Glossary

Combining previous benefits in the LGPS with your new (or ongoing) active pension account requires you to consider your options and make a decision. The information set out in the leaflet above is specific to your circumstances.

This glossary is provided to help further explain some of the terms used in the leaflet and give more detail about how your benefits are calculated in the LGPS, when they become payable and other important information about protections and paying extra contributions in the LGPS.

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 that scheme year if you are in the main section 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 3 times your pension.

Annual Allowance

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 ***annual allowance*** for 2015/16 is £40,000.

You would only be subject to an ***annual allowance*** tax charge if the value of your pension savings for a tax year increases by more than £40,000. Combining your previous deferred benefits where your final salary benefits are now linked to your new ongoing ***final pay*** would increase your pension savings in the year you transfer. However, a three year carry forward rule allows you to carry forward unused ***annual allowance*** from the last three tax years. This means that even if the value of your pension savings increase by more than £40,000 in a year you may not be liable to the ***annual allowance*** tax charge.

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 that can be carried forward.

Consumer Prices Index (CPI) (i.e. the Cost of Living Adjustment)

The ***Consumer Price Index (CPI)*** is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your *pension account* at the end of every scheme year when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

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: **-** 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 that you would have received if you had worked whole-time.**
- It does not include non-contractual overtime.

There are further protections 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 you 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 calculations. Instead they will be treated as career average benefits.

Normal Pension Age

The ***Normal Pension Age*** for deferred benefits that relate to a period of membership that ended after 30 September 2006 and before 1 April 2014 (i.e. in the final salary scheme) is age 65.

The ***Normal Pension Age*** for deferred benefits that relate to a period of membership that ended before 1 October 2006 (i.e. in the final salary scheme) is age 65 unless you were a member of the scheme before 1 April 1998 in which case ***Normal Pension Age is***

- age 60 if, by that age, you would have had 25 or more years membership of the scheme if you had remained in the scheme until then, or
- the date you would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or
- age 65 if, by that age, you would not have had 25 years membership of the scheme if you had remained in the scheme until then.

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 new active pension account and any final salary benefits you have previously built up continue to be counted as final salary benefits then they will have a ***Normal Pension Age*** of 65.

If your benefits are combined with your new 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 new 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's being paid earlier. If you take it later than your ***Normal Pension Age*** it will be increased because it's being paid later. The amount of any reduction or increase will be based on how many years earlier or later than your ***Normal Pension Age*** you draw 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 that 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 the case of Flexible Retirement).

If you have ***rule of 85*** protections these will still apply. For more information see the explanation of ***rule of 85*** below.

Paying extra contributions?

In the LGPS there are a number of ways members can pay more contributions to increase their benefits. You may have one of the following arrangements. If so, you need to understand what happens to any payments you have already made and whether you can continue to pay these extra contributions in your new employment.

1. **Buying Added Year (extra membership)**

These are existing contracts to purchase extra membership and the contract must have commenced before 1 April 2008.

If you combine your deferred benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 benefits then your existing contract can continue only if:

- The break between leaving your old employment and starting your new employment is less than 12 months, and
- Within 3 months of re-joining the LGPS in your new employment you make an election to continue paying your extra contributions to buy added years, and
- In those 3 months you pay any extra contributions towards your added years contract that would have been due during the break (if any) between employments.

These added years count towards your benefits in the final salary scheme.

If you combine your deferred benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) then your existing contract cannot continue. Any extra membership you have already bought and that has been credited is used to work out the extra earned pension to be added to your new active pension account, i.e. it would count as career average pension. You cannot make a new election to buy extra membership; you can however consider buying extra pension (known as Additional Pension Contributions). Please see our webpage "Topping Up" that has more information on this.

If you choose not to combine your deferred benefits any existing added years contract cannot continue and any extra membership you have already bought will be included in your deferred benefits. You cannot continue to pay for your added years' contract if you elect to keep separate deferred benefits.

2. **Paying Additional Regular Contributions (ARCs)**

These are contracts to purchase extra pension taken out between 1 April 2008 and 31 March 2014

Whether or not you elect to combine your benefits with your new active pension account, there are no circumstances where an existing ARC contract can continue.

If you do combine your benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 benefits then the amount of ARCs which you have already bought will be added to the value of your final salary pension.

If you combine your benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) any extra pension you have already bought and been credited with is taken account of when calculating the extra earned pension to be added to your new active pension account.

If you do wish to pay more contributions in your new employment you can consider buying extra pension (known as Additional Pension Contributions). Please see our webpage "Topping Up" that has more information on this.

If you choose not to combine your benefits, any extra pension you have already bought will be included in your deferred benefits. You cannot continue to pay for your ARCs contract if you elect to keep separate deferred benefits.

Paying extra contributions?

3. **Paying Additional Pension Contributions (APCs)**

These are contracts to purchase extra pension taken out on or after 1 April 2014.

Any existing APC arrangements which you have entered into, to buy lost or extra pension, cease once you leave the employment they are linked to.

Any extra pension built up via an APC will be added to your new active pension account if your benefits are combined.

If you choose not to combine your benefits any existing any extra pension you have already bought will be payable with your deferred benefits. You cannot continue to pay towards your previous APC arrangement if you elect to keep separate deferred benefits.

You can elect to take out another APC arrangement in your new employment. Please see our webpage "Topping Up" that has more information on this.

4. **Additional Voluntary Contributions (AVCs)**

If you have paid AVCs, the accrued value of your AVCs must be transferred to an AVC arrangement offered by your new administering authority if you transfer your main scheme benefits.

However, there is an exception to this rule. If you were previously a member of the LGPS on 31 March 2014 and 1 April 2014 (or you were not a member on those dates but elect within 12 months of returning to the LGPS to be treated as if you had been a member on those dates) and you do not have a continuous break in active membership of a ***public service pension scheme*** of more than 5 years, you can choose **not** to transfer the accrued value of your AVCs to an AVC arrangement offered by your new administering authority. If you do transfer your accrued AVC value then once it's transferred to the new arrangement it is considered a contract under the scheme rules in force at the time of the transfer.

Public service pension scheme

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

Rule of 85

What is the Rule of 85?

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 your benefits are reduced if you choose to draw your pension before your ***Normal Pension Age***. The reduction will be based on how many years before your ***Normal Pension Age*** (protected ***Normal Pension Age*** of, usually, age 65 for pension built up before 1 April 2014 and new ***Normal Pension Age*** (linked to ***State Pension Age***) for pension built up from 1 April 2014) you draw 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 draw 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 draw your pension before your protected ***Normal Pension Age*** of, usually, age 65, then, **provided you satisfy the 85 year rule when you start to draw your pension**, the benefits you've built up to 31 March 2008 will not be reduced. 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 occasions where ***rule of 85*** protection does not automatically apply is if you became entitled to the deferred benefits after 31 March 2014 and:

- elect to keep those benefits separate from your new or ongoing employment and choose to voluntarily draw those deferred benefits on or after age 55 and before age 60, or
- do not elect to keep those benefits separate from your new or ongoing employment, subsequently leave the scheme before age 60 and choose to voluntarily draw your combined benefits on or after age 55 and before age 60.

If I decide to aggregate my benefits will that impact on the rule of 85 protections I have?

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 that if the ***rule of 85*** applies to part of 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 that 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*** date on that deferred benefit would be protected is because when working our your ***rule of 85*** date the period after you left the LGPS is also included (known as notional service) in the calculation even though 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.

Your Pension Service

www.yourpensionservice.org.uk

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