



## A guide to the Local Government Pension Scheme (LGPS) in Scotland

Sep 2009

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### Abatement of CAY

If, after retiring on redundancy or efficiency grounds with additional service granted by your employer, you return to employment within local government or another organisation that participates in the LGPS, your pension may be reduced or suspended.

Your pension including the additional service awarded by your previous employer will be tested firstly to ensure that your new rate of pay plus your total pension at date of retiral is less than your final pay at your date of retiral. **If your new rate of pay plus your pension is greater, your additional service pension will be reduced or suspended.**

A second test will be applied to the additional service pension awarded at the time you leave your new employment. This is to ensure that the service you build up in your new employment, plus the total service used to calculate your first pension, does not exceed the service you could have built up in the scheme had you worked continuously until age 65. **If this total is exceeded, your additional service pension will be permanently reduced.**

**You must therefore notify us immediately in writing if you become re-employed within local government or another organisation that participates in the LGPS and are in receipt of a pension from the LGPS.**

## About this guide and the LGPS

The information in this guide is based on the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (effective from 1st April 2009) and other relevant legislation.

It applies to individuals who were contributing members of the LGPS on 1 April 2009 or who have since joined. The guide was up-to-date at the time of publication in July 2009.

This guide is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees.

In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this guide does not confer any contractual or statutory rights and is provided for information purposes only.

The guide explains the benefits available to you when you join the LGPS. It describes how the LGPS works, what it costs to join and the financial protection that it offers to you and your family.

Where pension terms are used, they appear in ***bold italic*** type. These terms are defined at the back of this guide.

### More information

For more information on the LGPS or if you have a problem or question about your LGPS membership or benefits, please contact us.

**Web:** [www.spfo.org.uk](http://www.spfo.org.uk)

**Email:** [spfo@glasgow.gov.uk](mailto:spfo@glasgow.gov.uk)

**Tel:** 0845 213 0202

**Letter/visit:** Strathclyde Pension Fund Office, 78 Queen Street, Glasgow G1 3DN

The regulations can be found at [http://www.sppa.gov.uk/local\\_gov/regs.htm](http://www.sppa.gov.uk/local_gov/regs.htm) .

The national website for members of the LGPS can be found at [www.lgps.org.uk](http://www.lgps.org.uk) .

You can find out about what you can do if you are not happy about a decision made about your LGPS pension position from the section [Help with pensions](#).

### Who runs the LGPS?

The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the LGPS.

In Scotland the Scottish Public Pensions Agency, an executive Agency of the Scottish Government, runs the LGPS. The LGPS is administered locally through regional pension funds like the Strathclyde Pension Fund (“we”).

### LGPS rules and responsibilities

#### Information

LGPS regulations are made under the Superannuation Act 1972. Changes to the rules are discussed at national level by employee and employer representatives but can only be amended with the approval of the Scottish Parliament. We will keep you informed of any changes that are made.

## About this guide and the LGPS

The LGPS is a registered public service scheme under Chapter 2 of Part 4 of the Finance Act 2004. It achieved automatic registration by virtue of Part 1 of Schedule 36 of that Act (because the LGPS was, immediately before 6 April 2006, both a retirement benefits scheme approved under Chapter I of Part XIV of the Income and Corporation taxes Act 1988 and a relevant statutory scheme under section 611A of that Act). This means, for example, that you receive tax relief on your contributions. It complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

We will issue annual benefit statements to our members (other than to pensioners).

You are entitled to obtain a copy of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (Scottish Statutory Instrument Number 2008 No. 230) and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (Scottish Statutory Instrument Number 2008 No.228) and subsequent amendments.

A current version, including all amendments, is available on the Local Government Employers' website at <http://timeline.lge.gov.uk/>. A copy of the regulations may be inspected at our offices. In addition, you are entitled to view, and take copies of our Annual Report and Accounts.

To maintain the security of any information about you, we are registered under the current Data Protection Acts. You can check that your computerised personal record is accurate, although a small fee may be charged.

### Decisions

The regulations give specific responsibilities to scheme employers and pension fund administrators, each of whom must make decisions in relation to some matters and can exercise their discretion in relation to others.

We have a committee to oversee our pension scheme responsibilities. It acts in a similar role to trustees of other pension schemes. Minutes of quarterly Strathclyde Pension Fund Committee meeting are available from our website.

### Funding

As an LGPS member, you will pay contributions to the LGPS. Your employer pays in the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the LGPS. The amount will vary, but generally the present underlying assumption is that employees contribute approximately one third of the LGPS's costs and the employer contributes the rest. However, increases or decreases in the cost of providing the LGPS may, in future, need to be shared between members and employers, in accordance with guidance from Scottish Ministers.

## Your pensions choice

Your retirement income and benefits, over and above the basic flat-rate State pension, will in general be provided by the State Second Pension (S2P), a personal pension plan, a stakeholder pension scheme or the LGPS. These are described briefly below.

### LGPS

The LGPS is a statutory, funded pension scheme. As such it is very secure because its benefits are defined and set out in law. It provides:

#### **A secure pension**

The benefits you get when you retire are based on your LGPS membership and, normally, on your final year's pay. The pension you build up during your employment keeps pace with your pay rises. And after you retire, your pension keeps pace with cost of living increases.

## Your pensions choice

### Tax-free cash

You have the option to exchange part of your pension for some tax-free cash on your retirement.

### Peace of mind

Your family enjoys financial security, with immediate life cover and a pension for your husband, wife, **civil partner** or **nominated co-habiting partner** and **eligible children**, in the event of your death and, if you ever become seriously ill, you could receive immediate ill-health benefits.

### Early retirement

You can choose to retire from age 60 and receive your benefits immediately, although they may be reduced for early payment. It's also possible to retire from age 55 and receive your benefits immediately, either with your employer's consent or if you are made redundant or retired in the interests of efficiency.

### Flexible retirement

If you reduce your hours or move to a less senior position at or after age 55 and, if you are under age 60, your employer agrees, you can draw some or all of the benefits you have built up - helping you ease into retirement - although your benefits may be reduced for early payment.

### Options to pay extra

You can boost your pension by paying more contributions. You get tax relief on these, too. As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your pay and, up to **state pension age**, you will also pay lower national insurance contributions on earnings between the **lower earnings limit** and the **upper accruals point**, unless you have opted to pay the married woman's/widow's reduced rate of national insurance.

The LGPS is **contracted-out** of the State Second Pension (S2P).

### State Second Pension (S2P)

The State Second Pension (S2P) is part of the state pension payable in addition to the flat rate old age pension. Benefits are paid by the Department for Work and Pensions (the old DSS) and cannot be paid before **state pension age**. Initially, S2P was an earnings related pension but from April 2009 it began building up as a flat rate pension, achieving full flat rate accrual by around 2030.

### Personal pension plans and stakeholder pension schemes

Various institutions, such as banks, building societies and life assurance companies provide and administer personal pensions and stakeholder pension schemes. Your chosen organisation would invest your contributions and when you retire the investments are cashed in and the sum of money realised is used to buy retirement benefits from the insurance market. Your benefits are therefore based on investment returns and are not guaranteed or linked to your earnings. The age from which you may receive them will vary according to the plan, but you may not be able to receive that part which replaces the **S2P** before **state pension age**.

### Joining the LGPS

#### Who can join?

The LGPS is offered by **local government** employers and by other organisations that have chosen to participate in it.

If you are eligible for membership of the LGPS you will automatically become a member, but you have the right to decide not to join the LGPS.

To be able to join the LGPS you need to have a contract of employment that's for at least 3 months, be under age 75 and work for an employer that offers membership of the LGPS.

## Your pensions choice

If you are employed by a non local government organisation which participates in the LGPS (an **admission body**), you can only join if you are a class of employee permitted to join under your employer's Admission Agreement and your employer nominates you for membership of the LGPS.

Teachers, police officers, operational firefighters and, normally, employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

### Can I join the LGPS if I already have a personal pension or stakeholder pension scheme?

If you currently contribute to a personal pension plan or stakeholder pension scheme and decide to join the LGPS, you can, if you wish, still continue to make your own contributions to the personal pension or stakeholder pension scheme or you can stop paying into it and consider transferring it into the LGPS.

You can, if you wish, pay up to 100% of your total taxable earnings in any one tax year (or £3,600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on those contributions.

Under HM Revenue and Customs rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. To find out about these controls, see the section on [Tax controls and your LGPS benefits](#).

### What happens if I have a contract for less than 3 months which is subsequently extended?

If you have a contract of employment for less than 3 months which is subsequently extended so that the total period is for 3 months or more, you will (provided you are otherwise eligible to join the LGPS) automatically be entered into the LGPS upon the extension of the contract. Also, unless you are employed by an **admission body**, you will have the right to backdate your membership to your first day of employment by paying the relevant contributions.

## Contributions

### What do I pay?

How much it costs you depends on how much you are paid. There is a five tier contribution system, with contributions based on how much of your pay falls into each tier.

Here are tiers that apply from April 2009:

Whole time pay	Contribution rate (%)
On earnings up to and including £18,000	5.5%
On earnings above £18,000 and up to £22,000	7.25%
On earnings above £22,000 and up to £30,000	8.5%
On earnings above £30,000 and up to £40,000	9.5%
On earnings above £40,000	12%

The pay ranges will be increased each April in line with the cost of living.

**If you work part-time hours** your contribution rate is worked out on the whole-time pay rate for your job, although you will only pay contributions on the pay you actually earn.

## Your pensions choice

Let's take a look at someone who works full-time at a pay rate of £22,000.

They'll pay 5.5% on their pay up to £18,000, and 7.25% on the next £4,000. That gives an overall contribution rate of 5.8% - around £106 a month in contributions.

If they were working half-time, they'd still pay the same contribution rate. That's because the whole-time rate for their job is still £22,000, but their contributions would be based on their part-time earnings, so instead they'd pay half - around £53 a month.

**If you work term time weeks** in a role that requires this type of work pattern (e.g. in a school), your contribution rate is worked out on the whole-time pay rate for term time working, although you will only pay contributions on the pay you actually earn.

Your contribution rate is determined by your employer when you join the LGPS and at the beginning of each subsequent financial year. It is not normally changed by your employer during a financial year, even if your pay is increased or reduced.

You pay contributions on your normal salary or wages plus any shift allowance, bonuses, contractual overtime, maternity pay, paternity pay, adoption pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

If you have no contractual hours of employment, contributions are deducted on all your pay up to the full-time hours for your job.

You should check your payslip to make sure that pension contributions are being deducted. Your contributions are very secure. As the LGPS is set up by Statute, payment of benefits to LGPS members is guaranteed by law.

### What does my employer pay?

Your employer pays the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the LGPS. The amount will vary, but generally the present underlying assumption is that employees contribute approximately one third of the LGPS's costs and the employer contributes the remainder. However, increases or decreases in the cost of providing the LGPS may, in future, need to be shared between members and employers, in accordance with guidance from Scottish Ministers.

### Do I receive tax relief on my contributions?

The LGPS is fully approved by HM Revenue and Customs, which means that you receive tax relief on your contributions. To achieve this, your contributions are deducted from your salary before you pay tax. So, for example, if you pay tax at the rate of 20%, every £1 that you contribute to the LGPS only costs you 80p net.

### What about my national insurance contributions?

As the LGPS is **contracted out** of the **State Second Pension (S2P)** you will, up to **state pension age**, pay reduced national insurance contributions on your earnings between the **lower earnings limit** and the **upper accruals point**, unless you have opted to pay the married woman's/widow's reduced rate of national insurance.

## Your pensions choice

### Can I make extra contributions to increase my benefits?

You can increase your benefits by paying additional contributions to buy extra LGPS pension, or by making payments to the LGPS's **additional voluntary contributions (AVC)** arrangement, or by paying contributions into a personal pension, stakeholder pension or free-standing AVC scheme of your own choice. These options are explained in more detail in the section on [Increasing your benefits](#).

### Is there a limit to how much I can contribute?

At the present time there is no overall limit on the amount of contributions you can pay (although there is a limit on the extra LGPS pension you can buy). However, tax relief will only be given on contributions up to 100% of your taxable earnings. Additionally, under HM Revenue and Customs rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. To find out about these controls, see the section on [Tax controls and your LGPS benefits](#).

### I'm already paying into the LGPS in my other job – can I also join in this job?

If you are already paying into the LGPS and you get another job as well where your employer offers you membership of the LGPS, you can be a member of the LGPS in both positions, provided you are eligible to join (see the earlier section on [Joining the LGPS](#)). You will build up two separate sets of pension rights and receive two separate retirement packages.

If you leave one of the jobs before leaving the other, you will have the choice of joining the two sets of pension rights together. Details will be provided by us at the time.

Pension rights built up as a councillor in Scotland cannot be joined with rights built up as an employee in Scotland and vice versa.

### What about my other non LGPS pensions?

If you have paid into another non LGPS public sector pension arrangement, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer allows you longer. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

We can advise you of the process for transferring previous pension rights into the LGPS.

Transferring your pension rights is not always an easy decision to make, and you may wish to seek the help of a financial adviser. For more information, see the section on [Transferring pension rights into the LGPS](#).

### What if I've been a member before and can now rejoin the LGPS?

If you rejoin the LGPS, you can normally transfer your previous LGPS pension rights to your new membership, enabling you to enjoy benefits based upon your entire membership and linked to your final pay in your new job.

They will not be transferred automatically. If your new job is less well paid, you will need to decide whether it may be better not to join the benefits together.

If you have previously rejoined the LGPS and chosen to keep earlier LGPS pension rights which you built up in Scotland separate, you will not normally be able to transfer those earlier rights to your new job.

If your previous LGPS pension rights are in England, Wales or Northern Ireland, you only have 12 months from re-joining the LGPS to opt to transfer them, unless your employer allows you longer. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

## Your pensions choice

Transfers from the LGPS in England, Wales or Northern Ireland may not buy day for day membership.

If you wish to transfer your previous LGPS pension rights you should contact us as soon as possible to find out about this and about the matters you will need to consider in making your decision.

Pension rights built up as a councillor in Scotland cannot be joined with rights built up as an employee in Scotland and vice versa.

