

TECHNICAL BULLETIN

NO.8

MAY 2004



TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

Further Employment with a Local Government Pension Scheme Employer

This bulletin is to remind employers of the implications when a Local Government Scheme Pensioner is re-employed with an employer where they are eligible to join the Local Government Pension Scheme. *Whether or not they rejoin the pension scheme* their pension may be reduced or even suspended. It is the employee's statutory duty to inform this office, in writing, if they take up any such employment.

As a general rule if a pensioner takes up employment where they would be *eligible* to rejoin the Local Government Pension Scheme their pension may be reduced or suspended if, when added to the pay in their new job the total is more than the pay they received when they retired, including any pensions increase accrued to date of re-employment.

There can be a further complication if a pensioner is re-employed and their pension from the previous employment includes 'added years' awarded under the Discretionary Payments Regulations. On leaving the second employment the Compensation element could be permanently reduced or removed, depending on the overall service from both employments.

Strathclyde Pension Fund Office takes every measure to ensure that pensioners are aware of the above, however it is essential that staff at the employing authorities who deal with impending retirements or new starts are aware of these issues and advise any new employees to seek guidance from this office. We can then advise the member on the potential implications for their pension.

Taxation of Termination Payments on Early Retirement

The Income Tax (Earnings and Pensions) Act 2003 Sections 401 to 407 provides for the payment of tax on any payment or benefits in excess of a threshold of £30,000. When the amount of redundancy payment plus any payment in lieu of notice, plus the amount of additional lump sum due as a result of an award of compensatory added years by the employer exceeds £30,000 then tax is due to be paid on the excess. If the amounts already paid by the employer, together with the additional lump sum being paid by SPFO (which is subsequently recharged to the Employer) are in excess of £30,000 then we will deduct the tax at basic rate and pay it over to the Inland Revenue on the Employer's behalf.

Staff must therefore be made aware of this by the Employer and advised at the point where their options are being discussed before early retirement.