

Update on the 'new look' Scheme
Employer paying employees' contributions on their behalf
Augmentation
Increase in employer's contribution rate from 1st April 2009
Applications for ill-health retirement
Allocation to contribution bands – pre 1 February 2003 manual employees
Impact of arrears on contribution bands
Notification of change of addresses etc.

1. Update on 'new look' Scheme

The Department of Environment has advised that they are hoping the new regulations will be made in early February. I will advise employing authorities as soon as these regulations are made. In the meantime, please ensure that you have considered the attached action list which was previously included with Circular 04/2008 and have appropriate procedures in place.

2. Employer paying employees' contributions on their behalf

It has come to our attention that a few employing authorities are paying either some or all of their employees' contributions as well as their own employer contributions. The Local Government Pension Scheme (Northern Ireland) is a contributory scheme and the current regulations¹ (Regulation 11(1)) state that 'each member shall make contributions to the Scheme at the standard contribution rate on his pay in each employment in which he is an active member'. Furthermore, Regulation 11(4) states that 'a person who is an active member in more than one employment must make contributions for each of those employments'. The draft regulations for the new scheme replicate the above regulations. There is no regulation which permits an employer to pay their employees' contributions on their behalf and this practice may have HMRC implications for the entire pension scheme and audit implications for the employers concerned.

If you are in this situation, please confirm in writing by 31st March 2009 the action which you intend to take to ensure that you comply with the Scheme Regulations.

3. Augmentation – increase of membership by an employing authority

Under Regulation 54 of the LGPS Regulations (Northern Ireland) 2002, as amended, an employing authority may pass a resolution to increase the membership of a *current* member. This is known as augmentation. The cost of augmentation is

¹ Local Government Pension Scheme Regulations (Northern Ireland) 2002 SR 2002 No.352

determined by reference to guidance issued by the Government Actuary's Department (GAD).

Since December 2006, the GAD guidance has used transfer-in factors to determine the cost of augmentation. In addition to the appropriate factors for member's pension, retirement grant and spouse's pension, the augmentation calculation takes into account final pay, appropriate market value adjustment (AMC) and the additional years to be granted. Any variation in any one of these elements will affect the augmentation cost.

On 1st October 2008 new transfer value regulations came into effect². These regulations amended the existing transfer regulations and prescribed some key principles for deciding how transfer values should be calculated. In addition the Pensions Regulator simultaneously issued guidance relating to the calculation of transfer values.

It was then necessary for GAD to produce revised transfer factors for the LGPS (NI) which took account of the new regulations and TPR guidance. When these factors were issued late in November it was apparent that not only had the factors altered but also the methodology. It has since taken several weeks to clarify queries around the calculation. Unfortunately since transfer factors impact directly on the calculation of augmentation costs we have only been able to issue indicative augmentation costs from 1st October 2008 to date. During this period we continued to issue indicative costs but advised employers that the augmentation cost would have to be calculated once revised factors were available.

We are now in a position to recalculate costs for any augmentation invoiced since 1st October 2008 and will forward invoices for the balance due. In the majority of cases the costs have increased by between 20% and 30% of the augmentation cost quoted under the factors which applied before 1st October 2008.

As mentioned above an adjustment for market conditions (AMC) is applied to augmentation calculations. Prior to 1st October 2008, the value used was the yield on index linked gilts of over 5 years duration using a 0% inflation assumption and a 2% underpin. This has now changed to the average of the yields of index-linked gilt series of over 15 years duration assuming 0% and 5% inflation, there being no 2% underpin. Since October, when the 2% underpin was removed, this adjustment (AMC) has varied each month. Therefore, it should be noted that the augmentation cost which will apply when invoiced may vary from the augmentation cost quoted if the AMC has altered. This variable factor is outside our control and is applied at the beginning of each month for the month.

Please note that under the current regulations an employer may only resolve to increase membership of an active member. A decision to increase membership cannot be made after an employee has left employment.

It is also necessary for GAD to produce factors which will apply after 31st March 2009 when the new scheme is introduced. These revised factors are required because any increase in membership after 31st March 2009 will provide a pension calculated on a 1/60th accrual basis and no automatic lump sum. These factors are outstanding and once again we can only issue indicative costs, based on current factors, for any augmentation being awarded after 31st March 2009.

² The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations Northern Ireland (SR 2008/370)

Under the 'new scheme' employers will have either the additional or alternative option of awarding additional annual pension of up to £5,000 to an employee. This award of additional pension only increases the member's pension and does not enhance benefits of any dependants. Again GAD factors are required to determine the cost of this additional pension and these factors are also awaited.

4. Increase in employers' contribution rate from 1st April 2009

The employers' contribution rate increases from 1st April 2009. Please ensure that your payroll software is updated after the March payroll run to reflect the new rate.

The contribution rate for the majority of employing authorities will increase to 16% from 1st April 2009 with a further increase to 17% effective from 1st April 2010. Any employing authorities who were admitted after 1 April 2007 will continue to pay a fixed contribution rate of 15.2% until 31st March 2011.

