

Important news about 2005 Scheme changes

Hello, and welcome to our latest bulletin. As you will know from the last Pension Power, we've been expecting the Government to announce some changes to our Scheme for some time. These have now been published, so in this bulletin, we look at what the changes could mean to you.

The two key issues are raising the minimum retirement age to 55, and changing the way the 85 test works - a move which will see some members receiving smaller benefits if they choose to retire before 65.

One reason that the Government is introducing these changes is because we are living longer. In the 1920s, when the Scheme was created, a man would typically draw his pension for eleven years. Nowadays a man retiring at age 65 has an average life expectancy of 16 years. It is of course good news that we are tending to live longer, but paying pensions for longer has a greater cost. Making the retirement age later reins in this cost. Another reason why the Government wants to see more of us working longer is that our skills are going to be needed, as there are fewer young people joining the workforce than in the past.

Not everyone will be adversely affected by the Scheme changes, but even so we thought it would be helpful to get this bulletin on our website. We are also still waiting for some further guidance from the Government on the new rules.

We will follow this up with a Pension Power newsletter, and will mail this direct to your home address - this will contain more detail on these changes, together with other stories, so do please look out for it. We'll get this out to you early April - we hope you find it helpful.

I hope you find this useful, and look forward to getting in touch again soon,



Ged Dale

*Head of Pensions
Administration*

Is later retirement on the cards?

From 1 April 2005, the Scheme's standard retirement age will become 65. Whilst you will still be able to choose to retire from 60, as you can now, the difference is that some members will find themselves with smaller benefits if they choose to do this. So read on and find out just how you could be affected...

Does it mean I've got to work till 65?

There have been various articles published which over-simplify the issue, and could lead you to believe 65 is the earliest you can retire. This is not the case - you can still choose to retire any time from 60, and even as young as 55 if you have your employer's agreement (see the story on page 4 for more about retiring from 55).

So what is changing?

For many years, the Scheme has rewarded long service, most recently through something called the 85 test. This is a test which works out the age you can retire without facing any early retirement reductions. The more membership you have, the better chance you have of passing the 85 test before 65. As we forecast in the last Pension Power, the way we apply the 85 test will change from 1 April 2005. This will mean some - but not all - members will now face reductions if they choose to retire before 65. For new members joining from 1 April 2005, there will be no 85 test at all, making 65 their 'normal retirement date'.

Will everyone be affected?

No... generally members will fall into three distinct groups...

1. Members who are protected
Older members with longer membership, who can still choose to retire before 65 and will not face any reductions
2. Members who are no worse off
Members whose length of membership meant they always faced reductions if they chose to retire before 65 anyway.
3. Members who are affected
The benefits they build up before 1 April 2005 will remain unaffected, but the benefits they build up from this date will carry an early retirement reduction if they choose to draw them before 65.

On the next page, we've given some examples to help you figure out which group you fall into...



The 85 test at a glance

Here's the maths bit... it's useful to know how to do the 85 test, even though it's being scrapped. This is because it may well still protect some, or even all of your benefits...

You do the 85 test by adding together your age at retirement and your membership to this date. For example, Jack joined the Scheme when he was 25. He will have 30 years in total by age 55. This is the age he will pass the 85 test...

Age:	55
Membership:	30
Score:	$\frac{85}{85}$

Remember to knock off part years (so for example 25 years 100 days' membership just counts as 25 years). Also, make sure you count any part time membership at its full calendar length - quite the opposite of what we do when adding up your membership to work out your benefits.

Other types of retirement

Please remember, early retirement reductions only apply if you choose to retire. Whether the 85 test is in place or not, there are no early retirement reductions if you retire because of ill health, you are made redundant, or your employer retires you in the interests of efficiency.

1. The protected member

You will be protected from the changes as long as you retire before 1 April 2013, having reached age 60, and having passed the 85 test.

For example, Rodney is 53, and joined the Scheme when he was 23. He will pass the 85 test next year, when he is 54...

