Combining LGPS Benefits

A Guide for Scheme Members

August 2021

Introduction

These notes have been provided to give you information you need to help you understand what happens to your LGPS benefits, and the choices available to you, if:

a) You have left one employment and re-joined the LGPS in another employment, or
b) You have had more than one job in which you are a member of the LGPS and have left one of those employments whilst continuing in the other.

If you have a deferred refund, regulations state we must add the value to your active pension account.

What is a deferred refund?

If you leave, or opt out of the scheme after three months membership, and you've not met the two years ***vesting period*** you will normally be able to take a refund of your contributions. There will be a deduction for tax andthe cost, if any, of buying you back into the State Second Pension scheme (S2P). A refund of contributions must be paid within five years of your leaving the scheme (or age 75 if earlier).

What is a deferred benefit?

If you leave before your Normal Pension Age and you meet the two years ***vesting period*** you will be entitled to deferred benefits within the LGPS. During the period your pension benefits are deferred they will be revalued each year in line with the cost of living.

How do I meet the vesting period?

You will meet the two years ***vesting period*** if:

- you have been a member of the LGPS in England and Wales for two years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a different occupational pension scheme or from a European pensions institution and the length of service you had in that scheme or institution was two or more years or, when added to the periodof time you have been a member of the LGPS is, in aggregate, two or more years, or
- you have brought a transfer of pension rights into the LGPS in England or Wales from a pension scheme or arrangement where you were not allowed to receive a refund of contributions, or
- you have previously transferred pension rights out of the LGPS in England or Wales to a pension scheme abroad (i.e. to a qualifying recognised overseas pension scheme), or
- you already hold a deferred benefit or are receiving a pension from the LGPS in England or Wales (other than a survivor's pension or pension credit member's pension), or
- you have paid National Insurance contributions whilst a member of the LGPS and cease to contribute to the LGPS in the tax year of attaining pension age,
- you cease to contribute to the LGPS at age 75, or
- you die in service.

What key differences are there if I elect to keep my deferred benefits separate?

	Combined Benefits	Separate Benefits
Redundancy / Business Efficiency	**Benefits paid early because of redundancy or efficiency <u>would</u> include the value of earlier deferred benefits.** If you are made redundant or lose your job for business reasons when aged 55 or over then your benefits would be payable immediately.	**Benefits paid early because of redundancy or efficiency in your current employment <u>would not</u> include the value of earlier deferred benefits.** If, in your current employment, you are made redundant or lost your job for business efficiency reasons when aged 55 or over then your benefits from that employment would be payable immediately.
Ill – Health	**Any benefits paid early because of ill-health <u>would</u> include the value of earlier deferred benefits.** Your benefits will become payable immediately if your employer decided, based on the opinion of an independent doctor, you are permanently unable to perform the duties of your employment due to ill-health and you are not capable of undertaking other gainful employment. Your pension could be paid at an enhanced level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving.	**Benefits paid early because of ill-health in your active employment <u>would not</u> include the value of earlier deferred benefits.** Your benefits from your active employment will become payable immediately if your employer decides, based on the opinion of an independent doctor, you are permanently unable to perform the duties of your employment due to ill-health and you are not capable of undertaking other gainful employment. Your pension could be paid at an enhanced level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving.
Early payment of Benefits	You can voluntarily choose to draw the combined benefits from as early as age 55 (normally, at a reduced rate to account for the early payment). However, the combined benefits would be payable at the same time (i.e. cannot be drawn at different times) and cannot be paid until you have ceased your active employment.	You can choose to draw benefits from as early as age 55 (normally, at a reduced rate to account for the early payment). However, the deferred benefits do not have to be drawn at the same time as the benefits from your active employment.

Cost of Living Increases	The combined benefits will be subject to revaluation each year in accordance with HM Treasury Orders. The revaluation is currently in line with the rise in the Consumer Price Index. However, in time of negative inflation, the revaluation under a HM Treasury Order could be negative.	The benefits in the active pension account will be subject to revaluation each year in line with HM Treasury Orders. The revaluation order is currently in line with the rise in the Consumer Prices Index. However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative. The benefits in the deferred pension account will be subject to revaluation under each year under the Pensions (Increase) Act 1971. The revaluation is currently in line with the Consumer Price Index. In times of negative inflation, the revaluation under the Pension (Increase) Act 1971 would be 0% (i.e. it cannot be a negative amount).
Rule of 85	If you combined and you have Rule of 85 protections these protections will transfer to your active pension account. However, the rule of 85 may move closer to your normal pension age if there has been a break between your deferred pension account and your active pension account which does not count towards the rule of 85.	If you decide not to combine your previous benefits with your active pension account and you have rule of 85 protections then these continue to apply to your deferred benefits only.
Pay upon which pre 1 April 2014 benefits are calculated	If you combine your benefits the pre 1 April 2014 element will continue to be final salary benefits. They will be calculated using your Full-time equivalent (FTE) final pay when you cease membership of the LGPS in that employment (based on the definition of final pay in the final salary scheme). You should consider this point carefully if your FTE pay is less now than when your deferred benefit was awarded (as increased in line with cost of living) unless we've told you we've adjusted the service credit.	If you decide not to combine your previous benefits with your active pension account, the pre 1 April 2014 element of your deferred benefit will have been calculated on your whole-time equivalent final pay in the employment that gave rise to the deferred benefits (based on the definition of final pay in the final salary scheme).