### What if I change my mind – can I opt out of the LGPS?

If you join, then decide the LGPS is not for you, you're free to opt out from your next available pay period. You might, however, want to take financial advice before opting out.

If you opt out of the LGPS you will have the same options as anyone leaving their job before retirement except you cannot, normally, transfer any pre 6 April 1988 benefits to another pension scheme unless you have left your job. You can find details of these options in the section on [Leaving your job before retirement](#).

### I'm already receiving an LGPS pension – will it be affected if I join again?

If you are re-employed in **local government** or by an employer who offers membership of the LGPS, you must tell the LGPS fund that pays your pension about your new position, regardless of whether you join the LGPS in your new position or not. They will then check to see whether the pension they are paying should be reduced or suspended (see page 3 for more details).

### Forms to fill in:

#### Joining form

To secure your entitlement to LGPS benefits, even if you automatically become a member, it is important that your employer completes and return the joining form. On receipt of the form, relevant records will be set up and you will be sent an official notification of your membership of the LGPS. You should check your payslip to make sure that pension contributions are being deducted.

#### Death benefit forms

If you die in service, a lump sum death grant of three times your final year's pay is paid no matter how long you have been a member of the LGPS. For part-time employees, it is three times your actual part-time pay. We have absolute **discretion** when deciding who to pay any death grant to. The LGPS, however, allows you to express your wish as to who you would like any death grant to be paid to by completing and returning an expression of wish form. The form, if not included with this guide, is available from us.

**You can nominate a co-habiting partner, of either opposite or same sex, to receive a survivor's pension on your death**, providing your relationship meets certain conditions laid down by the LGPS. You can find out about these conditions from the section on [Life cover – protection for your family](#). If this applies to you and you wish to make a nomination, the form (if not included with this guide) is available from us.

## Transferring pension rights into the LGPS

You may be able to transfer pension rights into the LGPS from:

- A previous LGPS fund.
- A previous public sector pension scheme.
- A previous non-public sector scheme so long as you were a member of Strathclyde Pension Fund as at 31 March 2009.

## Transferring pension rights into the LGPS

You cannot transfer a pension credit into the LGPS. A pension credit is a share of an ex-spouse's or **ex-civil partner's** pension benefits, as awarded by a Court under a Pension Sharing Order, or by a qualifying agreement in Scotland, following a divorce or a dissolution of a **civil partnership**.

### If you have previous LGPS pension rights

If you rejoin the LGPS, you can normally transfer your previous LGPS pension rights to your new membership, enabling you to enjoy benefits based upon your entire membership and linked to your final pay in your new job.

They will not be transferred automatically. If your new job is less well paid, you will need to decide whether it may be better not to join the benefits together.

If you have previously re-joined the LGPS and chosen to keep earlier LGPS pension rights which you built up in Scotland separate, you will not normally be able to transfer those earlier rights to your new job.

If your previous LGPS pension rights are in England, Wales or Northern Ireland, you only have 12 months from re-joining the LGPS to opt to transfer them.

Transferred membership from the LGPS in Scotland will count on a day for day basis, but transferred membership from the LGPS in England, Wales or Northern Ireland may not count on a day for day basis.

If you wish to transfer your previous LGPS pension rights you should contact us as soon as possible to find out about this and about the matters you will need to consider in making your decision.

Pension rights built up as a councillor in Scotland cannot be joined with rights built up as an employee in Scotland and vice versa.

### If you have pension rights in a non LGPS scheme

You may be able to transfer your previous public sector pension rights into the LGPS. Also members as at 31 March 09 may transfer in a non LGPS private sector pension.

You have only 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer allows you longer. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

If you opt to transfer pension rights from a non-LGPS arrangement then a sum of money called a **transfer value** is offered to buy a membership credit in the LGPS. If you transfer your previous pension rights into the LGPS your retirement benefits will be based on membership including the membership bought by the transfer and, normally, your final years' pay on leaving the LGPS.

Any request you make to investigate a transfer will not be binding until you have been supplied with full details and subsequently confirm that you wish the transfer to go ahead. Transfer quotations provided by a former pension provider are guaranteed for 3 months.

Carefully consider whether to transfer or not, as a transfer may not always be advantageous. Compare the quotation of LGPS membership and the value of LGPS benefits attached to that membership against the value of the package of benefits if left with your previous pension scheme provider. Transfers from public sector schemes usually give broadly equivalent benefits in the LGPS, provided you apply for the transfer within 12 months of joining the LGPS.

Transferring your pension rights is not always an easy decision to make, and you may wish to seek the help of a financial adviser.

## Transferring pension rights into the LGPS

We may decline to accept a transfer from if you do not apply for the transfer within 12 months of joining the LGPS.

### **I have a personal pension or stakeholder pension plan. Can I continue paying into it?**

If you have a personal or stakeholder pension plan you can continue to pay into it at the same time as paying into the LGPS or, alternatively, you can stop paying into it and consider transferring it into the LGPS.

You can, if you wish, pay up to 100% of your total taxable earnings in any one tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on those contributions. Under HM Revenue and Customs rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. To find out about these controls, see the section on [Tax controls and your LGPS benefits](#).

### **I have paid additional voluntary contributions (AVCs). Can I transfer them into the LGPS?**

If you have previously paid **AVCs** to an in-house AVC arrangement under the LGPS in Scotland you can, if you wish, transfer them into the in-house AVC arrangement offered by us.

### **How do I transfer?**

We can advise you of the process for transferring previous pension rights into the LGPS.

**Remember**, you have only 12 months from joining the LGPS to opt to transfer your previous public sector pension rights, unless your employer allows you longer.

### **I've lost touch with my previous pension provider. Who can help?**

You may have lost touch with your former pension schemes but, if you have, don't worry. The Pension Tracing Service can help – it holds details of almost 200,000 UK pension schemes and provides a tracing service free of charge. You can contact them at The Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA (Telephone 0845 6002 537). Also, don't forget to keep your pension providers up to date with any change in your home address.

## Leave of absence and the LGPS

There are many reasons for absence and each has a different effect on your LGPS membership.

### **What happens if I am on sick leave?**

During a period of sick leave your LGPS benefits will continue to build up as if you were working normally and receiving full pay. You will continue to pay basic LGPS contributions on any **pay** you receive while you are off sick (before any reduction on account of Statutory Sick Pay or Incapacity Benefit). If you are on unpaid sick leave, you will not pay any contributions.

### **What happens if I am on maternity, adoption or paternity leave?**

During any period of:

- Paid maternity leave (including any period when only Statutory Maternity Pay is paid)
- Paid adoption leave (including any period when only Statutory Adoption Pay is paid)
- Any unpaid maternity or adoption leave during the 26 week ordinary maternity leave / ordinary adoption leave period, and
- Statutory paternity leave

your LGPS benefits will continue to build up as if you were working normally on full pay. You must continue to pay pension contributions on the actual **pay**, if any, you are receiving.

## Leave of absence and the LGPS

However, any period of unpaid maternity or adoption leave beyond the 26 week ordinary maternity leave / ordinary adoption leave period will not count for pension purposes unless you have a right to return to work, in which case you can choose to pay back pension contributions for the unpaid period to make it count. The cost of paying back is based on the last rate of **pay** you received ignoring any increase in pay due to working a Keep in Touch day.

### What happens if I am granted unpaid leave of absence?

If you are granted unpaid leave of absence or leave on reduced **pay** (including parental leave):

#### For the first 30 days

Full LGPS membership continues to build up during this period, but you must pay the pension contributions that would have been paid had you been at work.

#### After 30 days

This period will not count as membership unless you pay for it to do so. You can elect to pay contributions for the whole period of your absence, up to a maximum of 3 years, and maintain your full pension benefits.

For the period to count towards your membership, you must pay the contributions that you would have paid if you had been at work.

### What happens if I am on jury service?

If you are called for jury service you will continue to have full LGPS membership during jury service, but you must pay pension contributions based upon your normal **pay**.

### What happens if I am on strike?

Absence from work for one or more whole days because of strike does not count as membership in the LGPS. You can elect to buy back the membership lost at a rate of 16% of the **pay** you would have received if you had been at work.

### What happens if I am on reserve forces leave?

Full membership of the LGPS continues to build up throughout reserve forces leave of absence and you will continue to pay pension contributions on your reserve forces pay if it equals or exceeds your normal **pay**. If your reserve service pay is less than your normal **pay**, you will not have to make contributions and your benefits will not be affected.

### How long have I got to decide to pay back contributions?

An election to pay back contributions after maternity, paternity or adoption leave, authorised leave of absence or strike absence must be made to your employer, in writing, within 30 days of your return to work, or within 30 days of leaving if you do not return or such longer period as your employer may allow. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

### What if I am paying extra?

If you have entered into a contract to buy extra pension (additional regular contributions) or additional LGPS membership (added years) and you are absent from work due to:

- Authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave, you must continue to make the extra pension payments and/or payments to buy additional membership you had contracted to pay as if you were not on leave.
- Reserve forces leave, you continue to build up extra pension / membership but you will only have to pay your extra contributions if your reserve forces pay is equal to or exceeds your normal **pay**.

If you are paying **additional voluntary contributions (AVCs)** and are absent from work due to authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave, you can arrange to continue to make your AVC payments throughout your leave.

## Leave of absence and the LGPS

If you are paying AVCs for extra life cover you should arrange to continue with these payments throughout your leave or cover may cease. If you are on reserve forces leave, your AVC payments will continue unless you choose to discontinue them.

If you have entered into a contract to buy extra pension (additional regular contributions) or additional LGPS membership (added years) and you are absent due to sickness you will continue to pay those extra contributions whilst you remain on full pay. You will not be required to pay those extra contributions during a period of sick leave on reduced or no pay. If you are paying **additional voluntary contributions (AVCs)** you will continue to pay the AVCs on any **pay** received. If you are paying AVCs for life assurance cover you should arrange for these to continue during any period of unpaid sick leave otherwise the life assurance cover may cease.

## Increasing your benefits

In order to have that little bit extra during your retirement years you may wish to consider paying extra contributions, which are a tax efficient way of topping up your income when you retire. There are a number of ways you can provide extra benefits, on top of the benefits you are already looking forward to as a member of the LGPS. You can improve your retirement benefits by paying:

- Additional regular contributions (ARCs) to buy extra LGPS pension.
- Additional voluntary contributions (AVCs) to the in-house AVC scheme.
- Free-standing additional voluntary contributions (FSAVCs) to a scheme of your choice.
- Contributions into a stakeholder or personal pension plan.

You can combine any of these options.

### Are there any limits on how much I can pay to increase my pension benefits?

At the present time there is no overall limit on the amount of contributions you can pay (although there is a limit on the extra LGPS pension you can buy). However, tax relief will only be given on contributions up to 100% of your taxable earnings.

Additionally, under HM Revenue and Customs tax rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. These are explained in more detail later on in the section **Tax controls and your LGPS benefits**.

### Can I increase my dependant's benefits?

You can pay extra contributions to increase the level of your husband's, wife's, **civil partner's** or **nominated co-habiting partner's** pension and any pension payable to your **eligible children** on your death. You can also increase your death in service life cover as part of an AVC arrangement.

### The options explained:

#### Paying additional regular contributions (ARCs) to buy extra LGPS pension

You can pay more in contributions to buy up to £5,000 of extra annual pension in blocks of £250. This is payable on top of your normal LGPS benefits.

You can buy extra pension for yourself and, if you wish, extra pension for your husband, wife, **civil partner**, **nominated co-habiting partner** and for **eligible children** on your death.

ARCs are taken from your pay, just like your basic contributions.

## Increasing your benefits

Your LGPS and ARC contributions are deducted before your tax is worked out, so, if you pay tax, you receive tax relief (normally at your highest rate) automatically through the payroll. You qualify for tax relief on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

You can start to buy extra pension at any time up to your 64<sup>th</sup> birthday. You decide how long you want to pay extra contributions for, although it must be for a number of whole years and payments must be completed by age 65.

The cost to you of buying extra pension is calculated in accordance with guidance issued by the actuary and can be reviewed by the actuary at any time. The extra pension you are buying will increase in line with the cost of living, both before and after you draw your pension.

You can choose to stop paying ARCs at any time by notifying us in writing. You will be credited with the extra pension that you have paid for at the time of ceasing payment.

If you leave or retire before completing payments, your contributions will cease and you will be credited with the extra pension that you have paid for at the time of leaving. This will increase the value of your LGPS benefits. However, if you qualify for an ill-health pension, you will be credited with all the extra pension that you set out to buy, even if you have not completed full payment for it.

Your extra pension will be paid at the same time as your LGPS benefits.

If you choose to retire early and draw your benefits before age 65, or you are retired on redundancy or business efficiency grounds, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you will be able to draw the extra pension you have paid for, although it will be reduced for early payment.

If you draw your pension after age 65, the amount of your extra pension will be increased to account for late payment.

On retirement, you can choose to exchange some of the extra pension you have bought for a cash lump sum in the same way as your main LGPS pension. For more information on exchanging part of your pension for a lump sum see the section on [Your LGPS retirement benefits](#).

If you die in service and you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, **civil partner**, **nominated co-habiting partner** and to **eligible children** as if you had completed all payments.

If you did not opt to pay for dependant's benefits when you took out your original contract, then no extra benefits will be payable.

If you die after leaving but before retirement and your benefits are held in the LGPS for payment (deferred benefits), then a lump sum of 5 times the extra annual pension you paid for will be payable. If you die on pension when under age 75, a lump sum of 10 times your extra annual pension minus any extra pension already paid to you may be payable. If you opted to pay for dependant's benefits when you took out your original ARC contract, then extra benefits will be payable to your husband, wife, **civil partner**, **nominated co-habiting partner** and to **eligible children**.

For more details about ARCs or a quotation, visit our website.

## Increasing your benefits

Please note that you will be required to undergo a medical examination at your own expense before being allowed to buy extra pension.

### **Paying additional voluntary contributions (AVC) into the in-house AVC scheme**

We have an in-house AVC scheme where you can invest money, deducted directly from your pay, through our AVC provider.

