



## **PAYING INTO THE LGPS BEFORE APRIL 2015?**

### **Introduction**

The Local Government Pension Scheme (LGPS) is changing from 1 April 2015. If you are paying into the LGPS on 1 April 2015, you'll automatically be in the new career average scheme. If you've retired or left before then, there's no change to your pension.

This Member Briefing (one in a series on scheme changes) covers the protections in place if you have built up benefits in the scheme before April 2015 and you automatically become a member of the new career average scheme. Benefits built up before April 2015 are built up in the final salary scheme.

Further information as well as a video can be found on the LGPS 2015 website: <http://www.scotlgps2015.org>

In this Member Briefing we will look at:

- Protection for the pension you've built up prior to 1 April 2015
- Additional protection if you are nearing retirement
- Rule of 85 protection in the new scheme
- Treatment of existing additional pension contracts from April 2015
- What happens if you leave the scheme and rejoin
- Other points to note for existing members

Let's look at these in more detail.

### **Protection for all**

On 1 April 2015 if you are paying into the LGPS, you will automatically join the new career average pension scheme and all the pension you have built up in the LGPS before this date is fully protected. This means that your pension, based on your membership built up to 31 March 2015, will continue to be based on your final pay when you leave. Your Normal Pension Age is also protected. This means that the benefits you build up before April 2015 retain their Normal Pension Age under final salary scheme rules, which for almost all members is age 65.

### **Membership**

All membership you build up in the scheme before 1 April 2015 will be used to calculate your benefits in the final salary scheme. Only membership you build up from April 2015 onwards is calculated under the rules of the new career average scheme.

## Final Pay

Even though the scheme is changing, protection is in place to ensure you can use your final pay when you leave to work out your pension for the membership you built up to 31 March 2015. This means that any future pay increases will be included in the final pay used to work out your pre 1 April 2015 benefits.

The definition of final pay for benefits built up before April 2015 remains the same as it was before the Scheme changed. Your final pay is normally the pay on which you paid contributions in your final year of scheme membership, or one of the previous 2 years if this is higher. This remains so from April 2015.

In addition, if your pay is reduced, or increases to your pay are restricted a certificate of protection can apply after April 2015 for benefits built up in the final salary scheme.

## Protected Normal Pension Age

Your pension built up before 1 April 2015 has a protected Normal Pension Age, which for almost all is age 65. If you retire and draw all of your pension at your protected Normal Pension Age, the pension built up in the scheme before 1 April 2015 will be paid in full.

If you choose to take your pension before your protected Normal Pension Age the pension you have built up in the scheme before 1 April 2015 will normally be reduced, as it's being paid earlier. If you take it later than your protected Normal Pension Age it will be increased because it's being paid later.

The amount of any reduction or increase will be based on how many years earlier or later than your protected Normal Pension Age you draw the pension you have built up in the scheme to 31 March 2015.

The benefits you build up in the career average scheme from April 2015 have a Normal Pension Age linked to your State Pension Age (but with a minimum age of 65).

You cannot take your benefits built up to April 2015 separately from the benefits you build up from April 2015. All your pension would have to be drawn at the same time (except in the case of Flexible Retirement).

## Example of calculation of pension benefits

Let's look at an example of Susan, to see what these protections mean for her benefits built up before April 2015. Susan's details:



| Date of Birth | Date of Leaving                              | Membership up to 31 March 2015 | Membership from 1 April 2015 |
|---------------|--|--------------------------------|------------------------------|
| 1 April 1957  | 31 March 2022<br>(65 <sup>th</sup> birthday) | 19 years 100 days              | 7 years                      |

| Pay at 31 March 2015<br>(2009 scheme definition) | Final Pay at Date of Leaving<br>(2009 scheme definition) | Protected Normal Pension Age<br>(2009 scheme definition) | New Normal Pension Age<br>(2015 scheme definition)<br>linked to State Pension Age |
|--|--|--|---|
| £25,000  | £28,500  | Age 65   | Age 66  |

Susan decides to draw her pension at age 65. Her final salary scheme membership will be payable unreduced as it is being paid at her protected Normal Pension Age for that membership.