Death in Service Lump Sum

As a member of the LGPS if you die in service a lump sum of three times your assumed pensionable pay would normally be payable. If you have a deferred pension, and die before it is paid, a lump sum equal to five times the deferred pension is paid. However, only one amount for a lump sum life cover is payable from the LGPS so, even if you keep your deferred benefits separate from your active pension account, only the greater of the lump sum life cover for your deferred benefit or for your active account would be payable.

Working out your benefits in the LGPS

Working out your LGPS benefits depends on when you built up your service in the scheme.

From 1 April 2014	Career Average Scheme
Up to 31 March 2014	Final Salary Scheme (2 different calculations) • From 1 April 2008 to 31 March 2014, and • Up to 31 March 2008

Career Average Scheme

For membership built up from 1 April 2014 – every year you will build up a pension at a rate of 1/49th of the amount of pensionable pay you received in the scheme year if you are in the main sections of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). This pension is then added to your pension account and revalued at the end of each scheme year so your pension keeps up with the cost of living.

Pensionable pay: for benefits built up from 1 April 2014 your pensionable pay is the amount of pay on which you pay your normal pension contributions. However if during the scheme year you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on relevant child related leave or reserve forces service leave then, for the period of that leave, your pension is worked out based on your assumed pensionable pay.

Final Salary Scheme

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your final pay, there is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your final pay plus an automatic tax-free lump sum of three times your pension.

Final Pay

The definition of final salary pay for benefits built up before 1 April 2014 remains the same as before the scheme changed from a final salary to a career average scheme on 1 April 2014.

Final salary pay is usually the pay in respect of (i.e. due for) the final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher. The main differences to the pay used for career average benefits include:

- 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 salary pay is the whole-time pay you would have received if you had worked whole-time.
- It does not include non-contractual overtime.

There are further provisions for final salary pay if your pay is reduced due to a period of sickness, if you are on maternity, paternity or adoption leave or if your pay is reduced or increases to your pay are restricted.

Remember, if your benefits are combined with your new active pension account and they buy an amount of earned pension in the career average scheme, any final salary benefits you had built up will no longer be worked out using the final salary calculation. Instead they will be treated as career average benefits.

Normal Pension Age

The normal pension age for benefits built up to 31 March 2014 (i.e. the final salary scheme) is age 65.

The normal pension age for benefits built up from 1 April 2014 (i.e. the career average scheme) is linked to your State Pension Age (but with a minimum of age 65).

If your deferred benefits are combined with your active pension account and any final salary benefits you have previously built up continue to be counted as final salary benefits then they will continue to have a normal pension age of 65.

If your benefits are combined with your active pension account and any final salary benefits you have previously built up are now counted as career average benefits then they will have a new normal pension age which is linked to your State Pension Age (but with a minimum of age 65).

If your benefits are combined with your active pension account, any existing career average benefits will continue to have a normal pension age linked to your State Pension Age (but with a minimum of age 65).

If you choose to take your pension before your normal pension age the pension you have built up in the scheme will normally be reduced, as it is being paid earlier. If you take it later than your normal pension age it will be increased because it is being paid later. The amount of any reduction or increase will be based on how many years earlier or later than your normal pension age you take the pension you have built up in the scheme. If your normal pension age for benefits in the final salary scheme is different from your normal pension age in the career average scheme then the level of the reductions or increases applied to each set of benefits will be different. Please note you cannot take your benefits built up in the final salary scheme separately from the benefits you build up in the career average scheme if they have been combined. All of your pension would have to be drawn at the same time (except in cases of flexible retirement).

If you have rule of 85 protections these will still apply.

Rule of 85

What is it?

The rule of 85 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 work 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.

Who does it apply to?

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from an early payment reduction.

