

Combining Document C

This leaflet outlines the considerations you should make before deciding whether or not you would like to combine your deferred benefits with your new active CARE account.

What do I need to consider before making my decision?

At the moment you have a separate deferred benefit for your previous employment in the LGPS. If you take no action then your deferred benefit will remain separate from your new active pension account.

You need to think about the following things when considering whether or not you should keep your benefits separate:

- How will the benefits from my previous employment be worked out?
- When will my benefits be payable?
- Are there other key areas to consider?

Option 1 - You can elect to combine your pre 1 April 2014 final salary membership with your new active pension account so that it continues to count as final salary scheme membership.

To do this you need to elect within 12 months of re-joining the scheme to be treated as if you were an active member of the scheme on both the 31 March and 1 April 2014. If you make this election your pre 1 April 2014 membership will be attached to your new pension account and the benefits in respect of that membership will continue to count as a final salary membership. This means that, when you cease membership of the LGPS at some point in the future in your new employment, the benefits in respect of your pre 1 April 2014 membership would be calculated using your whole-time equivalent **final pay** in that employment (based on the definition of **final pay** in the final salary scheme).

You will need to consider this point carefully when deciding whether or not to elect for option 1, particularly if your whole-time equivalent pay in the new employment is less than the whole-time equivalent **final pay** on which your deferred benefit was awarded (as increased in line with the cost of living).

If you decide not to combine your previous benefits with your new active pension account, your deferred benefit (which will have been calculated on your whole-time equivalent **final pay** in the employment that gave rise to the deferred benefits) will continue to be increased in line with inflation.

There are, also other matters that you will need to consider including:

When will my benefits be payable?

If you choose option 1 then the date your pre 1 April 2014 benefits are payable from would be age 65 i.e. your **Normal Pension Age** for those benefits would be age 65. For the benefits you build up in the career average scheme (after 31 March 2014) your **Normal Pension Age** is linked to your State Pension Age (minimum 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 continue to have a Normal Pension Age of 65.

For more information on **Normal Pension Age** see the glossary.

"Option 1" Continued

Rule of 85

If your previous benefits are combined with your new employment and you have **rule of 85** protections these protections will transfer to your new active pension account. However, the date you meet the **rule of 85** may move closer to your **Normal Pension Age** because the break in service between your previous period of membership and your new period of membership will not count towards the **rule of 85**.

If you decide **not** to combine your previous benefits with your new active pension account and you have **rule of 85** protections then these continue to apply to your deferred benefits only.

For more information on the **rule of 85** see the glossary.

Option 2 - You can elect to combine your deferred benefit with your new pension account to buy an amount of earned pension in the career average scheme which will be added into your new active pension account.

If you choose option 2 your previous deferred benefit will be combined with your new active pension account and the membership you built up before 1 April 2014 in the final salary scheme will no longer count as final salary membership. Instead the value of benefits built up before 1 April 2014 in the final salary scheme will buy an amount of earned pension in the career average scheme which will be added into your new active pension account.

When will my benefits be payable?

If you choose option 2 then your combined benefits will be payable at your **Normal Pension Age** under the career average scheme which will be the same as your State Pension Age (minimum age 65). For more information on **Normal Pension Age** see the glossary.

Rule of 85

If you choose option 2, any **rule of 85** protection you previously had will be reflected in the amount of earned pension bought. Therefore, to reflect the fact that those earlier benefits would now be payable unreduced at your **Normal Pension Age** under the career average scheme (i.e. the same as your State Pension Age, with a minimum age of 65) the amount of earned pension bought by the transferred benefits would be higher because you previously had **rule of 85** protection.