If you choose to pay AVCs under the LGPS, the AVCs are invested separately in funds managed by the AVC provider. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available to you when you retire. You can choose which investment route you prefer.

You decide how much you can afford to pay. AVCs are deducted from your pay, just like your normal contributions. Your LGPS and AVC contributions are deducted before your tax is worked out, so, if you pay tax, you receive tax relief (normally at your highest rate) automatically through the payroll. You qualify for tax relief on all pension contributions up to 100% of your taxable earnings, including your normal contributions.

Deductions start from the next available pay day after your AVC election has been accepted and you may vary or cease payment at any time whilst you are paying into the LGPS.

If you have previously paid in-house AVCs to the LGPS in Scotland, these can be transferred to the AVC arrangement offered by your new pension fund administrator.

You can also pay in-house AVCs to provide extra life cover. Your membership of the LGPS already gives you cover of three times your pay if you die in service, but you can pay AVCs to increase this or to provide additional benefits for your dependants in the event of your death in service. This may be subject to satisfactory completion of a medical questionnaire. Any extra life cover paid for through AVCs will stop when you retire or leave.

Here are the different ways you may be able to use your in-house AVC fund on retirement:

- **Buy an annuity**

This is where an insurance company, bank or building society of your choice takes your AVC fund and pays you a pension in return.

You can do this at the same time as you draw your LGPS benefits or you can choose to delay payment until any time up to the eve of your 75th birthday. If you work after age 65 you cannot buy an annuity until you stop working and retire, or you reach the eve of your 75th birthday if this is earlier.

An annuity is paid completely separately from your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. A fall in interest rates reduces the pension which can be purchased.

- **Buy a top up LGPS pension**

If you retire with immediate payment of your benefits you may be able to use some or all of your AVC fund to buy a top up pension from the LGPS.

## Increasing your benefits

This automatically provides an inflation proofed pension and dependants' benefits and is based on set purchase factors which do not tend to change.

- **Take your AVCs as cash**

If you draw your AVCs at the same time as your LGPS pension, you may be able to take some or all of your AVCs as a tax-free lump sum.<sup>1</sup> If you retire (other than on flexible retirement) and decide to draw your AVCs later, you can normally only have up to 25% of your AVC fund as a lump sum.

- **Buy extra membership in the LGPS**

If your election to start paying AVCs was made before 30 June 2005 you may be able in certain circumstances, such as retirement on ill-health grounds or on ceasing payment of your AVCs before retirement, to convert your AVC fund into extra LGPS membership in order to increase your LGPS benefits. To find out how benefits are calculated on this membership see the section: [If you joined the LGPS before 1 April 2009](#).

If you leave before retirement, your AVC contributions will cease when you leave. The value of your AVC fund will continue to be invested until it is paid out. Your AVC is similar to your main LGPS benefits: it can be transferred to another pension arrangement, drawn at the same time as your LGPS benefits or deferred until the eve of your 75th birthday at the latest.

Payments into in-house AVCs will stop when you leave or retire.

### **[Paying free-standing additional voluntary contributions \(FSAVCs\)](#)**

These are similar to in-house AVCs but are not linked to the LGPS in any way. With FSAVCs, you choose a provider, usually an insurance company. You may want to consider their different charges, alternative investments and past performance when you do this.

You choose how much to pay into an FSAVC arrangement. You can pay up to 100% of your taxable earnings, less your normal pension contributions.

Your FSAVC fund should grow as it is invested and will be available later in your life to convert into an additional pension of your choice. You can often choose which investment route you prefer.

You can take up to 25% of the value of your FSAVC fund as a tax-free lump sum<sup>2</sup>.

You can also pay FSAVCs to provide additional life cover. Your LGPS membership already gives you cover of three times your pay if you die in service, but you can increase this amount via an FSAVC or use the FSAVC to provide additional dependants benefits on your death in service. This may be subject to satisfactory completion of a medical questionnaire.

### **[Contributing to a concurrent personal pension plan or stakeholder pension scheme](#)**

You may be able to make your own arrangements to pay into a personal pension plan or stakeholder pension scheme at the same time as paying into the LGPS. With these arrangements, you choose a provider, usually an insurance company. You may want to consider their charges, alternative investments and past performance when you do this.

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<sup>1</sup> Provided, when added to your LGPS lump sum it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

<sup>2</sup> Provided the lump sum does not exceed £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## Increasing your benefits

You choose how much to pay into the arrangement. You can pay up to 100% of your total taxable earnings in any one tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on those contributions.

If you pay into a personal pension plan or stakeholder pension scheme, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment, and will be available later in your life to convert into additional benefits. You can often choose which investment route you prefer.

When the benefits are paid, you will be able to take up to 25% of your fund as a tax-free lump sum (see note 2 at the bottom of the previous page), with the remainder available to buy you an annuity from an insurance company, bank or building society (but you can defer purchasing an annuity until the day before your 75<sup>th</sup> birthday at the latest).

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

Annuities are subject to annuity rates which are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your pension fund, and therefore can provide a higher pension. Conversely a fall in interest rates reduces the pension which can be purchased.

### **I am already buying extra LGPS membership. Can I buy any extra benefits?**

To buy extra LGPS years (added years) you must have opted to do so before 1 April 2009. If you're already buying added years, you'll continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them. For information on what happens if you are paying added years on leaving or retirement, see the sections on [Leaving your job before retirement](#) and [Your LGPS retirement benefits](#).

Even if you are buying added years, you can still pay additional contributions to buy extra LGPS pension (ARCs) and / or pay additional voluntary contributions (AVCs), or contribute to free-standing AVCs, concurrent personal pension plans or stakeholder pension schemes, if you wish.

### **Can my employer award me any extra pension benefits?**

Your employer, at their **discretion**, can award you up to 10 years extra membership to improve your retirement benefits. They can also grant you up to £5,000 extra annual pension. Your employer can also pay into your in-house AVC scheme. This is known as a shared cost AVC arrangement.

These are **discretions** your employer can use if they so wish; you can ask your employer what their policy is on this.

### **What happens if I pay extra and I am absent from work?**

If you have entered into a contract to buy extra pension (ARCs) or extra LGPS membership (added years) and you are absent from work due to:

- Authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave, you must continue to make the extra pension payments and/or payments to buy additional membership you had contracted to pay as if you were not on leave.
- Reserve forces leave, you continue to build up extra pension / membership but you will only have to pay your extra contributions if your reserve forces pay is equal to or exceeds your normal **pay**.

## Increasing your benefits

If you are paying AVCs and are absent from work due to authorised leave of absence, jury service, strike action, maternity, paternity or adoption leave you can arrange to continue to make your AVC payments throughout your leave.

If you are paying AVCs for extra life cover you should arrange to continue with these payments throughout your leave or cover may cease.

If you are on reserve forces leave, your AVC payments will continue unless you choose to discontinue them.

If you have entered into a contract to buy extra pension (ARCs) or extra LGPS membership (added years) and you are on sick leave you will continue to pay those extra contributions whilst you remain on full pay. You will not be required to pay those extra contributions during a period on reduced or no pay.

If you are paying AVCs you will continue to pay the AVCs on any **pay** received during sick leave.

If you are paying AVCs for life assurance cover you should arrange for these to continue during any period of unpaid sick leave otherwise the life assurance cover may cease.

### Do the tax rules on pension savings limit the extra I can pay?

Yes. Details are provided in the [Tax controls and your LGPS benefits](#) section of this guide.

## Leaving your job before retirement

**As long as you have been a member of the LGPS for at least 2 years**, or you have transferred other pension rights into the LGPS, or you already have a deferred benefit in the LGPS in Scotland, you will have built up valuable LGPS benefits that form an important part of your savings for retirement. On leaving before retirement you have two options:

- You can choose to keep your benefits in the LGPS. These are known as deferred benefits and will increase every year in line with the cost of living (RPI).
- Alternatively, you may be able to transfer your deferred benefits to a new pension arrangement.

**If you have been a member of the LGPS for less than 2 years**, have not transferred in any other pension rights and do not already have a deferred benefit in the LGPS in Scotland, you do not qualify for deferred benefits. You have three options:

- You can claim a refund of your contributions, less a deduction for tax and the cost, if any, of buying you back into the **State Second Pension (S2P)**. Interest is paid if the refund is not made within one year of leaving but no refund can be made if you rejoin the LGPS within a month and a day of leaving or rejoin before the refund has been paid.
- You may be able to transfer your benefits to a new pension arrangement.
- You can delay your decision until you either re-join the LGPS, join a new pension scheme, or want to take a refund of contributions.

### What will happen to my benefits if I choose to defer them?

Deferred benefits are where we work out the value of your benefits when you leave the LGPS and hold them in the LGPS for you until either you decide to transfer them to another pension scheme, or they are due to be paid.

Your personal deferred benefit package consists of an annual pension, payable throughout your retirement, with an option on retirement to exchange some pension for a one off tax-free lump sum. It also includes life cover and financial protection for your family.

# Leaving your job before retirement

## How are deferred benefits worked out?

Deferred benefits are based on your **membership** and your **final pay** on leaving.

Your **membership** normally includes:

- How long you have been a member of the LGPS worked out in years and days, but excluding:
  - Membership for which you already receive a LGPS pension or hold an LGPS deferred pension
  - Membership from any concurrent job you may have, and
  - Any LGPS membership in respect of which you have received a refund or have transferred the pension rights to another scheme.
- Membership purchased by a transfer from another scheme.
- Any extra membership you have bought with additional contributions or by converting in-house additional voluntary contributions (AVCs) into membership.
- Any extra membership awarded by your employer.

This could be different to your actual calendar length membership of the LGPS. For example, if you work part-time, although the calendar length of your membership is used to decide if you are eligible for a benefit, your membership is reduced to its whole-time equivalent length to calculate the amount of your retirement benefits. So, if you work half-time for 10 years, your benefits would be calculated on 5 years membership.

If your hours have changed during your membership of the LGPS, your benefits will be calculated to reflect the changes. If you do not have any contractual hours, your membership for each year in the LGPS will be calculated on average weekly hours worked during each year.

If you have transferred membership from the LGPS in England, Wales or Northern Ireland it may not count at its actual calendar length.

Your **final pay** is usually the pay in respect of your final year<sup>3</sup> of LGPS membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your:

- Normal pay
- Contractual shift allowance
- Bonus
- Contractual overtime
- Maternity pay, paternity pay, adoption pay, and
- Any other taxable benefit specified in your contract as being pensionable.

This may not include all your pay. We don't include such things as car allowances<sup>4</sup>, casual overtime, travelling or subsistence allowances, pay in lieu of notice or pay in lieu of loss of holidays.

**If you are working part-time** when you leave the LGPS, or worked part-time at some point during your last year of membership, your final pay is the whole-time pay that you would have received, if you had worked whole-time.

**If your pay is reduced** in this period because of sickness your final pay will be the pay that you would have received if you had not been off sick.

**If you have maternity, paternity or adoption leave** in this period for which you paid (or are deemed to have paid) pension contributions, final pay includes the pay you would have received had you not been on maternity, paternity or adoption leave.

<sup>3</sup> Grossed up to a full year's pay if you did not receive pay for a full year.

<sup>4</sup> Other than in some historical protected cases.

## Leaving your job before retirement

**If your pay was reduced or increases to your pay were restricted** for reasons beyond your control in the last 10 years before leaving, and your employer issues you with a Certificate of Protection, then your benefits can be based on the best year's pay in the last 5 years, or the average of the best consecutive 3 years in the last 13 years, ending with the anniversary of your date of leaving.

**Your deferred pension is worked out like this for membership you build up after 31 March 2009.**

Your annual pension is calculated by dividing your total membership by 60 and multiplying this figure by your final pay.

When you draw your deferred benefits you will be given the option to exchange some of your annual pension for a one off tax-free lump sum. You receive £12 lump sum for each £1 of annual pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum<sup>5</sup>. Here are examples of how your deferred pension is worked out for membership after 31 March 2009:

If someone leaves with 10 years full-time membership in the LGPS and a final year's pay of £18,000 their deferred annual pension is:  
 $10 \text{ years} \times \frac{1}{60^{\text{th}}} \times £18,000 = £3,000$

If you work part-time, the same calculation is used, but your membership is scaled down to the whole-time equivalent length based on your contractual hours, and your final pay is scaled up to the whole-time equivalent rate.

If someone leaves after 10 years working half-time i.e. 18½ hours a week in a job where the full-time hours would be 37 per week and with a part-time final pay of £9,000, their membership to be used in calculating benefits is reduced like this:  
 $10 \text{ years} \times \frac{18\frac{1}{2}}{37} = 5 \text{ years}$

So their deferred annual pension is:

$5 \text{ years} \times \frac{1}{60^{\text{th}}} \times £18,000 = £1,500$

They will have paid half the contributions and receive half the benefits of an equivalent whole-time person.

**If you joined the LGPS before 1 April 2009 your benefits for membership before 1 April 2009 are calculated differently.**

For LGPS membership you have built up to 31 March 2009 your deferred benefits are an annual pension based on  $\frac{1}{80^{\text{th}}}$  of your final pay and an automatic tax-free lump sum of three times your pension. Like the pension, the automatic lump sum is based on your LGPS membership before 1 April 2009 and your final pay.

You can also exchange part of your pre April 2009 pension for extra lump sum as described above. For more information and examples, see the section [If you joined the LGPS before 1 April 2009](#).

**If your LGPS benefits are subject to a Pension Sharing Order** issued by the Court following divorce or dissolution of a *civil partnership*, or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement. For

<sup>5</sup> Limited to £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## Leaving your job before retirement

more information see the section on [Pensions and divorce or dissolution of a civil partnership](#).

### **What if I paid extra?**

If you have been paying extra contributions and leave with deferred benefits you will benefit from those extra contributions.

### **If you are buying extra LGPS pension by paying ARCs**

Contributions to buy extra LGPS pension will cease when you leave the LGPS. You will be credited with the extra pension you have paid for at the time of leaving. This will increase the value of your deferred benefits and any transfer value paid to a new pension arrangement.