Her career average pension (from April 2015 to date of leaving) will be reduced as it is being paid one year earlier than her new Normal Pension Age in the career average scheme, which is linked to her State Pension Age.

| <b>Final Salary Benefits - Membership up to March 2009 = 13 years 100 days</b>                             |                 |                              |                                      |                |                       |
|--|-----------------|------------------------------|--------------------------------------|----------------|-----------------------|
| <b>Pension</b>   |                 |                              | <b>Automatic Lump Sum</b>            |                |                       |
| 13 years 100 days x £28,500 / 80<br><b>= £4,728.85</b>   |                 |                              | 3 x £4,728.85<br><b>= £14,186.56</b> |                |                       |
| <b>Final Salary Benefits - Membership up to from April 2009 to March 2015 = 6 years</b>                    |                 |                              |                                      |                |                       |
| <b>Pension</b>   |                 |                              | <b>Automatic Lump Sum</b>            |                |                       |
| 6 years x £28,500 / 60<br><b>= £2,850.00</b>   |                 |                              | Nil                                  |                |                       |
| <b>Career Average Pension - Membership from April 2015 to date of leaving (in main section throughout)</b> |                 |                              |                                      |                |                       |
| Year   | Opening Balance | Pension built up in year     | Total Account 31 March               | Cost living of | Updated Total Account |
| 1  | £0.00           | £25,200/ 49 = <b>£514.29</b> | £514.29                              | £10.28 (2%)    | £524.57               |
| 2  | £524.57         | £25,700/ 49 = <b>£524.49</b> | £1,049.06                            | £10.49 (1%)    | £1,059.55             |
| 3  | £1,059.55       | £26,000/ 49 = <b>£530.61</b> | £1,590.16                            | £7.95 (0.5%)   | £1,598.11             |
| 4  | £1,598.11       | £26,500/ 49 = <b>£540.82</b> | £2,138.93                            | £42.78 (2%)    | £2,181.71             |
| 5  | £2,181.71       | £27,000/ 49 = <b>£551.02</b> | £2,732.73                            | £81.98 (3%)    | £2,814.71             |
| 6  | £2,814.71       | £28,000/ 49 = <b>£571.43</b> | £3,386.14                            | £67.72 (2%)    | £3,453.86             |
| 7  | £3,453.86       | £28,500/ 49 = <b>£581.63</b> | £4,035.49                            | £60.53 (1.5%)  | <b>£4,096.02</b>      |

The total pension in the career average scheme at 31 March 2022 is reduced as it is being paid a year earlier than Susan's Normal Pension Age for her career average pension (age 66). The reduction for a female drawing her pension one year early is currently 6%. For details of the reduction factors applied when drawing your pension early please visit <http://www.scotlgps2015.org>

All the highlighted figures above (in yellow) are added together to get the total pension for that member (see table below). The figure highlighted in grey above is Susan's automatic lump sum for her membership up to 31 March 2009.