In addition, if your previous benefits are combined with your new employment under option 2, there are further protections for **rule of 85** if you are close to retirement including:

- **If you will be age 60 or over by 31 March 2016 and re-join the scheme before 1 April 2016** then the **rule of 85** will continue to apply to the membership you build up between re-joining the scheme and 31 March 2016 (although the date you meet the **rule of 85** may move closer to your **Normal Pension Age** because the break in service between your previous period of membership and your new period of membership will not count towards the **rule of 85**). However, the **rule of 85** will not continue to apply to the amount of earned pension bought when you combined your deferred pension (but the amount of earned pension bought will include an amount to compensate for the loss of **rule of 85** protection on that pension).
- **If you will be age 60 between 1 April 2016 and 31 March 2020 and re-join the scheme before 1 April 2020** then the **rule of 85** will continue to apply to the membership you build up between re-joining the scheme and 31 March 2020 (although the date you meet the **rule of 85** may move closer to your **Normal Pension Age** because the break in service between your previous period of membership and your new period of membership will not count towards the **rule of 85**). However, the **rule of 85** will not continue to apply to the amount of earned pension bought when you combined your deferred pension (but the amount of earned pension bought will include an amount to compensate for the loss of **rule of 85** protection on that pension).

Option 3 - You can elect to keep you deferred benefits separate from your new active pension account

If you decide not to combine your deferred benefits or you do not make an election within 12 months of re-joining the scheme then your deferred benefits will remain separate.

How will the benefits from my previous employment be worked out?

If you choose option 3 your deferred benefit will remain as previously calculated and held with your previous Pension Fund (where applicable). See ***Working out your benefits in the LGPS*** the accompanying glossary for information on how these benefits are calculated.

The deferred benefit will increase each year in line with inflation, as currently measured by the rise in the ***Consumer Prices Index*** (see glossary for more information).

When will my deferred benefits be payable?

The date your deferred benefits are payable would remain the same, with your ***Normal Pension Age*** being age 65. If the deferred benefits relate to a period of membership that ended before 1 October 2006 and you were a member of the scheme before 1 April 1998, a date somewhere between 60 and 65 if the deferred benefits relate to a period of membership that ended before 1 October 2006.

For more information on ***Normal Pension Age*** see the glossary.

Rule of 85

If you chose option 3 (i.e. decide not to combine your previous benefits with your new active pension account) and you have ***rule of 85*** protections, then these continue to apply to your deferred benefits only.

For more information on the ***rule of 85*** see the glossary.

What are the key differences if I elected to keep my deferred benefits separate?

	Combined Benefits	Separate Benefits
Redundancy/ Business Efficiency	<p>Benefits paid early because of redundancy or efficiency would include the value of earlier deferred benefits that have been transferred.</p> <p>If you are made redundant or lose your job for business efficiency reasons when aged 55 or over then your benefits would be payable immediately and would include the value of the pension that transferred from your deferred benefit.</p>	<p>Benefits paid early because of redundancy or efficiency in your new employment would <u>not</u> include the value of earlier deferred benefits.</p> <p>If you are made redundant or lose your job for business efficiency reasons when aged 55 or over then your benefits would be payable immediately but would not include the value of your deferred benefit (because you had elected to retain that as a separate deferred benefit).</p> <p>Subject to the information in the boxes below, the separate deferred benefits would be payable at your Normal Pension Age.</p>
Ill- health	<p>Any benefits paid early because of ill-health would include value of earlier deferred benefits that have transferred.</p> <p>Your benefits will become payable immediately if your employer decides, based on the opinion of an independent doctor that 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 would be paid at an increased level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving. The payment would include the value of your pension that transferred from your deferred benefit.</p>	<p>Benefits paid early because of ill-health would <u>not</u> include the value of earlier deferred benefits.</p> <p>Your benefits from your new employment will become payable immediately if your employer decides, based on the opinion of an independent doctor, that 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 would be paid at an increased level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving. The payment would not include the value of your deferred benefit (because you elected to retain that as a separate deferred benefit).</p> <p>Your separate deferred benefit may become payable but that would only be if your former employer decided in light of the view from an independent doctor that you are permanently incapable of the job you were working in when you left the employment in respect of which the deferred benefit was awarded and, if the deferred benefits arose as a result of ceasing membership of the scheme after</p>