### **If you are buying extra years in the LGPS (added years)**

If you are paying additional contributions to buy extra LGPS membership, they will cease when you leave the LGPS. You will be credited with the extra period of membership that you have paid for at the time of leaving. This will increase the value of your deferred benefits and any transfer value paid to a new pension arrangement; the extra benefits will be calculated on the same basis you had agreed to buy them.

If you move to a new employer in the LGPS in Scotland within 12 months of leaving, you can carry on paying the additional contributions provided you also pay them to cover the period between leaving and starting your new job and you join your pension rights together.

### **If you pay in-house AVCs**

If you are paying **AVCs** arranged through the LGPS (in-house AVCs), your contributions will cease when you leave. The value of your AVC fund will continue to be invested until it is paid out. Your AVC plan is similar to your main LGPS benefits: it can be transferred to another pension arrangement, be drawn at the same time as your LGPS benefits or be deferred until the eve of your 75th birthday at the latest.

As you cannot pay in-house AVCs after leaving, any extra life cover paid for through AVCs will cease.

### **When are deferred benefits paid?**

Your deferred benefits are normally payable from age 65, although they can be paid earlier, or later. There are two ways they can be paid earlier.

### **Early payment of deferred benefits at your request**

Firstly, you can request early payment of your deferred benefits from age 55, but you must have your former employer's permission for payment before age 60. You can ask your former employer what their policy on this is.

**If you were paying into the LGPS on 31 March 2009**, you may have a protected earlier retirement age when you can request early payment of your deferred benefits. Find out about this from the section [If you joined the LGPS before 1 April 2009](#).

If you choose to draw your deferred benefits before age 65, your benefits will be reduced to take account of their early payment and the fact that your pension will be paid for longer. How much your deferred benefits are reduced by depends on how early you draw them.

The reduction is calculated in accordance with guidance issued by the actuary from time to time. The reduction is based on the length of time (in years and days) that you retire early i.e. calculated as the period between the date your benefits are paid and age 65.

The percentage reductions are detailed in the section [Your LGPS retirement benefits](#).

**If you were a member of the LGPS on 30 November 2006**, some or all of your benefits paid early could be protected from the reduction if you are a protected member. You can find out more about this from the section [If you joined the LGPS before 1 April 2009](#).

## Leaving your job before retirement

Your former employer can agree to waive any reduction on compassionate grounds. You can ask them what their policy on this is.

### **Early payment of deferred benefits due to permanent ill-health**

The second method of obtaining early payment of your deferred benefits is on the grounds of permanent ill-health. You can apply to us for payment of your deferred benefits at any age, without reduction if, because of your health, you would be permanently incapable of the job you were working in when you left the LGPS and you are unlikely to be capable of gainful employment before age 65.

If you do not take early payment of deferred benefits under either of the above two methods the deferred benefits will be paid from age 65 unless you opt to delay payment beyond that age. If you draw your deferred benefits after age 65 they will be paid at an increased rate. Deferred benefits must be paid before age 75. However, if your pension is not in payment at age 60 (women) / 65 (men), the **GMP** element (if any) of your pension must be paid from that date (unless you are still in local government employment) or from the date you leave if later.

### **Keeping in touch**

If you change address, please remember to let us know so we can keep in touch with you – something that's especially important when you come to draw your deferred benefits.

### **Your employer can:**

- Reduce your pension benefits if you cease to be employed as a result of a criminal, negligent or fraudulent act, or omission as a result of which you have incurred some monetary obligation to the employer.
- Forfeit your pension rights if the Scottish Ministers agree and you have been convicted of a serious offence connected with your employment.

### **You are not allowed to:**

- Assign your benefits. Your LGPS benefits are strictly personal and cannot be assigned to anyone else or used as security for a loan.

### **How do deferred benefits keep their value?**

Your deferred benefits increase every year in line with the cost of living whilst they are deferred. Your pension will continue to receive cost of living increases every year once it is paid to you.

If your benefits are paid on or after age 55, or if your benefits are paid before age 55 because of ill-health and you are permanently incapacitated from engaging in any regular full-time employment, your benefits will be increased each year in line with the Retail Prices Index.

If your benefits are paid before age 55 for any other reason, your pension is normally paid at a flat rate until age 55. Your pension will then be increased from age 55 to the level it would have been, if it had been increased every year since your date of leaving.

### **Do the tax rules on savings cover deferred benefits?**

Yes. Details are provided in the [Tax controls and your LGPS benefits](#) section of this guide.

We will let you know the value of your LGPS benefits when they are paid and ask you about any other pensions you may have in payment, so we can work out whether or not to deduct a recovery tax charge.

### **What will happen if I die before receiving my deferred benefits?**

If you leave with deferred benefits after 31 March 2009 and die before receiving them, the following benefits are payable:

## Leaving your job before retirement

A **lump sum death grant** of 5 times your deferred annual pension. We have absolute **discretion** when deciding who to pay any death grant to. The LGPS, however, allows you to express your wish as to who you would like any death grant to be paid to by completing and returning an expression of wish form. You can complete an expression of wish form or make a new one at any time. The form, if not included with this guide, is available from our website. If any part of the death grant has not been paid within two years, it must be paid to your executors, i.e. to your estate. Your personal representatives will need to inform HM Revenue and Customs if, with the lump sum death grant, the value of all your pension benefits - but not including any spouse's, **civil partner's** or dependant's pensions – exceeds the HM Revenue and Customs lifetime allowance. Under HM Revenue and Customs rules, any excess will be subject to a recovery tax charge. Most scheme members' pension savings will be significantly less than the allowance. You can find more information on this from the section on **Tax controls and your LGPS benefits**.

A **survivor's pension** paid to your husband, wife, registered **civil partner** or, subject to certain qualifying conditions, your **nominated co-habiting partner**. This pension is payable immediately after your death for the rest of their life and will increase every year in line with the cost of living (RPI).

- **For your husband or wife:** the pension payable is equal to 1/160th of your final pay times the membership your deferred pension is based on, unless you marry after leaving, in which case it could be less. If you marry while your pension is deferred:
  - Your husband's pension is based on your membership after 5 April 1988, (excluding, unless you were married to your husband at some time whilst you paid into the LGPS, additional membership purchased by you or granted to you by your employer or the scheme).
  - Your wife's pension is based on your **contracted-out** membership after 5 April 1978.
- **For your civil partner or nominated co-habiting partner** the pension payable is equal to 1/160th of your final pay times your membership in the LGPS after 5 April 1988.

If your membership in the LGPS includes a **Guaranteed Minimum Pension (GMP)**, your wife's pension for that part of your membership prior to 6 April 1997 must not be less than half your **GMP**. Your husband or **civil partner's** pension for that part of your membership prior to 6 April 1997 must not be less than half your **GMP** built up after 5 April 1988.

**Children's pensions.** These are payable to **eligible children** and increase every year in line with the cost of living (RPI). The amount of pension depends on the number of **eligible children** you have:

- **If a survivor's pension is being paid to your husband, wife, civil partner or nominated co-habiting partner**, one child would receive 1/320th of your final pay times the membership your deferred pension is based on, while two or more children would receive 1/160th shared equally between them.
- **If there is no husband's, wife's, civil partner's or nominated co-habiting partner's pension being paid**, one child would receive 1/240th of your final pay times the membership your deferred pension is based on, while two or more children would receive 1/120th shared equally between them.

**If you paid additional contributions to buy extra LGPS pension** and you opted to pay for dependant's benefits when you took out your original contract, then extra benefits will be payable to your husband, wife, registered **civil partner** or **nominated co-habiting partner** and to eligible children.

### Can I transfer my LGPS benefits to another (non LGPS) scheme?

If you are joining another pension arrangement, you may wish to consider transferring your LGPS benefits to it. This may even be to an overseas pension scheme or arrangement that meets HM Revenue and Customs conditions. You cannot transfer your benefits if you leave less than one year before age 65. An option to transfer must be made before age 64 or, if later, within

## Leaving your job before retirement

6 months of leaving.

Your new pension provider will require a transfer value quotation, which, under the provisions introduced by the Pensions Act 1995, will be guaranteed for a period of three months from the date of calculation, known as the 'Guarantee Date'. Your new pension provider can then advise you of the additional benefits the transfer will buy in their scheme. A written option to proceed with the guaranteed transfer value must be received within the three month guaranteed period. If you opt to proceed, the normal time limit for payment of the guaranteed transfer value will be six months from the 'Guarantee Date'. If payment is not made within this period, we will need to recalculate the value as at the actual date of payment and pay the recalculated value or, if it is greater, the original value plus interest.

Transfer values are calculated in accordance with the terms and conditions of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 which comply with the requirements of the Pensions Schemes Act 1993.

If you are considering whether to transfer benefits, make sure you have full information about the two pension arrangements; details of what your benefits are worth in the LGPS and details of what your benefits would be worth in the new pension scheme, if transferred. When you compare your options, don't forget that your LGPS benefits are guaranteed cost of living increases. Transfers to public sector schemes usually give benefits that are broadly equivalent to those in the LGPS, provided you apply for the transfer within 12 months of joining your new pension scheme.

Transferring your pension rights is not always an easy decision to make, and you may wish to seek the help of a financial adviser before you make a decision to transfer your deferred benefits to a personal pension plan, stakeholder pension scheme, buy-out insurance policy or an employer's money purchase scheme, as you will be bearing all of the investment risk which could significantly affect your future pension benefits.

If a full transfer payment is made, you will not be entitled to any further benefits from the LGPS for yourself, your spouse, **civil partner**, for any co-habiting partner nominated by you, or any benefits for your dependants.

### What happens if I change jobs but remain in the LGPS?

If you are changing your job, but still working in local government or for another employer who offers you membership of the LGPS, or if you re-join the LGPS before your deferred benefits are paid, you can ask for your LGPS pension rights to be transferred to your new job<sup>6</sup>.

They will not be transferred automatically. If you wish to transfer your pension rights to the LGPS in England, Wales or Northern Ireland you must elect to do so within 12 months of re-joining the LGPS, unless your new employer allows you longer. This is an employer **discretion**; you can ask your employer what their policy is on this matter.

If you choose to transfer them, you will have one set of benefits which will be based on your entire period of LGPS membership and your final pay in your new job.

Although transferred membership within the LGPS in Scotland will normally count on a day for day basis, membership transferred to England, Wales or Northern Ireland may count at a different length.

If your new job is less well paid, you will need to decide whether it may be better not to join the benefits together.

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<sup>6</sup> You cannot transfer membership built up as an employee to membership in the LGPS as a councillor, and vice versa.

## Leaving your job before retirement

If you wish to transfer your LGPS pension rights you should contact us or your new LGPS administrator as soon as possible to find out about this and about the matters you will need to consider in making your decision.

If you do not join the benefits together you will not normally be able to join the earlier benefits with any subsequent job you may take up in the future in which you are a member of the LGPS in Scotland.

If you have two or more jobs where you pay into the LGPS at the same time and you leave one (or more, but not all) of them, you can opt to transfer your benefits from the job (or jobs) you have left to the job you are continuing in. The amount of membership you will be granted in the continuing job will be calculated as follows:

Membership in the job you have left x  $\frac{\text{whole-time rate of pay in the job that has ceased}}{\text{whole-time rate of pay in the job that is continuing}}$

### What happens if my job is transferred to a private contractor?

If your job is transferred to a private contractor, the contractor will normally be required to provide a pension scheme that is broadly equivalent to the LGPS. This does not mean that the new scheme must mirror the benefits of the LGPS, but the value of the package offered by the new scheme must be broadly equivalent to the LGPS. You would have the same options available to anyone else leaving the LGPS before retirement. Alternatively, the contractor may be able to become an **admission body** in the LGPS. This would allow you to stay in the LGPS so long as you were working on the delivery of the contracted out service.

## Life cover - protection for your family

### What benefits will be paid if I die in service?

If you die in service as a member of the LGPS, the benefits shown below are payable.

**A lump sum death grant** of three times your final year's pay is paid no matter how long you have been a member of the LGPS, provided you are under age 75 at the date of death. For part-time employees, it is three times your actual part-time pay.

**A survivor's pension.** An ongoing pension is provided for your husband, wife, registered **civil partner** or, subject to certain qualifying conditions, your nominated co-habiting partner. This pension is payable immediately after your death for the rest of their life and will increase every year in line with the cost of living (RPI).

- **For your husband or wife:** the pension payable is equal to 1/160th of your final pay times the *membership you would have built up to age 65*.
- **For your civil partner or nominated co-habiting partner:** the pension payable is calculated in the same way, although only your membership from 6 April 1988 is used in the calculation.

To nominate a co-habiting partner your relationship has to meet certain conditions laid down by the LGPS. You can find information on these conditions later in this section.

## Life cover - protection for your family

**Children's pensions** - these are payable to **eligible children** and increase every year in line with the cost of living (RPI). The amount of pension depends on the number of **eligible children** you have:

- **If a survivor's pension is being paid** to your husband, wife, **civil partner** or nominated co-habiting partner, one child would receive 1/320th of your final pay times the *membership you would have built up to age 65*, while two or more children would receive 1/160th shared equally between them.
- **If there is no husband's, wife's, civil partner's or nominated co-habiting partner's pension being paid**, one child would receive 1/240th of your final pay times the *membership you would have built up to age 65*, while two or more children would receive 1/120th shared equally between them.

In determining survivor's and children's pensions for part-time employees who die in service, the *membership you would have built up to age 65* is calculated on the assumption you would have remained part-time through to then.

You should read the section on [Your LGPS retirement benefits](#) to find out how membership counts and how final pay is worked out for the calculation of LGPS benefits.

### **If you die in service and you are paying additional contributions to:**

- **buy extra LGPS pension** and you opted to pay for dependant's benefits when you took out your original contract, then extra benefits will be payable to your husband, wife, **civil partner** or nominated co-habiting partner and to **eligible children** as if you had completed all payments. If you did not opt to pay for dependant's benefits when you took out your original contract, then no extra benefits will be payable.
- **buy LGPS added years**, you will be credited on your death with the whole extra period of membership that you set out to buy, even if you have not completed full payment for it. This will increase the value of the benefits payable to your husband, wife, **civil partner** or nominated co-habiting partner and to **eligible children**. To buy added years you must have opted to do so before 1 April 2009.