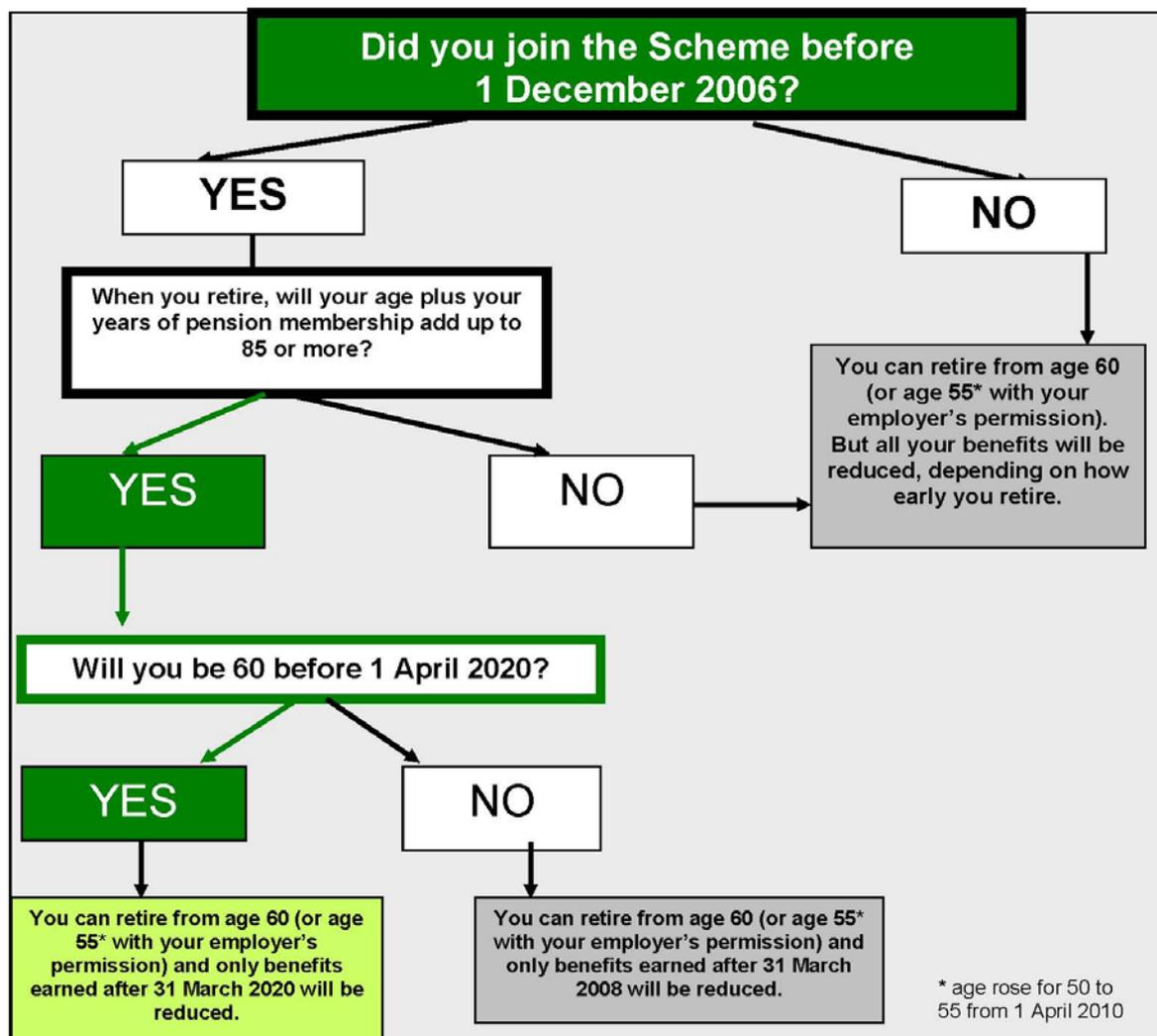
| <b>Total Pension Benefits</b> |  |  |  |                   |
|-------------------------------|--|--|--|-------------------|
|                               | <b>Pension built up to 31 March 2009</b> | <b>Pension built up from 1 April 2009 to 31 March 2015</b> | <b>Pension built up from 1 April 2015 to date of leaving</b> | <b>Total</b>      |
| <b>Pension</b>                | £4,728.85                                | £2,850.00  | £4,096.02 – 6% = £3,850.26                                   | <b>£11,429.11</b> |
| <b>Lump Sum</b>               | £14,186.56 (Automatic)                   | No Automatic Lump Sum*                                     | No Automatic Lump Sum*                                       | <b>£14,186.56</b> |

\*Please note that you can exchange some pension to get a tax-free cash lump sum. For every £1 of pension you give up you will get £12 of tax-free lump sum (subject to HM Revenue and Customs limits). There is an automatic lump sum payable for membership up to 31 March 2009.

Remember that every year your Pension Fund will issue you with an Annual Benefit Statement. This statement will include the value of any final salary benefits you have built up before April 2015 in addition to details of the pension you build up in the new career average scheme. It's important that you check your Annual Benefit Statement each year.

### Rule of 85

To help you determine if the rule of 85 applies to you, please follow the flowchart below.



If you have rule of 85 protection this will continue to apply from April 2015.

The rule of 85 protects some or all of your benefits from the normal early payment reduction.

**To have rule of 85 protection you must have been a member of the LGPS on 30 November 2006.**

The rule of 85 is satisfied if your age at the date when you draw your pension plus your Scheme membership (each in whole years) adds up to 85 years or more.

Working out how you are affected by the rule of 85 can be quite complex, but here is some information to help you work out your general position when you draw your benefits. For a more detailed understanding of your own position you should contact your Pension Fund directly.

