

Options for Members who take a reduction in pay

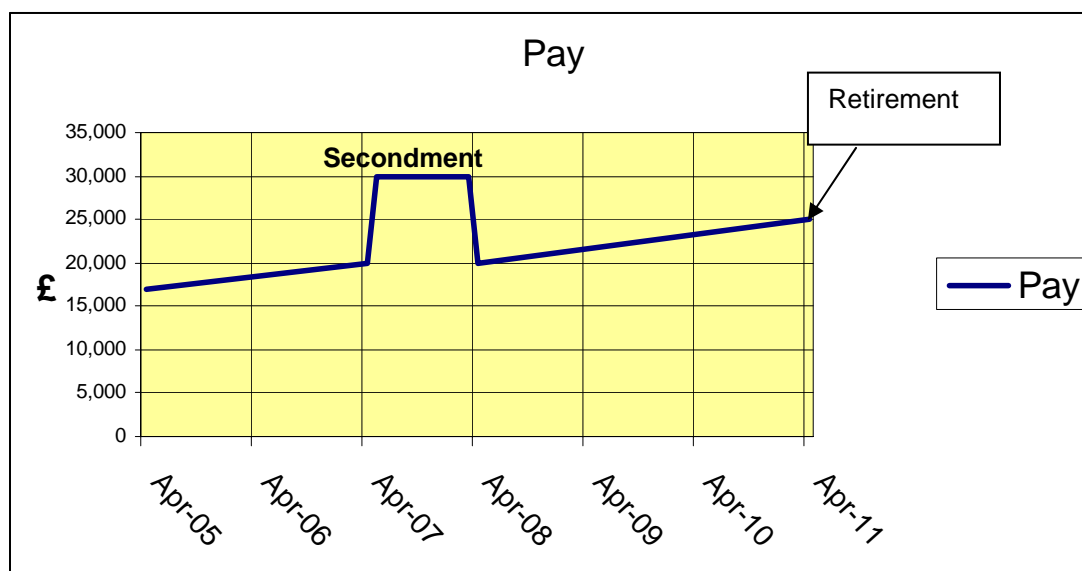
Where an LGPS member moves from a higher paid post to a lower paid one, or where a temporary higher paid secondment comes to an end, there are options available to you regarding your pension benefits.

This bulletin is not intended to cover instances of people who are involuntarily moved to a lower salary and for whom a certificate of protection under the current scheme regulations may be appropriate. Factsheet 4 covers this; a copy can be obtained from our website at:

http://www.lancs-pensions.org.uk/existing_members/em_literature/factsheets/index.asp

Option 1: Continue as an active member of the scheme

If you continue to contribute to the scheme, once you have moved to the lower salary, you may gradually start to lose the benefit of the higher pay being used in the calculation of your benefits. This is because the final pay on which your benefits will be based is normally only based on the best year's pay in the last three years of membership. Once you have been back on a lower salary for more than 3 years, the previous higher rate of pay will not be included in the calculation of the best of the last 3 years. See the example below.



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In this case the member has been seconded on a higher rate of pay from April 2007 to April 2008, before returning to their original post and salary. When the member comes to retire in April 2011, their benefits will be based on the highest pay in the last three years. As can be seen, even by going back three years, the member's final pay will not include any of the higher secondment pay.

In this is the case you may wish to consider the second option.

Option 2: Opting out of the scheme and rejoining.

In the scenario above, you could choose to opt out of the LGPS in April 2008, when the secondment comes to an end and receive a deferred benefit based on the higher rate of pay. You could then rejoin the Scheme from the following day and begin accruing new benefits which will be based on your pay when you retire.

Things to Consider

Before making a decision to opt out of the Scheme and rejoin, there are a number of factors that you must give full consideration to.

- Deferred benefits will increase in line with inflation, but salaries, especially when the effects of promotions and career progression are considered often exceed inflation. It would only be in your interest to keep the benefits separate if you are sure that the earnings in the lower paid post would not eventually increase to a higher level than the final pay plus inflation that the deferred benefits were based on.
- If you elect to opt out and receive a deferred benefit you will have 12 months from the date of opting out in which to effectively change your mind and have your benefits combined into a single ongoing period of membership. If you do not elect to combine during this period but, after 12 months decide that you would have been better off doing so, your election cannot be reversed.
- If an election is made for a separate deferred benefit and you take up a new employment with another Local Authority there would only be an option to transfer the immediate previous employment (not the earlier seconded employment that has been deferred). The only exception to this would be if the period between the start of the secondment and joining the most recent employment is less than 12 months.
- You also need to give consideration to how any 85 year rule protections may be affected. If you have ongoing protection for the rule of 85, then by opting out, that protection will still apply to the deferred benefit but it will not apply to the continuing employment. This means you could choose to retire at 60 and draw only the deferred benefits to which full protection applies. The other set of benefits could also be taken at age 60 but potentially with reductions applying or left until age 65, when they

too could be paid unreduced. Fuller details of this can be found in factsheet 11 on our website at:

http://www.lancs-pensions.org.uk/existing_members/em_literature/factsheets/index.asp

- In order for you to be in a position to elect for separate benefits you must first “opt out” of the scheme and then opt back in again as a separate new employment. Under the regulations it is employers who have the discretion to allow a member who has opted out more than once to re-join the Pension Scheme. As such you should ensure that you are aware of your employer’s policy on this.
- Finally, the new-look 2008 Scheme is due to take effect from 1 April 2008. Under the new scheme the definition of Final Pay still includes the provision to use the best pensionable pay of the last 3 years. However the provisions have been expanded, in cases where a member has reduced their grade, to include the facility to use pensionable pay based on the average of any three consecutive years from the last 10 financial years. By allowing a member to take some account of pay in the last 10 years, this new definition available from 1 April 2008 may offer longer term protection to some members moving to a lower salary.

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