		<p>31 March 2008, that you are not likely to be capable of undertaking other gainful employment before your Normal Pension Age or for at least 3 years, whichever is the sooner.</p>
<p>Early payment of benefits</p>	<p>You can voluntarily choose to draw the combined benefits from as early as age 55 (at, normally, a reduced rate to account for the early payment).</p> <p>However, the combined benefits would be payable at the same time (i.e. cannot be paid at different times) and cannot be paid until you have ceased your new employment.</p>	<p>You can voluntarily choose to draw:</p> <ul style="list-style-type: none"> a) your deferred benefit from as early as age 60 or, with your former employer's consent, from as early as age 50 if the deferred benefits arose as a result of ceasing membership of the scheme after 31 March 1998 and before 1 April 2008, or age 55 if the deferred benefits arose as a result of ceasing membership of the scheme after 31 March 2008 (at, normally, a reduced rate to account for the early payment) and b) the pension you build up in your pension account in your new employment from as early as age 55 (at, normally, a reduced rate to account for the early payment). <p>The deferred benefits do not have to be drawn at the same time as the benefits from your new employment. The deferred benefits can be drawn later than, at the same time as or, subject to being the minimum age shown in (a) above and, where necessary, obtaining your former employer's permission, earlier than the benefits from your new employment (even if you are still in your new employment at the time you wish to draw the deferred benefits, provided the deferred benefits relate to a period of membership that ended after 31 March 1998).</p> <p>However, if the deferred benefits relate to a period of membership that ended before 1 April 1998, the earliest you can voluntarily draw the deferred benefits is:</p> <ul style="list-style-type: none"> - age 60, if you are not then in an employment that offers LGPS membership, or

		<ul style="list-style-type: none"> - if, at age 60, you are in an employment that offers LGPS membership, the earlier of: <ul style="list-style-type: none"> (i) the date you cease such employment, or your Normal Pension Age in relation to those deferred benefits (see
<p>Cost of living increases</p>	<p>If you choose option 1, the combined benefits in respect of your post 31 March 2014 membership 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 Prices Index (see glossary for more information). However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative.</p> <p>The benefits in respect of your pre 1 April 2014 membership will continue to be final salary benefits. They will be calculated using your whole-time equivalent final pay in the new employment when you cease membership of the LGPS in that employment (based on the definition of final pay in the final salary scheme).</p> <p>If you choose option 2, the combined benefits in respect of both your pre 1 April 2014 and post 31 March 2014 membership 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 Prices Index (see glossary for more information). However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative.</p>	<p>The benefits in the active pension account for your new employment 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 Prices Index (see glossary for more information). However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative.</p> <p>The benefits in the deferred pension account will be subject to revaluation each year under the Pensions (Increase) Act 1971. Future revaluation is currently in line with the rise in the Consumer Prices Index (see glossary for more information). In times of negative inflation, the revaluation under the Pensions (Increase) Act 1971 would be 0% (i.e. it cannot be a negative amount).</p>

Are there any other key areas to consider?

Death in Service lump sum

As a member of the LGPS if you die in service a lump sum of three times your annual pensionable pay would normally be payable. If you have a deferred pension and die before it is paid, a lump sum equal to 5 times the deferred pension is paid if the deferred benefits relate to a period of membership that ended after 31 March 2008, or a lump sum equal to 3 times the deferred pension is paid if the deferred benefits relate to a period of membership that ended before 1 April 2008. However, only one amount for 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 pension account would be payable.

Annual Allowance Potential Tax Implications

You are advised to be aware of any potential tax implications around combining your deferred benefits with your new active pension account. In the unlikely event that a tax charge would apply your Pension Fund would make you aware of the implications. Please read the glossary for more information on **annual allowance**.

Paying extra contributions

Have you paid extra contributions towards buying additional pension or membership? These would include Additional Voluntary Contributions (AVCs), Added Years, Additional Regular Contributions (ARCs) or Additional Pension Contributions (APCs). Please read **paying extra contributions** in the glossary to find out what your choices in respect of these are.

Transferring the value of your deferred benefit to another pension scheme

Please note that even if you choose not to combine your benefits you will not be able to transfer the value of your deferred benefits to another pension scheme whilst you are contributing to the LGPS or if you have less than one year to go before reaching your **Normal Pension Age**.