**If you pay AVCs** arranged through the LGPS (in-house AVCs), the value of your AVC fund is payable, as is any extra life cover or spouse's/**civil partner's** pension paid for through AVCs.

### **What benefits will be paid if I die after retiring on pension?**

If you die after retiring on pension, your benefits will no longer be payable. Your husband, wife, **civil partner**, co-habiting partner, next-of-kin or person dealing with your estate must immediately inform us of your date of death as otherwise an overpayment could occur. The following benefits may then be payable on your death:

**A lump sum death grant** will be paid if you die within the first 10 years on pension, and you are under age 75. The amount payable would be 10 times your annual pension reduced by any pension already paid to you (ignoring any reduction in your pension as a result of re-employment by an employer offering membership of the LGPS).

**A survivor's pension** paid to your husband, wife, registered **civil partner** or, subject to certain qualifying conditions, your nominated co-habiting partner. This pension is payable immediately after your death for the rest of their life and will increase every year in line with the cost of living (RPI).

- **For your husband or wife:** the pension payable is equal to 1/160th of your final pay times the membership your pension is based on, unless you marry after retirement in which case it could be less. If you marry after retiring:
  - Your husband's pension is based on your membership after 5 April 1988, (excluding, unless you were married to your husband at some time whilst you paid into the LGPS, additional membership purchased by you or granted to you by your employer or the scheme),
  - Your wife's pension is based on your **contracted-out** membership after 5 April 1978.

## Life cover - protection for your family

- **For your *civil partner* or nominated co-habiting partner:** the pension payable is equal to 1/160th of your final pay times your membership in the scheme after 5 April 1988.

To nominate a co-habiting partner your relationship has to meet certain conditions laid down by the LGPS. Information on these conditions, and how to make a nomination are set out later in this section.

**Children's pensions** - these are payable **to eligible children** and increase every year in line with the cost of living (RPI). The amount of pension depends on the number of **eligible children** you have:

- **If a survivor's pension is being paid** to your husband, wife, ***civil partner*** or nominated co-habiting partner, one child would receive 1/320th of your final pay times the membership your pension is based on, while two or more children would receive 1/160th shared equally between them.
- **If there is no husband's, wife's, *civil partner's* or nominated co-habiting partner's pension being paid,** one child would receive 1/240th of your final pay times the membership your pension is based on, while two or more children would receive 1/120th shared equally between them.

**If you paid additional contributions to buy extra benefits** see the section on [Increasing your benefits](#) to find information on any extra survivor benefits that may be payable.

### Who is the lump sum death grant paid to?

We have absolute **discretion** over who receives any lump sum death grant. We can pay it to your nominee or executors or to any person who appears, at any time, to have been your relative or dependant. The LGPS, however, allows you to express your wish as to who you would like any death grant to be paid to by completing and returning an expression of wish form. If any part of the death grant has not been paid within two years, it must be paid to your executors, i.e. to your estate.

If you have not already made your wishes known, or you wish to update / change a previous expression of wish, a form is available from our website. Remember to complete a new form if your wishes change.

### What are the conditions for a nominated co-habiting partner's survivor's pension?

To be able to nominate a co-habiting partner, of either opposite or same sex, to receive a survivor's pension on your death, **all** of the following conditions must have applied to both you and your nominated co-habiting partner for a continuous period of at least 2 years on the date you both sign the nomination form:

- Both you and your nominated co-habiting partner are, and have been, free to marry each other or enter into a ***civil partnership*** with each other, **and**
- You and your nominated co-habiting partner have been living together as if you were husband and wife, or ***civil partners***, **and**
- Neither you or your nominated co-habiting partner have been living with someone else as if you/they were husband and wife or ***civil partners***, **and**
- Either your nominated co-habiting partner is financially dependent on you or you are financially interdependent on each other.

Your partner is financially dependent on you if you have the highest income. Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills, and you may pay for the weekly shopping.

You make a nomination by completing a nomination form which is available on our website.

## Life cover - protection for your family

On your death, a survivor's pension would be paid to your nominated co-habiting partner if:

- the nomination has effect at the date of your death, and
- your nominated co-habiting partner satisfies us that the above conditions had also been met for a continuous period of at least 2 years immediately prior to your death.

### And...

- If your LGPS benefits are subject to a Pension Sharing Order issued by the Court following divorce or dissolution of a **civil partnership**, or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement. In consequence, if you remarry, enter into a new **civil partnership** or nominate a co-habiting partner to receive a survivor's pension, any spouse's pension, **civil partner's pension** or nominated co-habiting partner's pension payable following your death will also be reduced. Benefits payable to **eligible children** will not, however, be reduced because of a pension share.
- If your membership in the LGPS includes a **Guaranteed Minimum Pension (GMP)**, your wife's pension for that part of your membership prior to 6 April 1997 must not be less than half your **GMP**. Your husband or **civil partner's** pension for that part of your membership prior to 6 April 1997 must not be less than half your **GMP** built up after 5 April 1988.
- Your personal representatives will need to inform HM Revenue and Customs if, with the lump sum death grant, the value of all your pension benefits – but not including any spouse's, **civil partner's** or dependant's pensions - exceeds the HM Revenue and Customs lifetime allowance. Under HM Revenue and Customs rules, any excess will be subject to a recovery tax charge. Most scheme members' pension savings will be significantly less than the allowance. You can find more information on this from the section on [Tax controls and your LGPS benefits](#).

## Your LGPS retirement benefits

You can look forward to enjoying a guaranteed package of benefits when you retire. In this section we look at how your retirement benefits are worked out and when you can retire if you pay into the LGPS on or after 1 April 2009. Where pension terms are used, they appear in **bold italic** type. These terms are defined at the back of this guide.

Your LGPS benefits are made up of:

- An **annual pension** that, after leaving, increases every year in line with the cost of living for the rest of your life, and
- The option to exchange part of your pension for a **tax-free lump sum** paid on retirement.

The two main factors used to calculate your LGPS pension are:

- Your **membership** in the LGPS, and
- Your **final pay**.

**If you joined the LGPS on or after 1 April 2009**, for each year of membership you receive a pension based on 1/60<sup>th</sup> of your final pay – so if you have 40 years membership you get 40/60ths or two thirds of your final year's pay as an annual pension.

## Your LGPS retirement benefits

**If you joined the LGPS before 1 April 2009**, your benefits for membership before 1 April 2009 are calculated differently. You can find out how from the section [If you joined the LGPS before 1 April 2009](#).

### Membership

The first important element used in working out your pension is your **membership**. This normally includes:

- How long you have been a member of the LGPS worked out in years and days, but excluding:
  - Membership for which you already receive a LGPS pension or hold an LGPS deferred pension
  - Membership from any concurrent job you may have, and
  - Any LGPS membership in respect of which you have received a refund or have transferred the pension rights to another scheme.
- Membership purchased by a transfer from another scheme.
- Any extra membership you have bought with additional contributions or by converting in-house additional voluntary contributions (AVCs) into membership.
- Any extra membership awarded by your employer.
- Any extra membership awarded by the LGPS if you are retired because of permanent ill-health.

This could be different to your actual calendar length membership of the LGPS. For example:

**If you work part-time**, although the calendar length of your membership is used to decide if you are eligible for a benefit, your membership is reduced to its whole-time equivalent length to calculate the amount of your retirement benefits. For example, if you work half-time for 10 years, your benefits would be calculated on 5 years membership.

**If you have transferred membership from the LGPS in England, Wales or Northern Ireland**, it may not count at its actual calendar length.

### Final pay

The other important element used in working out your benefits is your **final pay**. This is usually the pay in respect of the final year<sup>7</sup> of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your:

- Normal pay
- Contractual shift allowance
- Bonus
- Contractual overtime
- Maternity Pay, Paternity Pay, Adoption Pay, and
- Any other taxable benefit specified in your contract as being pensionable.

This may not include all your pay. We don't include such things as car allowances<sup>8</sup>, casual overtime, travelling or subsistence allowances, pay in lieu of notice or pay in lieu of loss of holidays.

**If you are working part-time** when you leave the LGPS, or worked part-time at some point during your last year of membership, your final pay is the whole-time pay that you would have received, if you had worked whole-time.

**If your pay is reduced** in this period because of sickness, your final pay will be the pay that you would have received if you had not been off sick.

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<sup>7</sup> Grossed up to a full year's pay if you did not receive pay for a full year.

<sup>8</sup> Other than in some historical protected cases.

## Your LGPS retirement benefits

**If you have maternity, paternity or adoption leave** in this period for which you paid (or are deemed to have paid) pension contributions, final pay includes the pay you would have received had you not been on maternity, paternity or adoption leave.

**If your pay was reduced or increases to your pay were restricted** for reasons beyond your control in the last 10 years before retiring, and your employer issues you with a Certificate of Protection, then your benefits can be based on the best year's pay in the last 5 years, or the average of the best consecutive 3 years in the last 13 years, ending with the anniversary of your date of retirement.

### How are my retirement benefits worked out?

**For membership you build up after 31 March 2009:**

**Your annual pension** is calculated by dividing your total membership by 60 and multiplying this figure by your final pay.

**You can take a tax-free lump sum** by giving up some of your annual pension. You can take up to 25% of the capital value of your LGPS benefits as a lump sum<sup>9</sup>. For every £1 of annual pension that you give up you will receive £12 lump sum. In the same way, giving up £100 of your annual pension would give you £1,200 lump sum, and so on. Here are some examples.

#### Working full-time

For someone retiring at age 65 with 20 years full-time membership in the LGPS and a final years pay of £18,000.

**Their annual pension is:**

$$20 \text{ years} \times \frac{1}{60^{\text{th}}} \times £18,000 = \mathbf{£6,000}$$

If they decide to give up £1,500 pension for a cash lump sum, then:

Their **reduced annual pension** is: £6,000 less £1,500 = **£4,500**

And they will get a **tax-free lump sum** of: £1,500 x 12 = **£18,000**

#### Working part-time

The same calculation is used, but membership is scaled down to the whole-time equivalent length based on contractual hours and final pay scaled up to the whole-time equivalent rate.

Let's look at someone retiring at age 65 after 20 years working half-time i.e. 18½ hours a week in a job where the full-time hours would be 37 per week and with a part-time final pay of £9,000.

**Membership to be used in calculating benefits is reduced like this:**

$$20 \text{ years} \times \frac{18\frac{1}{2}}{37} = 10 \text{ years}$$

**And we would use a whole-time equivalent pay, so their annual pension is:**

$$10 \text{ years} \times \frac{1}{60^{\text{th}}} \times £18,000 = \mathbf{£3,000}$$

If they decide to give up £750 pension for a cash lump sum, then:

Their **reduced annual pension** is: £3,000 less £750 = **£2,250**

And they will get a **tax-free lump sum** of: £750 x 12 = **£9,000**

They will have paid half the contributions and receive half the benefits of an equivalent whole-time person.

<sup>9</sup> Limited to £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## Your LGPS retirement benefits

If your hours have changed during your membership of the LGPS, your benefits will be calculated to reflect the changes. If you do not have any contractual hours, your membership for each year in the LGPS will be calculated on average weekly hours worked during each year.

Your benefits can be reduced or increased, depending upon your reason for retirement – see [When you can retire and draw your benefits](#) which you'll find later in this section. There are HM Revenue and Customs controls on the pension savings you can have before you become subject to a tax charge – see [More about your LGPS retirement benefits](#) later in this section.

**If you joined the LGPS before 1 April 2009** your benefits for membership before 1 April 2009 are calculated differently. For LGPS membership you have built up to 31 March 2009 you receive an annual pension based on 1/80<sup>th</sup> of your final pay and an automatic tax-free lump sum of three times your pension. Like the pension, the automatic lump sum is based on your LGPS membership before 1 April 2009 and your final pay. You can also exchange part of your pre April 2009 pension for extra lump sum as described above. For more information and examples, see the section [If you joined the LGPS before 1 April 2009](#).

### What options do I have on retirement?

You may be able to alter your standard retirement package by:

#### Taking a lump sum

As mentioned earlier, on retirement you will be able to take part of your benefits as a tax-free lump sum by giving up some of your pension. An option to take a lump sum has to be made in writing before your benefits are paid. So that you have plenty of time to make up your mind and seek financial advice if you wish, it is important you notify your employer at least 3 months in advance of your intended retirement date so we can provide you with more details.

Your pension will be reduced in accordance with any election you make to receive a lump sum. Any subsequent pension for your husband, wife, **civil partner**, **nominated co-habiting partner** or children will not be affected if you decide to exchange part of your pension for a lump sum.

If you have a **GMP**, you may not reduce your pension to below the level of your **GMP**.

#### Getting a small pension paid as a lump sum

We may be able to pay a small pension as a one off lump sum less a tax charge. However, the circumstances where this may happen are restrictive, particularly if you have any other pension benefits.

If a small pension is paid as a one off lump sum, all other benefits from the LGPS would have to cease, so we will have to check that you have no other LGPS benefits before deciding whether your pension can be paid as a one off lump sum.

### What if I am paying extra?

**If you are buying extra LGPS pension by paying additional regular contributions (ARCs)**, you will be credited with the extra pension that you have paid for. This will increase the value of your retirement benefits.

But if you are paying ARCs when you retire and you qualify for an ill-health pension, you will be credited with all the extra pension that you set out to buy, even if you have not completed full payment for it.

If you choose to retire early and draw your benefits before age 65, or you are retired on redundancy or business efficiency grounds, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you will be able to draw the extra pension you have paid for, although it will be reduced for early payment.

## Your LGPS retirement benefits

You can choose to exchange some of the extra pension you have bought for a cash lump sum in the same way as your main LGPS pension.

### **If you are buying extra years in the LGPS (added years)**

You will be credited with the extra years of membership that you have paid for and you will receive extra retirement benefits calculated on the same basis that you agreed to buy them – but see below for the rules on flexible retirement.

If you retire on ill-health grounds whilst paying for extra years, you will normally be credited with the whole extra period of membership that you set out to buy, even if you have not completed full payment for it.

