

SPN/LG CIRCULAR No.2/2006

The Secretary General
Convention of Scottish Local Authorities

The Chief Executive
Scottish Local Authorities

The Chief Executive
Water Authorities

The Principal Reporter
Scottish Children's Reporter Administration

The Chief Executive
Scottish Environment Protection Agency

The Director General
Strathclyde Passenger Transport Executive

The Clerk
Strathclyde Passenger Transport Authority

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Your ref:
Our ref: LGT/01/15/00

3rd October 2006

Dear Sir/Madam

THE LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) AMENDMENT (NO.2) REGULATIONS 2006 (SSI/2006/468)

I am writing about the above mentioned Amendment Regulations which come into force on 6th October 2006 with the exception of regulations 10,14,18(3),21,23,24,31 and 35 which have effect from 6th April 2006. These regulations amend the Local Government Pension Scheme (Scotland) Regulations 1998.

A copy of these amendment regulations can be accessed via the following link, [SSI 2006/468](#) additional copies can also be purchased from the Stationery Office.

The new regulations introduce significant flexibilities into the scheme's legal framework to reflect the simplified tax regime provided by the Finance Act 2004.

Background

The Finance Act provisions introduced a single tax regime from 6th April 2006 which will:

- Allow the maximum sum an individual can put into their pension scheme in a single tax year (from 2006) to be a sum equal to their annual salary (up to a maximum of £215,000). If the maximum amount is exceeded then a tax charge will fall due;
- Introduce a capital limit of £1.5 million which may be built up over a person's working lifetime. Where the total capital value of an individual's pension rights breaches this lifetime limit, a tax recovery charge will be made. (To put this into context, only employees earning in excess of £130,000 per annum and with 40 years membership of a scheme, with accrual rates as per the current LGPS, would be affected. This follows from the method of calculating the capital value which is based on multiplying pension by 20 and adding any lump sum);
- Require that the definition of “eligible child” be amended so as to restrict children’s pensions to under 23’s (subject to some transitional payments for those currently in full time education or where the relevant member’s pension is already being paid);
- Allow individuals to contribute towards concurrent pension arrangements in respect of the same employment;
- Require that benefits start to be drawn by age 75.

Effect of the Regulations

The Act also allows the following changes and these are included in the Regulations:

- The release of a pension from a scheme operated by an employer by whom they are still employed;
- The removal of the maximum number of years which can be used in the calculation of benefits – these limits on contributions will be removed, but a limit will be placed on the amount of added years that can be purchased from the Scheme;
- Up to 25% of capital value of the pension (including AVC benefits) to be paid as a lump sum;
- The removal of the 15% limit on contributions;
- The deletion of age restrictions which applied under the former tax regime;
- The removal of the earnings cap;
- The introduction of new provisions for the calculation of benefits and tax liabilities for high earners.

Some mandatory tax changes are backdated to 6 April 2006.

Consultation Process

The consultation process was carried out by way of an initial consultation from July to September 2005 and a further consultation from 29 June to 31 July 2006, which set out the planned amendments to the Local Government Pension Scheme (Scotland) Regulations 1998, in order that they comply with provisions as set out in the Finance Act 2004. The consultation process found that the proposed changes were broadly welcomed. Technical points made were used to inform the final regulations.

The formal consultation process from 29 June to 31 July 2006 included planned amendments to the Scheme in respect of the removal of the Rule of 85 together with their provision of transitional protection for existing members who will be 60 and who satisfy the 85 year rule by 31 March 2020. Comments received in respect of this part of the consultation exercise are under consideration and it is intended that Regulations will be laid in respect of these changes in the near future.

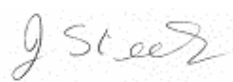
Executive Note

The Stationery Office now publish an Executive Note alongside new Regulations. The Note briefly describes a Statutory Instrument and its purpose, and is prepared for the information of Parliamentary Committees which examine proposed regulations. This can be accessed for these Regulations by clicking the following link. [Executive Note](#)

Please draw this circular to the attention of Pension Managers and Superannuation Sections. You may also wish to draw it to the attention of the Directors of Finance and Administration.

Any enquiries regarding this circular and the amending SSI should be made to David Lauder by telephone on 01896 893227 or by e-mail to david.lauder@scotland.gsi.gov.uk .

Yours faithfully

A handwritten signature in black ink, appearing to read 'J Steel', is positioned above the typed name.

JEAN STEEL
Policy Officer, LGPS