- **If you would not satisfy the 85 year rule by the time you are 65**, then all your benefits are reduced if you choose to draw your pension before your Normal Pension Age. The reduction will be based on how many years before your Normal Pension Age (protected Normal Pension Age for pension built up to April 2015 and new Normal Pension Age (linked to State Pension Age) for pension built up from April 2015) you draw your benefits.
- **If you will be age 60 or over by 31 March 2020** and choose to draw your pension before your Normal Pension Age, then, **provided you satisfy the 85 year rule when you start to draw your pension**, the benefits you build up to 31 March 2020 will not be reduced.
- **If you will be under age 60 by 31 March 2020** and choose to draw your pension before your protected Normal Pension Age, then, **provided you satisfy the 85 year rule when you start to draw your pension**, the benefits you've built up to 31 March 2008 will not be reduced. However your service from 1 April 2008 to 31 March 2015 will be reduced from your retirement date to 65. Your service after 31 March 2015 will be reduced from your retirement date to your new Normal Pension Age (which is linked to your State Pension Age, with age 65 as the earliest age).

### Underpin

Protections are in place if you are nearing retirement to ensure that you will get a pension at least equal to that which you would have received in the scheme had it not changed on 1 April 2015. This protection is known as the 'underpin'.

The 'underpin' applies to you if you were:

- paying into the Scheme on 31 March 2012 and,
- you were within 10 years of your Normal Pension Age on 1 April 2012,
- you haven't had a disqualifying break in service of more than 5 years,
- you've not drawn any benefits in the LGPS before Normal Pension Age and
- you leave with an immediate entitlement to benefits.

The underpin will not apply to you if you elect to opt out of the scheme before your protected Normal Pension Age.

The references in this underpin section to Normal Pension Age are to your protected Normal Pension Age under the 2009 scheme – normally age 65.

If you are covered by the underpin a calculation will be performed at the date you cease to contribute to the Scheme, or at your Normal Pension Age if earlier, to check that the pension you have built up (or, if you have been in the 50/50 section at any time, the pension you would have built up had you always been in the main section of the scheme) is at least equal to that which you would have received had the scheme not changed on 1 April 2015. If it isn't, the difference will be added to your pension. If you are covered by the underpin, your Pension Fund will carry out the underpin check when you leave the scheme.

### Existing Additional Pension Contracts

All existing Additional Voluntary Contribution (AVC), shared cost Additional Voluntary Contribution (SCAVC), Added Years, Additional Regular Contribution (ARC), and Additional Survivor Benefit Contributions (ASBC) contracts in force immediately prior to 1 April 2015 will continue from April 2015 on the terms of the contract when they were originally taken out.

### Protection if you leave and rejoin the LGPS in the future

If you leave the scheme before being able to immediately draw your pension and you have sufficient membership to have built up a pension entitlement (see 'The period after which you are entitled to benefits from the LGPS' below), you will be awarded deferred benefits which remain in the scheme (unless you elect to transfer them to another pension scheme).

If you:

- are automatically moved to the career average scheme on 1 April 2015
- subsequently cease membership with entitlement to a deferred benefit and
- then rejoin the scheme at a later date,

provided you do not have a break in membership of more than 5 years from any *public service pension scheme*, your final salary benefits will be linked to your new pension account and will be calculated on your final salary in your new employment when you leave.

A *public service pension scheme* includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, or teachers, or health service workers, or fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

If the break in membership from public service pension schemes is more than 5 years then any final salary benefits in the LGPS can be transferred across to the career average scheme but cease to be final salary benefits.

### Other points to note for existing members

#### The period after which you are entitled to benefits from the LGPS

If you leave or opt-out of the scheme with less than 2 years membership you will have the option of taking a refund of contributions from the scheme (unless you are disqualified from receiving a refund because, for example, you already have, in an LGPS Fund in Scotland, a deferred pension or a pension in payment) or you can choose to transfer your benefits.

## Pay received after April 2015 which was due before April 2015

From April 2015 the pension you build up in the career average scheme will be worked out on your pensionable pay received in the scheme year (1 April to 31 March). However, if you receive pay after March 2015 which relates to work carried out before April 2015, this will not count towards the pension you build up in the career average scheme but will, instead, be allocated to the pre 1 April 2015 period for which it was due. If you cease membership of the scheme within 12 months of when the payment was due, it will be included in the final pay figure used to calculate benefits on your pre April 2015 membership of the scheme.

### Further Member Briefings available

There are four further Member Briefings in this series:

- The LGPS is changing from 1 April 2015
- Member contributions and the flexibility to pay more or less
- How is my pension worked out?
- When can I take my pension?

For more information on the new scheme and to view a video explaining the new scheme and to try out the modeller showing how a pension account works and the contribution cost calculator please visit <http://www.scotlgps2015.org>

#### Disclaimer

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