If you retire early because of redundancy or business efficiency whilst paying for extra years, you will have the opportunity to pay the remaining contributions due in a lump sum in order to complete your contract provided you retire at least 12 months after making your election to pay extra.

If you opt to stop paying the extra contributions **before** you take flexible retirement you will be credited with the extra years of membership that you have paid for and this will increase the value of your benefits paid on flexible retirement.

If your benefits when you draw them are reduced for early payment then your benefits from the added years are reduced in the same way.

### **If you are paying in-house additional voluntary contributions (AVCs)**

If you are paying **AVCs** arranged through the LGPS (in-house AVCs), your contributions will cease when you retire (or cease two days before age 75 if you carry on in work beyond that age).

Here are the different ways you can use your in-house AVC fund:

- **Buy an annuity**

This is where an insurance company, bank or building society of your choice takes the value of your AVC fund and pays you a pension in return.

You can do this at the same time as you draw your LGPS benefits or you can choose to delay payment until any time up to the eve of your 75th birthday. An annuity is paid completely separately to your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want a flat-rate pension or one that increases each year, and whether you also want to provide for dependants' benefits in the event of your death.

Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. A fall in interest rates reduces the pension which can be purchased.

- **Buy a top-up LGPS pension**

If you retire with immediate payment of your benefits you may be able to use some or all of your AVC fund to buy a top-up pension from the LGPS. This automatically provides inflation proofed pension and dependants' benefits and is based on set purchase factors which do not tend to change.

## Your LGPS retirement benefits

- **Buy extra membership in the LGPS**

If your election to start paying AVCs was made before 30 June 2005 you may be able in certain circumstances, such as retirement on ill-health grounds or on ceasing payment of your AVCs before retirement, to convert your AVC fund into extra LGPS membership in order to increase your LGPS benefits. To find out how benefits are calculated on this membership, see the section [If you joined the LGPS before 1 April 2009](#).

- **Take your AVCs as cash**

If you draw your AVCs at the same time as your LGPS pension, you may be able to take some or all of your AVCs as a tax-free lump sum.<sup>10</sup> If you retire (other than on flexible retirement) and decide to draw your AVCs later, you can normally only have up to 25% of your AVC fund as a lump sum.

### **If you are paying for extra life cover through AVCs**

Any extra life cover paid for through AVCs will stop on leaving (or cease two days before age 75 if you carry on in work beyond that age). You can no longer pay AVCs after leaving / after age 75.

You can find out about more about the ways you can pay extra contributions to increase your retirement benefits from the section on [Increasing your benefits](#).

### **More about your LGPS retirement benefits**

#### **What are the HM Revenue and Custom tax controls on my LGPS benefits?**

You can find out about this from the section on [Tax controls and your LGPS benefits](#).

We will let you know the value of your LGPS benefits on retirement and ask you about any other pensions you may have in payment, so we can work out whether or not to deduct a recovery tax charge. If you do not provide this information promptly it could delay the payment of your pension.

Also, under HM Revenue and Custom rules, if the LGPS makes an unauthorised payment or if you pay some or all of your LGPS lump sum back into a pension arrangement, there will be a tax charge. This is known as “recycling”.

#### **How does my pension keep its value?**

Your LGPS pension increases in line with the Retail Prices Index every year throughout your retirement. **As the cost of living increases, so will your pension.**

If you retire early before age 55, apart from ill-health retirement, your pension is normally paid at a flat rate until age 55, when it will be increased to the level it would have been, had it been increased every year by the rise in the cost of living since your early retirement.

If you are retired on tier one ill-health grounds, your pension is increased each year regardless of your age.

#### **Guaranteed Minimum Pension (GMP)**

If your membership in the LGPS includes a **GMP**, at age 60 (women) / 65 (men) or at the date of your retirement if later, your LGPS pension for membership prior to 6 April 1997 will be compared with your **GMP** and increased to the rate of your **GMP** should this be higher. In most cases, your LGPS pension is higher than your **GMP**.

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<sup>10</sup> Provided, when added to your LGPS lump sum it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum does not exceed £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## Your LGPS retirement benefits

If you retire and choose not to draw your pension immediately, the **GMP** element (if any) of your pension must be paid from age 60 (women) / 65 (men) or from the date of your retirement if later.

### Pension Sharing Order/ Earmarking Order

If your LGPS benefits are subject to a Pension Sharing Order or Earmarking Order issued by the Court following divorce or dissolution of a **civil partnership**, or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement. For more information see the section on **Pensions and divorce or dissolution of a civil partnership**.

### How will my pension be paid?

Monthly pension payments will be made direct into your bank or building society account. Similar arrangements can also be made to pay your pension into your account should you move abroad. We will provide you with further information regarding payment of pensions on retirement.

### What If I get another job after I retire?

If you get a job outside of **local government** with an employer that does not participate in the LGPS, your LGPS pension will not be affected. If you get a job in **local government** or with an employer that participates in the LGPS, your pension may be reduced or suspended as described at the bottom of page 3.

### And ...

#### We must:

- Pay interest on lump sum benefits that are paid more than one month after they could have been paid.
- Pay interest on pensions that are paid more than a year after they should have been paid.

#### Your employer can:

- Reduce your pension benefits if you cease to be employed as a result of a criminal, negligent or fraudulent act, or omission as a result of which you have incurred some monetary obligation to your employer.
- Forfeit your pension rights if the Scottish Ministers agree and you have been convicted of a serious offence connected with your employment.

#### You are not allowed to:

- Assign your benefits. Your LGPS benefits are strictly personal and cannot be assigned to anyone else or used as security for a loan.

### Your state retirement pension

In addition to your LGPS retirement benefits, you may also qualify for a state retirement pension paid by the government from state pension age.

The **Basic State Pension** is based on the national insurance contributions you pay, or which are given as credits, during your working life.

The **Additional State Pension**, also known as the **State Earnings Related Pension Scheme (SERPS)** or **State Second Pension (S2P)**, is the part of your state pension that depends on your earnings since April 1978.

LGPS members are **contracted out** of the Additional State Pension and most pay lower national insurance contributions as a result.

**State pension age** is currently 65 for men and 60 for women.

## Your LGPS retirement benefits

However, by 2020, the Government will have equalised the state pension age for both men and women at 65.

The state pension age for both men and women will be increased further from 65 to 68 between 2024 and 2046.

### When you can retire and draw your benefits

The LGPS's normal pension age is 65. You can retire and receive your LGPS benefits without any reductions from age 65.

You may decide to retire earlier or later.

You may have to retire, perhaps because of redundancy or permanent ill-health. Your LGPS benefits, even in these circumstances, can provide you with an immediate retirement pension, which may even be enhanced at the discretion of your employer.

There is one important condition – to be entitled to retirement benefits you must have been a member of the LGPS for at least 2 years, or have brought in a transfer from another pension scheme, or already have a deferred benefit in the LGPS in Scotland.

There are specific rules relating to each type of retirement, so this section looks at the different ways of retiring, and the implications.

### Early retirement at your request

Early retirement is available but you may need your employer's consent and your benefits may be reduced.

#### **If you are aged 60 to 64**

You can retire and receive payment of your benefits at any time from age 60 onwards, and you don't need your employer's consent.

#### **If you are aged 55 to 59**

You may be able to retire and receive payment of your benefits immediately but this is only possible with your employer's consent. Your employer will have a policy about how they deal with these applications. You can ask your employer for details of their policy.

**If you were paying into the LGPS on 31 March 2009**, you may have a protected earliest retirement age. You can find out about this from the section [If you joined the LGPS before 1 April 2009](#).

### **Will my pension and lump sum be reduced if I voluntarily retire early?**

If you choose to retire before age 65 your benefits will be reduced to take account of being paid for longer. Your benefits are initially calculated as detailed under the heading earlier in this section [How are my retirement benefits worked out?](#) and are then reduced. How much your benefits are reduced by depends on how early you draw them.

**If you were a member of the LGPS on 30 November 2006**, some or all of your benefits paid early could be protected from the reduction if you are a protected member. You can find out more about this from the section [If you joined the LGPS before 1 April 2009](#).

The reduction is calculated in accordance with guidance issued by the actuary from time to time. The reduction is based on the length of time (in years and days) that you retire early – i.e. the period between the date your benefits are paid to age 65. The earlier you retire, the greater the reduction.

## Your LGPS retirement benefits

As a guide, the percentage reductions, issued in April 2009, for retirements up to five years early are shown in the table below. Where the number of years is not exact, the reduction percentages are adjusted accordingly.

No. of years paid early	Pensions reduction Men	Pensions reduction Women
0	0%	0%
1	6%	5%
2	11%	10%
3	16%	15%
4	20%	19%
5	24%	23%

Your employer can agree not to make any reduction on compassionate grounds. You can ask them what their policy on this is.

You can reduce or avoid the reductions by not taking immediate payment of your benefits on retirement i.e. by delaying payment until a later date. If you decide not to draw immediate benefits, the benefits would normally become payable at age 65 but you can defer payment beyond that age, although benefits must be paid by age 75. If benefits are deferred beyond age 65 they will be increased accordingly to reflect late payment.

### Early retirement through redundancy or business efficiency

If you are aged 55 or over, your benefits are payable immediately without any early retirement reductions if your employer makes you redundant or you are retired on the grounds of business efficiency.

**If you were in the LGPS on 31 March 2009**, you may have an earlier age when benefits can be paid on redundancy or business efficiency retirement. You can find out more about this from the section [If you joined the LGPS before 1 April 2009](#).

Your employer may also enhance your benefits at their **discretion**. Your employer can award you with up to 10 years additional membership to improve your retirement benefits. They can also grant you up to £5,000 extra annual pension. These are **discretions** your employer can use if they so wish and they will publicise their policy on this for your information.

### Ill-health retirement

If you have to leave work due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill-health benefits, you have to have at least 2 years in the pension scheme or have transferred in other pension rights and your employer, based on an opinion from an independent specially qualified doctor, must be satisfied that you will be permanently unable to do your own job.

Ill-health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits could be increased to make up for your early retirement.

There are graded levels of benefit based on how likely you are to be capable of obtaining gainful employment after you leave.

## Your LGPS retirement benefits

The different levels of benefit are:

- **If you have no reasonable prospect of being capable of gainful employment before age 65**, ill-health benefits are based on your membership built up to the date of leaving **plus all** your prospective membership from leaving to age 65. In other words, your pension will be based on the membership you would have had if you had stayed in the LGPS until age 65.
- **If you have a reasonable prospect of being capable of gainful employment before age 65**, ill-health benefits are based on your membership built up to leaving **plus 25%** of your prospective membership from leaving to age 65.

Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months.

If you are part-time, any extra membership awarded due to ill-health retirement will be reduced to reflect your part-time hours at leaving.

**If you were in the LGPS before 1 April 2009** there is protection to ensure that the extra membership you receive is no less than as it applied before 1 April 2009.

If you have to leave work because of ill-health but you do not qualify for ill-health retirement benefits because you are not permanently incapable of carrying out your job, then your employer will have discretionary powers to may make a one-off lump sum payment to you.

If, on retirement, we are satisfied that you have a life expectancy of less than a year, we may convert your pension into a lump sum equal to five times the annual amount of pension given up.

### Retiring after age 65

If you choose to carry on working after age 65 you will continue to pay into the LGPS, building up further benefits. You can receive your pension when you retire although your pension has to be paid by your 75<sup>th</sup> birthday. Also, if you retire at or after age 65 you can, if you wish, defer drawing your pension but you must draw it by age 75.

Because you will have already passed age 65 when you retire, there are no early retirement reductions to your benefits, no matter how little membership you have. In fact, if you draw your pension after age 65 your benefits will be paid at an increased rate.

### Flexible retirement

Rather than continuing in your job to 65 or beyond you may wish to consider the possibility of flexible retirement. Your employer's permission is always needed if you want to work less hours.

From age 55, if you reduce your hours or move to a less senior position and, if you are under age 60, your employer agrees, you can draw some or all of the pension benefits you have built up - helping you ease into retirement. If you are 60 and your employer agrees to flexible retirement, your pension benefits can be paid without your employer's consent. Your employer will have a policy on flexible retirement and you can ask your employer for details of their policy.

If you take benefits on flexible retirement you can still draw your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the LGPS.

Your election to receive benefits has to be made to us.

**If you were in the LGPS on 31 March 2009**, you may have an earlier age you can ask for flexible retirement. You can find out more about this from the section **If you joined the LGPS before 1 April 2009**.

## Your LGPS retirement benefits

### Will my pension and lump sum be reduced if I take flexible retirement?

If you take flexible retirement before age 65, your benefits initially calculated as detailed under the heading [How are my retirement benefits worked out?](#) will be reduced for early payment.

**If you were a member of the LGPS on 30 November 2006**, some or all of your benefits paid early on flexible retirement could be protected from the reduction if you are a protected member. You can find out more about this from the section [If you joined the LGPS before 1 April 2009](#).

Your employer may, however, determine not to apply all or part of any reduction. You can ask them what their policy on this is.

If you receive payment of your benefits on flexible retirement, then your benefits will not be subject to reduction or suspension for re-employment whilst you are in a job with the employer that allowed you to take flexible retirement.

If you take flexible retirement after age 65, your benefits initially calculated as detailed under the heading [How are my retirement benefits worked out?](#) will be increased to reflect late payment.

## Pensions and divorce or dissolution of a civil partnership

In this section, we look at what happens to your LGPS benefits if you get divorced or your *civil partnership* is dissolved. Where pension terms are used, they appear in ***bold italic*** type. These terms are defined at the back of this guide.

You may wish to get legal advice from your solicitor on how to deal with your LGPS benefits during any divorce or dissolution of a ***civil partnership*** and you and your partner will need to consider how to treat your pension rights as part of any divorce/dissolution settlement.

