

TECHNICAL BULLETIN

NO. 33

July 2010



**TO: ALL EMPLOYERS WITH MEMBERS IN THE LGPS
PLEASE ENSURE THAT COPIES ARE PASSED TO RELEVANT STAFF**

Dealing with life expectancy of less than a year

If an active member is retiring on ill health grounds and has a life expectancy of less than a year, there are two options available:

1. A "standard" tier one ill health retirement.
2. A "serious ill health" tier one retirement

Under option 1 the member will receive a pension for life. On death a lump sum death grant is payable equal to 10 years pension less any pension already paid. This should be at least 9 years worth of pension given the member's limited life expectancy. The usual dependants / partners reversionary pensions remain payable on the death of the member.

Under option 2 a single lump sum can be paid to the member equal to 5 years pension for the member to spend as s/he wishes. No further lump sum death grant is then payable on the death of the member. The usual dependants / partners reversionary pensions remain payable on the death of the member.

As the two options imply different outcomes for the member and the beneficiaries, an employer should obtain provisional benefit details from SPFO for "Tier one" and "Serious ill health" medical retirements in order to discuss both options with the member.

The kind of things that employers should help an employee to consider include:

- Do I want as much cash as possible to enjoy whilst I am alive?
- Do I want to leave behind as much cash as possible for my dependants?

Once the employee has indicated their preferred option, employers can request the appropriate calculation by completing the following additional question on the S9.

"If this member has been assessed as having a limited life expectancy, I request the following type of tier one calculation: Tier 1 / Serious ill health tier 1."

To set the two options in context, here is an example that excludes dependants / partners pensions as their pension remains the same no matter what option member exercises, and is based on the following assumptions:

£33619.00 salary, pre 1/4/2009 service 14 years 320 days, post 31/3/2009 service 16 years 10 days (that includes a 15 years 10 days enhancement), aged 49 and 355 days.

| Retires on | Member's pension payable | Lump sum to member at date of retirement | Death in retirement- Further lump sum payable | Total paid out |
|----------------------------|---------------------------------|---|---|-----------------------|
| Tier 1, ill health | £15232.17 | £18755.25 | We would expect a minimum amount of 9 x annual pension of £15,232.17= £137,089.53 | £171,076.95 |
| Serious ill health, Tier 1 | £0 | £18755.25 Plus 5 x Annual Pension of £15,232.17 = £94,916.10 | £0 | £94,916.10 |

Note: the partner/spouse reversionary pension is £6,493.53 for both calculations.

Finally, as previously advised, we will be moving office in July. We now expect to move over the weekend of 24/5 July. Our telephone and email contacts will not change, but we intend using a P.O. box for postal contact. We will confirm details of this as soon as it is established.