

A photograph of a blue sky with a white airplane flying in the distance. In the foreground, a black sign with white text reads 'Departures'.

## Merseyside Pension Fund Fact Sheet 9: Leaving your job before Retirement (January 2010)

In this fact sheet we look at what happens to your LGPS benefits on leaving your job before retirement if you pay into the LGPS on or after 1 April 2008.

**If you have been a member of the LGPS for at least 3 months** or you have transferred other pension rights into the LGPS, or you already have a deferred benefit in the LGPS in England or Wales, 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 3 months**, have not transferred in any other pension rights and do not already have a deferred benefit in the LGPS in England or Wales, 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 scheme 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 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.

## 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 **or** membership from any concurrent job you may have, **or** 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. For example, 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 Scheme, 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 Scotland 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>1</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>2</sup>, casual overtime, travelling or subsistence allowances, pay in lieu of notice or pay in lieu of loss of holidays.

<sup>1</sup> Grossed up to a full year's pay if you did not receive pay for a full year.

<sup>2</sup> Other than in some historical protected cases.

**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.

**If you downgrade or move to a job with less responsibility** with your employer in your last 10 years, you have the option to have your benefits based on the average of any 3 consecutive years in the last 10 years (ending on a 31 March).

If your pay was reduced or restricted for reasons beyond your control before 1 April 2008 and you were issued with a certificate of protection by your employer and you leave the LGPS within 10 years of the reduction or restriction in your pay, then we will work out your final pay as the best year's pay in the last five years prior to leaving, or the best consecutive three year average in the last thirteen years after allowing for inflation.

### **Your deferred pension is worked out like this:**

For membership you build up after 31 March 2008:

**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>3</sup>.

Here are examples of how your deferred pension is worked out for membership after 31 March 2008:

#### **If you work full-time**

Let's look at someone leaving with 10 years full-time membership in the Scheme and a final year's pay of £18,000.

**Their deferred annual pension is:**

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



<sup>3</sup> Limited to £437,500 (2009/2010 figure) less the value of any other pension rights you have in payment.

## **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.

Let's look at someone leaving 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.

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

10 years x 18½ ÷ 37 = 5 years

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

5 years x 1/60<sup>th</sup> x £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 2008** your benefits for membership before 1 April 2008 are calculated differently. For LGPS membership you have built up to 31 March 2008 your deferred benefits are 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 2008 and your final pay. You can also exchange part of your pre April 2008 pension for extra lump sum as described above.

**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 more information see the leaflet 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 Additional Regular Contributions (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 England or Wales 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. Contact your new LGPS administrator within 3 months of rejoining to arrange this.

### **If you pay in-house Additional Voluntary Contributions (AVCs)**

If you are paying Additional Voluntary Contributions (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 2008**, you may have a protected earlier retirement age when you can request early payment of your deferred benefits. 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 Government 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.

As a guide, the percentage reductions, issued in April 2008, 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%

**If you were a member of the LGPS on 30 September 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 leaflet **If You Joined the LGPS Before 1 April 2008**.

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 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 within 3 years of applying for the benefit, or before age 65 if sooner.

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 the Fund 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 Secretary of State for Communities and Local Government agrees 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 Price 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?

There are HM Revenue and Customs controls on all your pension savings - not including any state retirement pension, state pension credit or any spouse's, civil partner's, nominated co-habiting partner's or dependant's pension you may be entitled to. The controls are referred to as the lifetime allowance and the annual allowance.

The lifetime allowance is the total capital value of all your pension arrangements which you can build up without paying extra tax. If the value of your benefits when you draw them exceeds your lifetime allowance a tax charge will be made against the excess.

The lifetime allowance for 2009/2010 is **£1.75 million**, increasing to **£1.85 million** in 2010/2011.

The annual allowance is the amount your pension savings can increase by in any one year without paying extra tax. Any increase in the value of your deferred benefits will be taken into account in assessing whether you exceed the annual allowance (other than any increase in value in the year in which they are paid). The annual allowance for 2009/2010 is **£245,000** rising to **£255,000** in 2010/2011 and years run from 1 April to 31 March.

Most scheme members' pension savings will be significantly less than the allowances. There are protections for benefits earned up to 5 April 2006 in respect of those high earners affected by the introduction of the lifetime allowance from 6 April 2006.



<<<< To find out about these controls, see **Fact Sheet 2 Tax and Your Benefits.**

The Fund 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/they 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 2008 and die before receiving them, the following benefits are payable:

#### The Death Grant

A tax-free lump sum payment of 5 times your deferred annual pension. The Fund has 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 the **LGP25 – Death Grant Nomination form** or make a new one at any time. The LGP25 form is available from the Fund. If any part of the death grant has not been paid within two years, it must be paid to your personal representatives, 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.

>>>> To find out about these controls, see **Fact Sheet 2 Tax and Your Benefits.**



## Survivor's Pension

A pension will be paid to your spouse, Registered Civil Partner (RCP) or, subject to certain qualifying conditions, your Nominated Cohabiting Partner (NCP). 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 Spouse

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 RCP or NCP

The pension payable is equal to 1/160th of your final pay times your membership in the scheme 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 children you have: If a survivor's pension is being paid to your spouse, RCP or NCP, 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 spouses', RCP or NCP 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.

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

- be under 18 and be wholly or mainly dependant on you, or
- be aged 18 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. 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 spouse, RCP or NCP and to eligible children.

### **What will happen if I wish to 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 6 months of leaving.

Your new pension provider will require a transfer value quotation, which, under the provisions introduced by the Pensions Act 1995, the Fund will guarantee 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 the Fund 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) Regulations 2008 (as amended) 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 an independent 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, RCP, for any NCP 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>4</sup>.

They will **not** be transferred automatically. If you wish to transfer your pension rights you must elect to do so **within 12 months** of re-joining the LGPS, 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 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 England or Wales will normally count on a day for day basis, membership transferred to Scotland 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.

If you wish to transfer your LGPS pension rights you should the Fund 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 England or Wales.

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:

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

## 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.

---

<sup>4</sup> You cannot transfer membership built up as an employee in England or Wales to membership in the Scheme as a councillor or mayor in England or Wales, and vice versa.



# Contact Us

## More Information

For more information please contact:

### Address:

Merseyside Pension Fund  
PO Box 120  
7th Floor  
Castle Chambers  
43 Castle Street  
Liverpool  
L69 2NW

**Opening Hours:** Monday - Friday 9.00am - 5.00pm

**Phone:** 0151 242 1391 **Fax:** 0151 236 3520

## Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. This leaflet was up-to-date at the time of publication in January 2010. This leaflet 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 leaflet does not confer any contractual or statutory rights and is provided for information purposes only.