### What happens to my benefits if I get divorced or my civil partnership is dissolved?

- Your ex-wife, ex-husband or ex-civil partner will cease to be entitled to a widow's, widower's or ***civil partner's*** pension should you die before them.
- Any children's pension paid to an ***eligible child*** in the event of your death will not be affected by your divorce or dissolution.
- If you have said that you would like your ex-wife, ex-husband or ex-civil partner to receive any lump sum death grant payable on your death by completing and returning an expression of wish form, this will remain in place unless you change it. If your wishes change contact us for a new form. The Court may, however, issue an Earmarking Order stating that all or part of any lump sum death grant is payable to your ex-spouse or ex-civil partner.

### What is the process to be followed?

You will need specific information about your LGPS benefits as part of the proceedings for a divorce, judicial separation or nullity of marriage, or for dissolution, separation or nullity of a ***civil partnership***. You or your solicitor should contact us for this information, including an estimate of the ***cash equivalent value (CEV)*** of your pension rights. The Court will take this value into account in your settlement. In Scotland, only the pension rights built up during your marriage / ***civil partnership*** are taken into account.

You usually get one free ***CEV*** estimate each year. Any other costs for supplying information or complying with a Court Order will be recovered from you and/or your ex-spouse or ex-civil partner in accordance with a schedule of charges available from us.

## Pensions and divorce or dissolution of a civil partnership

All correspondence received by us in connection with divorce or dissolution proceedings will be acknowledged in writing. If no acknowledgement is received, you should contact us to ensure that your correspondence has been received.

The Court may offset the value of your pension rights against your other assets in the divorce/dissolution settlement or it may issue a Pension Sharing Order (qualifying agreements in Scotland) or an Earmarking Order against your pension.

### Offsetting pension rights

You can offset the value of your pension rights against the value of other financial assets in your divorce/dissolution settlement. For example, you could keep your pension, and your ex-spouse or ex-civil partner could get a larger share of the value of the house.

### Pension Sharing Order

If the Court issues a Pension Sharing Order, or your benefits are subject to a qualifying agreement in Scotland, part of your benefits are transferred into your ex-spouse's or ex-civil partner's possession. They will keep that share even if your or their circumstances change.

Your ex-spouse or ex-civil partner will hold those benefits in his / her own right. They can be left in the LGPS and are normally paid from age 65 or can be transferred to another qualifying pension scheme.

Your pension and any lump sum will be reduced by the amount allocated to your ex-spouse or ex-civil partner at the point of divorce/dissolution. The reduction to your benefits is known as a Pension Debit.

The amount of the Pension Debit will be increased in line with the rise in the **Retail Prices Index** between the date it was first calculated and the date your benefits are paid. When your benefits are paid, the revalued amount of the Pension Debit will be deducted from your retirement benefits.

You may be able to top up your benefits by buying extra LGPS pension, paying **AVCs** or free-standing AVCs, or by paying into a concurrent personal pension plan or stakeholder pension scheme in order to make up for the benefits 'lost' following a Pension Share. You can find information on paying extra to increase your benefits from the section on [Increasing your benefits](#).

You can still transfer your remaining benefits to another pension arrangement on leaving the LGPS. If you transfer within the LGPS, your new fund will reduce your benefits by the Pension Debit at retirement.

In assessing the value of your benefits against the value of all the pension savings you are allowed before you become subject to a tax charge (lifetime allowance), the reduced value of your benefits after the Pension Debit has been deducted will be used. The lifetime allowance for 2009/2010 is £1.75 million. Most scheme members' pension savings will be significantly less than the lifetime allowance. If you are a high earner affected by the introduction of the lifetime allowance from 6 April 2006, a Pension Debit may affect any lifetime allowance protection you may have. You can find out about this from the section [Tax controls and your LGPS benefits](#).

### Earmarking Order

If the Court makes an Earmarking Order, your LGPS benefits still belong to you, but some are earmarked for your ex-spouse or ex-civil partner. The earmarked benefits will be paid to your ex-spouse or ex-civil partner when your benefits are paid, reducing the amount paid to you.

## Pensions and divorce or dissolution of a civil partnership

The Order can require that your ex-spouse or ex-civil partner receive one or a combination of the following:

- All or part of your LGPS pension (this doesn't apply to divorces / dissolutions in Scotland)
- All or part of any lump sum<sup>11</sup> payable to you, and
- All or part of any lump sum payable on your death.

When earmarked benefits become payable we will contact your ex-spouse or ex-civil partner to check that the Earmarking Order is still valid and arrange payment of the earmarked benefits.

You can transfer your benefits to another pension arrangement on leaving the LGPS, as long as your new pension provider can accept the Earmarking Order.

Earmarking has limitations and is not widely used. As the pension rights remain with you, your ex-spouse or ex-civil partner must wait for you to retire or die to receive the earmarked benefits. If your former spouse or **civil partner** remarries or enters into a new **civil partnership** an Earmarking Order against pension payments, but not lump sums (unless the Order directs otherwise), would cease and the full pension would be restored to you. Pension payments to your former spouse or **civil partner** would cease on your death, although any earmarked lump sum death grant would then become payable to your ex-spouse or ex-civil partner.

### What if I remarry or enter into a new civil partnership?

If your LGPS benefits are subject to a Pension Sharing Order and you remarry, enter into a new **civil partnership** or **nominate a co-habiting partner** to receive a survivor's pension, any spouse's pension, **civil partner's pension** or **nominated co-habiting partner's pension** payable following your death will also be reduced.

If you remarry or enter into a new **civil partnership** and then divorce or dissolve your **civil partnership** again, your remaining pension rights can be subject to further division, although a Pension Sharing Order cannot be issued if an Earmarking Order has already been issued against your LGPS pension rights. Similarly, an Earmarking Order cannot be issued if your pension benefits are already subject to a Pension Sharing Order in respect of the marriage / **civil partnership**.

## Tax controls and your LGPS benefits

There are controls on the total amount of contributions you can make into all pension arrangements and receive tax relief on and on the pension savings you can have before you become subject to a tax charge.

This is in addition to any tax due under the PAYE system on pension payments.

You can, if you wish, pay up to 100% of your taxable earnings in any tax year (or £3600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on the contributions.

There are three main allowances for pension savings – an annual allowance, a special annual allowance and a lifetime allowance. There are also protections for benefits earned up to 5 April 2006 if you are a high earner affected by the introduction of the lifetime allowance from 6 April 2006.

Most people will be able to save as much as they wish with full tax relief as their pension savings will be significantly less than the allowances.

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<sup>11</sup> The Court can Order that you commute your pension, up to the maximum amount permitted, into a lump sum (but this power does not apply to divorces / dissolutions in Scotland)

## Tax controls and your LGPS benefits

### Are there any limits on how much I can pay in contributions?

At the present time there is no overall limit on the amount of contributions you can pay, although there is a limit of £5,000 on the extra LGPS pension you can buy. Although there is no overall limit on the amount of contributions you can pay to all schemes, tax relief will only be given on contributions up to a total of 100% of your taxable earnings.

### What are the tax controls on my pension savings?

The annual, special annual and lifetime allowances cover any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS – but exclude the State pension.

#### Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year (disregarding any increase in the value of any benefits in the year that they become payable) without you having to pay a tax charge. Years run from 1 April to 31 March. The annual allowance is set by the Treasury and for 2009/2010 is £245,000.

#### **The assessment covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.**

If you exceed the annual allowance in any year (other than the year that all your benefits become payable) you are responsible for reporting this to HMRC on your self-assessment tax return and for paying the annual allowance tax charge. We will be able to tell you how much the value of your LGPS benefits, including any **additional voluntary contribution (AVC)** arrangement you may have, has increased.

The annual allowance tax charge is 40% of any increase in benefits above the annual allowance. The tax charge will not apply if you have registered to have enhanced protection (see below) but only if you keep enhanced protection throughout the relevant tax year.

#### Special annual allowance

From 22 April 2009 a special annual allowance charge has been introduced for 2009/2010 and 2010/2011. **Most scheme members will not be affected by this.**

The special annual allowance charge will apply only if:

- You increase the level of your pension savings on or after 22 April 2009 beyond your normal, ongoing regular pension savings; and
- The value of the additional pension savings is greater than £20,000; and
- In the year you increase the level of your pension savings, or one of the previous two tax years, you have an annual income of £150,000 or more.

If the special annual allowance charge applies, then the value of the additional pension savings above £20,000 will be subject to a special annual allowance tax charge to recover tax relief given at above basic rate. The basic rate in 2009/2010 is 20%.

#### Lifetime allowance

The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, state pension credit or any spouse's, **civil partner's** or dependant's pension you may be entitled to) is more than the lifetime allowance, or more than any primary lifetime allowance protection or enhanced protection you may have (see below), you will have to pay tax on the excess benefits. **The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.**

The lifetime allowance set by the Treasury for 2009/2010 is £1.75million.

## Tax controls and your LGPS benefits

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump sum you draw from the pension scheme.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your lifetime allowance – so even if your pensions are small and will not be more than the lifetime allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your lifetime allowance.

If your LGPS benefits are more than your lifetime allowance or, if you have registered for them, your primary lifetime allowance protection or enhanced protection (see below), you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the ongoing pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

**To have primary lifetime allowance protection or enhanced protection, you must have registered with HM Revenue and Customs by 5 April 2009.**

### **Primary lifetime allowance protection**

Primary protection is aimed at protecting benefits earned up to 5 April 2006 for those high earners affected by the introduction of the lifetime allowance from 6 April 2006 i.e. those whose benefits at 5 April 2006 already had a capital value in excess of the 2006/2007 lifetime allowance of £1.5 million.

If the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million and you have registered for primary protection, you have an individual lifetime allowance based on how much your benefits at 5 April 2006 exceeded the value of the 2006/2007 standard lifetime allowance. Your individual lifetime allowance increases at the same rate as the standard lifetime allowance. So, if your benefits at 5 April 2006 exceeded the 2006/2007 standard lifetime allowance by 10%, your individual lifetime allowance will always be 10% higher than whatever the standard lifetime allowance is in future years.

If your pension rights are shared on divorce or dissolution of a **civil partnership** this will result in the individual lifetime allowance being reduced (or lost if it reduces to below the standard lifetime allowance).

### **Enhanced protection**

You could register for enhanced protection (as well as primary protection) if the value of your pension benefits at 5 April 2006 was more than the 2006/2007 lifetime allowance of £1.5million.

You could also register for enhanced protection if you believed the value of those benefits might in the future be more than the standard lifetime allowance or if you believed your pension benefits in any one year would increase by more than the annual allowance.

Under enhanced protection you will not pay tax on benefits in excess of the lifetime allowance provided your benefits at retirement do not exceed the value of your benefits at 5 April 2006 as increased after then, in general terms, by the greater of 5% per annum, the increase in the Retail Prices Index or increases in your pensionable pay. If the limit is exceeded you will pay tax on the excess.

## Tax controls and your LGPS benefits

You will lose enhanced protection if you pay contributions into a money purchase pension arrangement (e.g. pay into the LGPS in house **AVC** facility<sup>12</sup>) or if you start a new pension arrangement, or if you transfer your LGPS benefits to another defined benefit pension scheme.

You can also voluntarily give up enhanced protection by giving notice that you no longer wish to keep it.

If you lose enhanced protection you must notify HMRC within 90 days. Failure to do so could result in a fine of up to £3,000.

### **Transitional protection: lump sums**

When you retire you will, provided you have membership in the LGPS before 1 April 2009, be entitled to an automatic lump sum from the LGPS, in addition to your pension. There are two types of lump sum protection available. These relate to members who, at 5 April 2006, either:

- Had built up a lump sum of £375,000 or more and the member has applied for primary and/or enhanced protection, or
- Had built up a lump sum that was more than 25% of the value of any pension rights not in payment at that time.

It is expected that very few (if any) LGPS members will have built up lump sums that meet either of these limits. Information on the protection can be found on the HMRC website:

<http://www.hmrc.gov.uk/manuals/rpsmanual/RPSM03201060.htm>

## Help with pensions

### **Who can help me if I have a query or complaint?**

If you are in any doubt about your LGPS benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact us. We will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If your query is about your contribution rate, please contact your employer's Personnel/HR or Payroll section so they can explain how they have calculated your contribution rate.

If you are still dissatisfied with any decision made in relation to the LGPS you have the right to have your complaint independently reviewed under the LGPS's Internal Disputes Resolution Procedure.

- **Internal Disputes Resolution Procedure**

In the first instance you should write to the person nominated by the body who made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision or the act or omission about which you are complaining (or such longer period as the nominated person considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The nominated person will consider your complaint and notify you of his/her decision.

If you are dissatisfied with that person's decision (or their failure to make a decision), you may apply to the Scottish Ministers for them to consider your complaint.

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12. You will not lose enhanced protection if you are paying **AVCs** at 5 April 2006 purely for extra life cover and carry on doing so after that date provided the terms are not varied significantly from those that applied under the policy at 5 April 2006 so as to increase the level of life cover or extend the period during which such benefits are payable e.g. you do not adjust the premiums to purchase increased life cover.

## Help with pensions

We can supply you with more information on the Internal Disputes Resolution Procedure and relevant time limits together with a form to fill in or you can ask your employer.

There are also a number of other regulatory bodies that may be able to assist you.

- **The Pensions Advisory Service (TPAS)**

TPAS is available at any time to assist members and beneficiaries of the LGPS in connection with any pensions query they may have or any difficulty which they cannot resolve with their scheme administrators. TPAS can be contacted at 11 Belgrave Road, London SW1V 1RB (Tel 0845 601 2923).

- **Pensions Ombudsman**

In cases where a complaint or dispute cannot be resolved after the intervention of TPAS, an application can be made, within three years of the event, to the Pensions Ombudsman for an adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the LGPS or matters of fact or law and his or her decision is final and binding (unless the case is taken to the appropriate Court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at 11 Belgrave Road, London SW1V 1RB (telephone 0207 630 2200).

- **The Pensions Regulator**

This is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at Napier House, Trafalgar Place, Brighton BN1 4DW (Telephone 0870 6063636).

### How can I trace my pension rights?

The Pension Tracing Service holds details of pension schemes, including the LGPS, together with contact addresses. It provides a tracing service for ex-members of schemes with pension entitlements (and their dependants) who have lost touch with previous schemes. All occupational and personal pension schemes have to register if the pension scheme has current members contributing to their scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to The Pension Tracing Service, The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA (telephone 0845 6002 537).