If you applied to HMRC for, and hold, Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection, please read the following notes.

- i) if you hold Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection you will lose the relevant protection if you join the LGPS and you **do not aggregate** your benefits (as the new period of membership in the LGPS will be treated as a new pension 'arrangement'). If you wish to retain your Fixed Protection 2012, Fixed Protection 2014 or Enhanced Protection it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.
- ii) if you hold Fixed Protection 2012 or Fixed Protection 2014 you will lose the relevant protection if:
 - you join the LGPS, and
 - **aggregate** your benefits, and
 - **HMRC were to deem** this to be a new pension 'arrangement'.

However, we understand that the Department for Communities and Local Government, being the department responsible to the relevant Minister (the 'responsible authority' under the Public Service Pensions Act 2013) take the view that the relevant LGPS Regulations provide a **single** arrangement within a single scheme. HMRC have indicated that, in individual cases, they are not in a position to say whether or not they agree with that view. If the DCLG view is correct and **HMRC do not deem** it to be a new pension 'arrangement' you will not lose protection unless you have 'benefit accrual'. You would lose Fixed Protection 2012 or Fixed Protection 2014 at the point at which 'benefit accrual' occurs (which could be immediately upon aggregation or at some point thereafter) - see <http://www.hmrc.gov.uk/manuals/ptmanual/ptm093500.htm> for more information on 'benefit accrual'.

If you wish to make certain that you retain your Fixed Protection 2012 or Fixed Protection 2014 it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.

- iii) if you hold Enhanced Protection you will lose that protection if:
- you join the LGPS, and
 - **aggregate** your benefits, and
 - **HMRC were to deem** this to be a new pension 'arrangement'.

We understand that the Department for Communities and Local Government, being the department responsible to the relevant Minister (the 'responsible authority' under the Public Service Pensions Act 2013) takes the view that the relevant LGPS Regulations provide a **single** arrangement within a single scheme. HMRC have indicated that, in individual cases, they are not in a position to say whether or not they agree with that view.

If the DCLG view is correct and **HMRC do not deem** it to be a new pension 'arrangement' you will not lose protection even if you then have 'relevant benefit accrual' (i.e. benefits at retirement 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 cost of living or increases in your pensionable pay). This is because you would be able to notionally split the crystallisation of your defined benefit rights on retirement. This would allow you to reduce your tax liability by crystallising benefits below the 'relevant benefit accrual' limit so Enhanced Protection would be retained during that crystallisation. When the remaining benefits are crystallised, Enhanced Protection on those benefits would be lost. You would lose the Enhanced Protection if you were to pay contributions into a money purchase pension arrangement (e.g. you were to pay into the LGPS AVC facility) other than to a life assurance policy providing death benefits that started before 6 April 2006, or if you were to start a new pension arrangement, or if you were to transfer your LGPS benefits to another defined benefit pension scheme.

If you wish to make certain that you retain your Enhanced Protection it will be necessary to opt out of the LGPS within 3 months of joining, thereby ensuring you are treated as never having been a member of the scheme on this occasion.

The above is summarised in the following table:

<i>Assuming you do not opt out within 3 months</i>	HMRC position	Fixed Protection 12	Fixed Protection 14	Enhanced Protection
You have a deferred benefit in the LGPS, re-join the LGPS and you do not aggregate benefits	n/a	lost	lost	lost
You have a deferred benefit in the LGPS which includes pre 1.4.14 membership, re-join the LGPS and you aggregate benefits	if separate arrangement	lost	lost	lost
You have a deferred benefit in the LGPS which includes pre 1.4.14 membership, re-join the LGPS and you aggregate benefits	if same arrangement	lost if benefit accrual occurs	lost if benefit accrual occurs	not lost - notional split benefits
If you opt out within 3 months you would be treated as never having been a member of the scheme and your protection would not be lost.				

Your Pension Service

www.yourpensionservice.org.uk

Acknowledgement and Disclaimer

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