



Merseyside Pension Fund Fact Sheet 12: If you joined the LGPS before 1 April 2008

A new-look Local Government Pension Scheme (LGPS) was introduced from 1 April 2008, changing the cost and benefits of being a member of the LGPS.

In this fact sheet we look at how your LGPS benefits are affected if you joined the LGPS before 1 April 2008.

How benefits are calculated

If you joined the LGPS before 1 April 2008, benefits based on your membership to 31 March 2008 will be calculated differently to those based on your membership from 1 April 2008.

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.

For membership from 1 April 2008, your pension will be at the increased rate of 1/60th of your final pay. There will be no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for extra tax-free lump sum.

Here is an example of how benefits are worked out if you have membership up to and after 31 March 2008.

Let's look at someone who has 8 years membership up to 31 March 2008 and 24 years membership after then when they retire at age 65. Their final year's pay on retirement is £20,000.

Benefits based on their 8 years membership up to 31 March 2008:

Their **annual pension** is:
 $8/80^{\text{ths}} \times £20,000 = \mathbf{£2,000}$

Plus an **automatic tax-free lump sum**:
 $3 \times 8/80^{\text{ths}} \times £20,000 = \mathbf{£6,000}$

Benefits based on their 24 years membership from 1 April 2008

Their **annual pension** is:
 $24/60^{\text{ths}} \times £20,000 = \mathbf{£8,000}$

To give total benefits of:

An **annual pension**
 $£2,000 \text{ plus } £8,000 = \mathbf{£10,000}$

Plus a **tax-free lump sum** = **£6,000**

Exchanging pension for extra lump sum

But remember, it's possible to exchange some of your pension for extra tax-free lump sum. You can take up to 25% of the capital value of your LGPS benefits as a lump sum¹. For every £1 of annual pension that you give up you will receive an extra £12 lump sum.

To summarise, any pension built up before April 2008 is calculated at the 1/80th rate with a lump sum of 3 times pension. Only pension built up from 1 April 2008 is calculated at the better 1/60th rate and there is an option to take extra lump sum in exchange for some pension.

¹Limited to £450,000 (2010/2011 figure) less the value of any other pension rights you have in payment.

Please Note:

If you joined the LGPS before 1 April 2008, each year of membership purchased by a transfer in from another pension scheme will attract a pension at the 1/80th rate plus an automatic tax-free lump sum of 3 times the pension.

If you are awarded extra membership by your employer and the date your employer resolved to award this was before 1 April 2008, those years will attract a pension at the 1/80th rate plus an automatic tax-free lump sum of 3 times the pension.

If you have an AVC fund arranged through the LGPS (in-house AVC) and you convert it into extra LGPS membership, the extra membership will attract a pension only, calculated at the 1/80th rate. You are only allowed to convert your AVC fund into LGPS membership in limited circumstances and only if your election to start paying AVCs had been made before 13 November 2001.

If you are buying extra membership in the LGPS (added years), any extra benefits will be calculated on the same basis you had agreed to buy them.

If you are a married man with membership before 1 April 1972, that membership will be converted to 89% of its length unless you elected to pay extra contributions to convert it to its full length.

If you are a high earner and you joined the scheme after 31 May 1989 and before 6 April 2006 you could only pay contributions and have your benefits based on your pay up to the Earnings Cap – this was £105,600 for 2005/6. The Earnings Cap was removed from 6 April 2006 and, if it affected you, your relevant membership prior to then will be reduced.

Early payment - reductions to benefits

If you choose to retire before age 65 or your employer allows you to draw your benefits on flexible retirement before age 65 your benefits may be reduced to take account of being paid for longer. How much your benefits are reduced by depends on how early you draw them.

The reduction is based on the length of time (in years and days) that you retire early – i.e. the period between the date your benefits are paid to age 65. The earlier you retire, the greater the reduction.

The reduction is calculated in accordance with guidance issued by the Government Actuary from time to time. 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	Lump Sum Reduction
0	0%	0%	0%
1	6%	5%	2%
2	11%	10%	5%
3	16%	15%	7%
4	20%	19%	9%
5	24%	23%	12%

If your benefits are paid before age 55, with your employer's consent, the percentages shown above will differ.

Your employer can agree not to make any reduction on compassionate grounds. You can ask them what their policy on this is.

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 under what is called the 85 year rule.

The 85 year rule 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 are 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.

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 retire before 65. The reduction will be based on how many years before 65 you draw your benefits.
- **If you will be age 60 or over by 31 March 2016** and choose to retire before age 65, 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 retire before 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.

Please note that the rules on deciding whether you have protection under the 85 year rule from a reduction to your benefits if you choose to draw them before 65, and the level of that protection, are quite complex. If you are thinking of voluntarily retiring or asking for flexible retirement before age 65, you should contact your employer for an estimate of the benefits payable.

Your employer can agree not to make any reduction on compassionate grounds. You can ask them what their policy on this is.

More Information

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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. The leaflet was up-to-date at the time of publication in November 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.