Age: 54
Membership: 31
Score: 85

Rodney reaches 60 in 2012. He can retire at this time without permission, and he will meet the conditions above, in other words he:

- | Has reached age 60
- | Has already passed the 85 test
- | Is retiring before 1 April 2013

This means we will work out his benefits on the 37 years he will have built up by then, and he won't face any reductions.

2. The member who is no worse off

Joan is 57 and joined the Scheme when she was 47. This means she will score less than 85 at age 60...

Age: 60
Membership: 13
Score: 73

If you do the maths, you will see that she won't even pass the 85 test at age 65. So for her 65 has always been her retirement age, in that she has always faced reductions if she chooses to retire before then.

Because of this, she will be no worse off under the new Regulations - she will face the same reductions she always did, if she chooses to retire before 65.

3. The member who is affected

Bill is 40 and joined the Scheme at 25, so he will have 30 years in total by age 55. This is the age he passes the 85 test. Suppose he chooses to retire at 60, he will have built up 15 years under the old rules and 20 years under the new rules. The benefits based on his 15 years will be paid without early retirement reductions, but the benefits based on his 20 years will be reduced. Here is the impact on his benefits assuming his current pay is £20,000...

BENEFITS BUILT UP
UNDER OLD RULES

PENSION: £3,750

LUMP SUM: £11,250

No early retirement
reductions

BENEFITS BUILT UP
UNDER NEW RULES

PENSION: £5,000

Less 33% £3,350

LUMP SUM: £15,000

Less 11% £13,350

TOTAL BENEFITS:

PENSION: £7,100

LUMP SUM: £24,600

Minimum age up to 55

The other key change in the Regulations which will take effect for most members from 1 April 2005, is that the minimum retirement age in our Scheme will rise to 55. As it stands now, you can draw your benefits from 50 if you meet any of the following conditions:

- Your employer agrees to your request to retire early
- Your employer retires you in the interests of efficiency
- Your employer makes you redundant

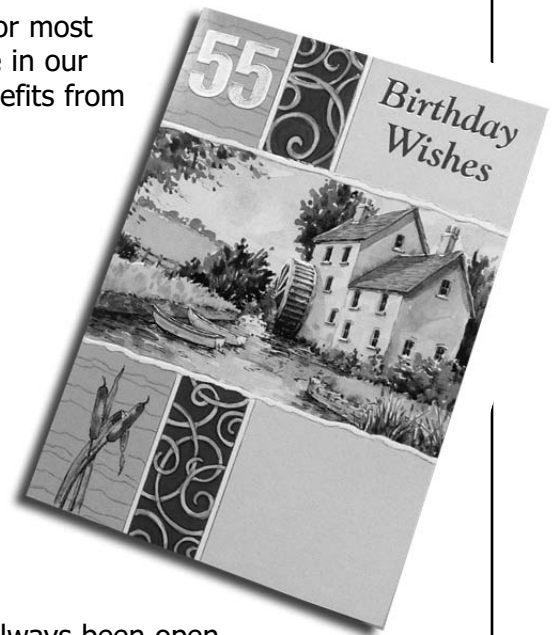
You also need to have at least three months' membership under your belt, so most people easily meet this condition.

Old rules still apply to some...

As long as joined by 31 March 2005 and will be 50 or over by then, you can still draw your benefits from 50, as long as you meet the conditions spelled out above.

No change to ill health

This change has no effect on ill health retirements, as this has always been open ended in terms of retirement age.



Happy to help

The content of this bulletin is based on our understanding of the Scheme's regulations, as made by the Government.

We hope that our interpretation matches their intentions, but we are still waiting for further explanations on some of the fine detail.

If you want to discuss any of the general content on this bulletin, please feel free to ring us. We expect that our phones will be pretty busy, so because of this, we can't offer to do individual calculations comparing benefits under the old and the new Regulations.

Pensions Helpline:

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