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 of your benefits are reduced if you choose to take your pension before your normal pension age. The reduction will be based on how many years before your normal pension age (usually age 65 for pension built up before 1 April 2014 and new normal pension age [linked to your State Pension Age] for pension built up from 1 April 2014) you take your benefits.
- If you will be age 60 or over by 31 March 2016 and choose to draw your pension before your normal pension age, then, provided you satisfy the 85 year rule when you start to take your pension, the benefits you build up to 31 March 2016 will not be reduced.
- If you will be under age 60 by 31 March 2016 and choose to take your pension before your protected normal pension age of, usually, age 65, then, provided you satisfy the 85 year rule when you start to take your pension, the benefits you've built up to 31 March 2008 will not be reduced. Also, if you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85 year rule by 31 March 2020, some or all of the benefits you build up between 1 April 2008 and 31 March 2020 will not have a full reduction.

The only occasion where rule of 85 protection does not automatically apply is if you choose to voluntarily draw your pension on or after age 55 and before age 60.

If I decide to aggregate my benefits, how will my rule of 85 protections be affected?

If you are deciding whether or not to aggregate your benefits in the LGPS you need to be aware of the potential impact on any rule of 85 protections.

Please note if the rule of 85 applies to part or all of your previous benefits in the LGPS and there is a long gap between the day you previously left the scheme and the day you re-joined the scheme then combining your benefits could impact on your rule of 85 protection as it could make your rule of 85 date later. If this is the case, keeping your deferred benefits separate could protect your earlier rule of 85 date on the deferred benefit but you would not have rule of 85 protection on your benefits accruing in your new employment. The reason the earlier rule of 85 protection on the deferred benefit would be protected is because when working out your rule of 85 date the period after you left the LGPS is also included (known as notional service) in the calculation even through you were not a member of the LGPS. If you re-join and combine your previous benefits then the notional service would no longer be used and any gap in membership of the LGPS membership would not be used when calculating when you would meet the rule of 85 in the new employment.

Annual Allowance Potential Tax Implications

The annual allowance is the amount your pension savings can increase by in any one year without paying extra tax. For the LGPS the pension savings year runs from 1 April to 31 March. The current annual allowance is £40,000.

Most people will not be affected by the annual allowance tax charge because the value of their pension saving will not increase in a tax year by more than £40,000 or, if it does, they are likely to have unused allowance from previous tax years to carry forward. If you think a tax charge could apply, please contact us.

Paying Extra Contributions

Buying Added Years	Paying Additional Regular Contributions	Paying Additional Pension Contributions	Additional Voluntary Contributions
If you combine and your deferred benefit is treated as pre 1 April 2014 benefits then the contract can continue if: • Break between accounts is less than 12 months, and • You make an election within three months of re-joining to continuepaying, and • Extra contributions that would have been collected during the break are paid within first three months. Added Years will count towards final salary benefits. If final salary benefits are treated as Career Average Revalued Earnings (CARE), extra membership already purchased is worked outas extra earned pension to be added to active pension account. You cannot make an election to continue buying additional membership. If kept separate your deferred benefit will be credited with extra membership already brought and you cannot continue to pay towards the added years contract.	There are no circumstances where existing Additional Regular Contributions contract can continue. If accounts are combined and final salary benefits are treated as pre 1 April 2014 benefits then the amount of Additional Regular Contributions already purchased is added to the value of final salary pension. If final salary benefits are treated as Career Average Revalued Earnings (CARE), extra pension purchased will be taken account of when calculating extra earned pension to be added to the active pension account. If you choose not to combine then any extra pension purchased will be included in the deferred benefit.	Existing arrangements to buy lost or extra pension cease once you leave the employment they are linked to. Extra pension built up via an Additional Pension Contribution is added to your activeaccount if your benefits are combined. If you choose not to combine, existing extra pension brought will be payable with the deferred benefit.	The accrued value of the Additional Voluntary Contribution **must** be transferred to an Additional Voluntary Contribution arrangement offered by the new administering authority if main scheme benefits are transferred. If you do transfer, once transferred to the new arrangement it is considered a contract under scheme rules in force at the time of the transfer.

<u>Postal Address Only:</u>
Norfolk Pension Fund
County Hall
Martineau Lane
NORWICH
NR1 2DH

Pensions Administration
Enquiries: 01603 495923
Email: pensions@norfolk.gov.uk

Technical and Member Self-Service
Enquiries: 01603 222132
Email: pensions.technical@norfolk.gov.uk

www.norfolkpensionfund.org

Please note, while we are happy to help you understand your pension options; we are not able to offer financial advice. If you need financial advice you should contact an Independent Financial Advisor (IFA) who isregulated by the Financial Conduct Authority (FCA)

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