**Also, don't forget to keep your pension providers up to date with any change in your home address.**

## If you joined the LGPS before 1 April 2009

A new look LGPS was introduced from 1 April 2009, changing the cost and benefits of being a member of the LGPS. In this section we look at how your LGPS benefits are affected if you joined the LGPS before 1 April 2009.

You should also read the [Your LGPS retirement benefits](#) section to find out more information about your LGPS retirement benefits.

### How benefits are worked out

**If you joined the LGPS before 1 April 2009**, benefits based on your membership to 31 March 2009 will be calculated differently to those based on your membership from 1 April 2009.

**For membership built up to 31 March 2009**, you receive a pension of 1/80th of your final pay plus an automatic tax-free lump sum of 3 times your pension.

## If you joined the LGPS before 1 April 2009

**For membership from 1 April 2009**, your pension will be at the increased rate of 1/60th of your final pay. There will be no automatic lump sum for membership built up after March 2009, but you do have the option to exchange some of your pension for extra tax-free lump sum.

**Here is an example of how benefits are worked out if you have membership up to and after 31 March 2009.**

Let's look at someone who has 8 years membership up to 31 March 2009 and 24 years membership after then when they retire at age 65. Their final year's pay on retirement is £20,000.

### **Benefits based on their 8 years membership up to 31 March 2009**

Their **annual pension** is:

$$8/80^{\text{ths}} \times £20,000 = \mathbf{£2,000}$$

Plus an **automatic tax-free lump sum**:

$$3 \times 8/80^{\text{ths}} \times £20,000 = \mathbf{£6,000}$$

### **Benefits based on their 24 years membership from 1 April 2009**

Their **annual pension** is:

$$24/60^{\text{ths}} \times £20,000 = \mathbf{£8,000}$$

**To give total benefits of:**

An **annual pension**

$$£2,000 \text{ plus } £8,000 = \mathbf{£10,000}$$

Plus a **tax-free lump sum** = **£6,000**

But remember, it's possible to exchange some of your pension for extra tax-free lump sum. You can take up to 25% of the capital value of your LGPS benefits as a lump sum<sup>13</sup>. For every £1 of annual pension that you give up you will receive an extra £12 lump sum.

To summarise, any pension built up before April 2009 is calculated at the 1/80th rate with a lump sum of 3 times pension.

Only pension built up from 1 April 2009 is calculated at the better 1/60th rate and there is an option to take extra lump sum in exchange for some pension.

You should read the [Your LGPS retirement benefits](#) section to find more information on how membership and final pay is worked out in calculating your LGPS benefits.

**You should note that:**

**If you joined the LGPS before 1 April 2009, each year of membership purchased by a transfer in** from another pension scheme will attract a pension at the 1/80th rate plus an automatic tax-free lump sum of 3 times the pension.

**If you are awarded extra membership by your employer** and the date your employer resolved to award this was before 1 April 2009, those years will attract a pension at the 1/80th rate plus an automatic tax-free lump sum of 3 times the pension.

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<sup>13</sup> Limited to £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## If you joined the LGPS before 1 April 2009

**If you have an in-house AVC fund and you convert it into extra LGPS membership**, the extra membership will attract a pension only, calculated at the 1/80<sup>th</sup> rate. You are only allowed to convert your AVC fund into LGPS membership in limited circumstances and only if your election to start paying AVCs had been made before 30 June 2005.

**If you are buying extra membership in the LGPS (added years)**, any extra benefits will be calculated on the same basis you had agreed to buy them.

**If you are a married man with membership before 1 April 1972**, that membership will be converted to 89% of its length unless you elected to pay extra contributions to convert it to its full length.

**If you are a high earner** and you joined the LGPS after 31 May 1989 and before 6 October 2006 you could only pay contributions and have your benefits based on your pay up to the Earnings Cap – this was £108,600 for 2006/7. The Earnings Cap was removed from 6 October 2006 and, if you were subject to the earnings cap on 5th October 2006 and your pay in 2005/06 exceeded the Earnings Cap of £105,600, your relevant membership prior to 6 October 2006 will be reduced.

### When you can retire

The LGPS's normal pension age is still 65. If you continue working beyond age 65, you can stay in the LGPS but you must draw your benefits by age 75. Benefits drawn after age 65 will be increased.

To be entitled to retirement benefits you must have been a member of the LGPS for at least 2 years, or have brought in a transfer from another pension scheme, or already have a deferred benefit in the LGPS in Scotland.

### Early retirement

You can retire and receive payment of your benefits at any time from age 60 onwards and you don't need your employer's consent to do so. To draw your benefits before age 60 you must have your employer's consent.

The earliest age you can ask for early retirement with your employer's consent increased from 50 to 55 from 1 April 2009 for new members. If you were paying into the LGPS on 31 March 2009 this change doesn't apply to you until 1 April 2010.

You may be able to retire and receive your benefits from as young as age 50, with your employer's consent, provided you retire and elect to receive your benefits before 1 April 2010.

If you voluntarily retire before age 65 your benefits may be reduced.

For more information on early retirement see the section on [Your LGPS retirement benefits](#).

### Redundancy or efficiency retirement

If you are made redundant or retired on business efficiency grounds, the earliest age immediate benefits are paid increased from 50 to 55 from 1 April 2009 for new members.

However, if you were a member of the LGPS on 31 March 2009 but not on 5 April 2006 and are retired on grounds of redundancy or business efficiency before 31 March 2010 you will receive immediate unreduced payment of your LGPS benefits if you are aged 50 or more.

If you were a member of the LGPS on 5 April 2006, and you are retired on redundancy or efficiency grounds, the earliest age immediate benefits are paid remains as age 50.

## If you joined the LGPS before 1 April 2009

### Flexible retirement

The earliest age for flexible retirement increased from age 50 to 55 from 1 April 2009 for new members.

However, if you were a member of the LGPS on 31 March 2009 and **you have been in continuous employment with the same employer since then**, this change doesn't apply until 31 March 2010. You may be able to draw some or all of your benefits on flexible retirement from as young as age 50 provided you take flexible retirement before 31 March 2010.

You must reduce your hours or grade and, if you are under 60, have your employer's consent, to take flexible retirement. If you draw your benefits on flexible retirement before age 65 they may be reduced.

For more information on flexible retirement see the section on [Your LGPS retirement benefits](#).

### Early payment - reductions to benefits

If you choose to retire before age 65 or you draw your benefits on flexible retirement before age 65 your benefits may be reduced to take account of being paid for longer. How much your benefits are reduced by depends on how early you draw them.

The reduction is based on the length of time (in years and days) that you retire early – i.e. the period between the date your benefits are paid to age 65. The earlier you retire, the greater the reduction. The percentage reductions are detailed in the section [Your LGPS retirement benefits](#).

If your benefits are paid before age 55, with your employer's consent, the percentages will differ.

Your employer can agree not to make any reduction on compassionate grounds. You can ask them what their policy on this is.

**If you were a member of the LGPS on 30 November 2006, some or all of your benefits paid early could be protected from the reduction under what is called the 85 year rule.**

**The 85 year rule** is satisfied if your age at the date you draw your benefits and your scheme membership (each in whole years) add up to 85 or more.

If you are part-time, your membership counts towards the rule of 85 at its full calendar length.

Not all membership may count towards working out whether you meet the 85 year rule.

Working out how you are affected by the 85 year rule can be quite complex, but this should help you work out your general position.

- **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 retire before 65. The reduction will be based on how many years before 65 you draw your benefits.
- **If you will be age 60 or over by 31 March 2020** and choose to retire before age 65, 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 retire before age 65, then, **provided you satisfy the 85 year rule when you start to draw your pension**, the benefits you build up to 31 March 2008 will not be reduced.

**Please note that the rules on deciding whether you have protection under the 85 year rule from a reduction to your benefits if you choose to draw them before 65, and the level of that protection, are quite complex.** If you are thinking of voluntarily retiring or asking for flexible retirement before age 65, you should contact us for a quotation of the benefits payable.

## If you joined the LGPS before 1 April 2009

Your employer can agree not to make any reduction on compassionate grounds. You can ask them what their policy on this is.

Also, if you were a member of the LGPS before 6 April 1997 your pension must not be reduced lower than a minimum level. This is 1/80th of your final pay for each year of your membership in **contracted out** employment on and between 6 April 1978 and 31 March 1996 if you are female, and 17 May 1990 and 31 March 1996 if you are male. Whilst you are a member of the LGPS, you are in **contracted out** employment up to **state pension age** (unless you have opted to pay the married woman's/widow's reduced rate of National Insurance).

### How your pension increases

Your LGPS pension increases in line with the Retail Prices Index every year throughout your retirement. **As the cost of living increases, so will your pension.**

If you draw your benefits early before age 55, apart from on ill-health retirement, your pension is normally paid at a flat rate until age 55, when it will be increased to the level it would have been, had it been increased every year by the rise in the cost of living since your early retirement.

In some special circumstances i.e. where there is a dependant who is wholly or mainly supported by you and who is either under 17 or is in full time education or training, a non-ill health pension can be increased before age 55. However, in the case of a woman, only that part of her pension earned in respect of service before 1 January 1993 will be increased and in the case of a man only that part of his pension earned in respect of service between 17 May 1990 and 31 December 1992 will be increased.

## Some terms we use

### Additional voluntary contributions (AVCs)

These are extra payments to increase your future benefits. You can also pay AVCs to provide additional life cover. All local government pension funds have an in-house AVC scheme where you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay and attract tax relief.

### Admission body

An admission body is an employer that chooses to participate in the LGPS under an admission agreement. These tend to be employers such as charities and contractors.

### Cash equivalent value (CEV)

This is the cash value of your pension rights for the purposes of divorce or dissolution of a **civil partnership**.

### Civil partnership

A civil partnership is a relationship between two people of the same sex (civil partners) which is formed when they register as civil partners of each other.

### Contracted out

The LGPS was contracted out of the **State Earning Related Pension Scheme (SERPS)** and is contracted out of the **State Second Pension (S2P)**. This means that, prior to **state pension age**, you pay reduced national insurance contributions between the **lower earnings limit** and the **upper accruals point** (unless you have opted to pay the married woman's/widow's reduced rate of National Insurance).

The LGPS guarantees to pay you a **Guaranteed Minimum Pension (GMP)** for being contracted out of the **State Earning Related Pension Scheme (SERPS)** and, for membership after 5 April 1997, the LGPS must meet a minimum reference scheme test prescribed under the Pensions Act 1995.

## Some terms we use

### Discretion

This is the power given by the LGPS to enable your employer or us to choose how they will apply the LGPS in respect of certain provisions. Under the LGPS your employer or we are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion. They have a responsibility to act with 'prudence and propriety' in formulating their policies and must keep them under review. You may ask your employer or us what their policy is in relation to a discretion.

### Eligible children

Eligible children are your children. They must, at the date of your death:

- Be under 17 and be wholly or mainly dependent on you, or
- Be aged 17 or over and under 23, be dependent on you, and be in full-time education or undertaking vocational training (although a dependant child who commences full-time education or vocational training after the date of your death may be treated as an eligible child up to age 23), or
- In some cases, a dependent child of any age who is disabled may be classed as an eligible child.

In all cases, the children must have been born before or within a year of your death.

### Guaranteed Minimum Pension (GMP)

The LGPS guarantees to pay you a pension that is at least as high as you would have earned had you not been **contracted out** of the **State Earning Related Pension Scheme (SERPS)** at any time between 6 April 1978 and 5 April 1997. This is called the Guaranteed Minimum Pension (GMP).

### Local government

The term local government in this guide also covers Police and Fire civilian staff, a registration officer, and non-teaching staff of educational establishments such as self-governing schools and further education colleges.

### Lower earnings limit

This is the amount of pay that you can receive before you pay any national insurance contributions. The lower earnings limit for 2009/2010 is £95 per week. It is usually increased annually by Parliament.

### Nominated co-habiting partner

To be able to nominate a co-habiting partner, of either opposite or same sex, to receive a survivor's pension on your death, your relationship has to meet certain conditions laid down by the LGPS. Information on these conditions, and how to make a nomination, are set out in the section on [Life cover – protection for your family](#).

### Pay

The pay on which you normally pay pension contributions (gross pay before deductions) is your normal salary or wages plus any shift allowance, bonuses, contractual overtime, maternity pay, paternity pay, adoption pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

## Some terms we use

### **Retail Prices Index (RPI)**

This shows the changes in the cost of living. It reflects the movement of prices covering a range of goods and services over time.

The amount by which pensions are increased annually is based on the movement in the Retail Prices Index during the 12 months to September.

### **SERPS (State Earnings Related Pension Scheme)**

This is the extra earnings related part of the state pension that employed people could earn up to 5 April 2002. LGPS members were automatically **contracted out** of SERPS, and most paid lower national insurance contributions as a result. SERPS was replaced by the **State Second Pension (S2P)** from 6 April 2002.

### **State pension age**

This is the earliest age you can receive the state basic pension and is currently age 65 for men and 60 for women.

By 2020 state pension age will have been equalised for men and women at age 65.

The State pension age will be increased further for men and women from 65 to 68 between 2024 and 2046.

### **State Second Pension (S2P)**

The State Second Pension (formerly **SERPS**) is the additional state pension, payable from **state pension age** by the Department for Work and Pensions. Initially, S2P was an earnings-related pension but from April 2009 it began building up as a flat rate pension, achieving full flat rate accrual by around 2030.

LGPS members are **contracted out** of S2P and most pay lower national insurance contributions as a result. More information on the State Second Pension (S2P) is available from the DWP Pensions Service.

### **Transfer value**

A transfer value is a cash sum representing the value of your pension rights.

### **Upper accruals point**

This is the amount of pay beyond which you cease to pay the, lower, contracted-out rate of national insurance contributions. The upper accruals point for 2009/2010 is £770 per week. It is usually increased annually by parliament. On earnings above the upper accruals point and up to the upper earnings limit of £884 per week you pay the full 11% national insurance contribution and on earnings above the upper earnings limit you pay a 1% national insurance contribution.