Details of your contribution rate are shown on pages 46 to 50 of the Actuarial Valuation Report. This Report was circulated to employing authorities in April 2008 (Circular 02/2008). A copy is also available on our website at the following address: http://www.nilgosc.org.uk/080314_NILG_GN9_valuation_report.pdf.

5. Applications for ill-health retirement

Due to the transitional arrangements for ill-health applications under the 'new scheme' I should be grateful if all employing authorities could ensure that they state the expected date of termination on the LGS22 form. This expected termination date will enable us to filter ill-health retirement applications and prioritise those where the termination date is likely to be before 31st March 2009 and current regulations apply. The draft regulations indicated that anyone retiring on ill-health grounds after 31st March 2009 will be examined under both sets of regulations (ie. 2002 and 2009 regulations) during the six month period up to 30th November 2009.

6. Allocation to contribution bands – pre 1 February 2003 manual employees

Please note that only manual employees who were in post before 1 February 2003 and who currently have a protected contribution rate of 5% are entitled to contribute at 5.25% from 1st April 2009. No current manual 6% contributors should be reducing their contribution rate to 5.25% for the next year.

7. Impact of arrears on contribution bands – new scheme

When we considered how to treat arrears due to a backdated pay award or job evaluation under the new regulations we were conscious that retrospective arrears could result in an employee being allocated to a higher contribution band in the current year. Therefore we suggested in the draft guidance that they should be deducted at the normal contribution rate which the employee was paying in the year that the arrears were paid.

Since then some employers raised concerns that paying the current contribution rate may create a problem as an employee may be paying either a higher or lower contribution rate than that which may have applied had the arrears been paid in the correct years.

NILGOSC is adopting a simple approach in line with the taxation of arrears. Employee and employer contributions should generally be deducted from the arrears at the employee and employer contribution rates payable in the year of payment of the arrears. When this approach is applied then both the employer and NILGOSC can easily determine that the correct contributions are paid, reconciliations are straightforward and it avoids an employee being allocated retrospectively to a higher contribution band in a previous tax year.

8. Notification of change of addresses etc.

Employers are reminded that form LGS33 – Pension Record Maintenance form can be used to notify us of changes of name, address, re-marriage, marriage and death of spouse. Alternatively we are happy to provide a spreadsheet, on request, for recording and remitting this information. It is important that we are advised promptly when a member changes address as all correspondence is sent directly to their home address.

Finally, thank you to all employing authorities who reminded their employees to complete a nomination of death grant form, LGS20. We also included these forms along with the 2008 Pension Benefit Statements. Since April 2009 we have processed over 3,700 forms – a 159% increase on the volumes normally received.

Yours sincerely

A handwritten signature in black ink that reads "Zena Kee". The signature is written in a cursive, flowing style.

Zena Kee
Pensions Manager

ANNEX A

Action List for Employing Authorities

What needs to be done?	By when?
Ensure payroll can hold an individual contribution rate and record up to 4 changes per year	31 st March 2009
Allocate each member an individual contribution rate under the new scheme	31 st March 2009
Inform each member of their allocated contribution rate	31 st March 2009
Ensure that payroll software can hold different contribution rates for an employee in respect of multiple employments	31 st March 2009
Determine how to respond to appeals regarding allocation to contribution bands	31 st March 2009
It is recommended that employers draft a policy on attribution to contribution bands	
Consider under which circumstances you might change a member's contribution rate should their earnings change after March 2009.	31 st March 2009
Identify existing casual members and review contracts of employment	31 st March 2009
Establish which members cannot remain in the scheme, based on the new entry requirements, and inform both the member and NILGOSC	31 st March 2009
Determine how you will pick up cases where an employee with less than 3 months service has their contract extended and should be offered the chance to backdate their scheme membership.	31 st March 2009
Review any potential terminal illness cases as there is no commutation on serious ill-health under the new scheme	31 st March 2009
Each employer must review, update and produce a written statement on the following employer discretions: <ul style="list-style-type: none">• Augmentation – update existing policy to remove any references to age 65.• Employer awarding additional pension up to a maximum of £5,000 per annum – formulate a policy• Employee opting out more than once – remove this discretion as this old rule has not been carried forward into the new scheme• Flexible retirement – update policy to include part benefits being drawn under flexible retirement	30 th June 2009
Consider how to retain member's pensionable pay details as at 31 March each year for a continuous 10 year period	31 st March 2010
There will be a change to year end posting for 2010, so employers will need to be aware that software may need to be changed during 2009 to meet the specification. This specification will be issued by NILGOSC as soon as possible after the regulations are made.	Early in 2009
Review any potential redundancy/business efficiency cases where the member (existing at 31 st March 2009) falls between age 50 and below age 55 before 31 st March 2010. After 31 st March 2010 redundancy/business efficiency pensions are only payable to members aged 55 or more.	31 st March 2010
Consider whether to circulate employees who have opted out of the current scheme with details of the new scheme	31 st March 2009