

Reductions / Restrictions in your Pensionable Pay

The implications of suffering a reduction or restriction in your Pensionable Pay whilst a member of the Local Government Pension Scheme (LGPS)

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Introduction

This factsheet briefly explains the implications on your pension benefits in the Local Government Pension Scheme (LGPS), if your pensionable pay is to be, or has been reduced / restricted. It may even be the case that you're going to be or have been adversely affected by a recent pay and grading exercise, in which case it is important to identify and consider the effect on your benefits, given that the calculation is based primarily on your pensionable pay.

Please note that any figures quoted within this factsheet are estimated values only. They have provided to aid your understanding and are for illustrations purposes only.

How are my benefits calculated?

From 1 April 2014, your annual pension under the Career Average Revalued Earnings (CARE) scheme is based on the pensionable pay that you have received during the scheme year (1 April to 31 March) and the 1/49th accrual rate. Your CARE pension account (per employment) will be credited annually with the amount of pension that you have earned during the scheme year. The cumulative value of your account is then re-valued each April in line with the appropriate cost of living index.

However, if you became a member on or before 31 March 2014, your 'pre 2014 membership' under the final salary scheme will continue to be based on your pensionable pay at the point of retirement, though this figure will NOT include any payments made in respect of noncontractual overtime (as under the CARE scheme). Your scheme membership (measured in years and days) as at 31 March 2014 will also be used to calculate your final salary benefits, along with the appropriate rate of accrual; 1/80th for membership up to 31 March 2008 and 1/60th thereafter to 31 March 2014.

For membership to 31 March 2008, you will receive an automatic tax-free lump sum (3/80th), as well as an annual pension. However, if you became a member on or after 1 April 2008, you will NOT be entitled to an automatic tax-free lump sum, but you will have the option to give up a proportion of your annual pension, to gain some tax-free cash. By giving up £1 of annual pension, you will receive £12 of tax-free cash in return (subject to HMRC limits). (Note that this option is also applicable to members entitled to an automatic tax-free lump sum).

How will my 'CARE benefits' be affected by a reduction/restriction in my pay?

As your pension build up under the CARE scheme is based entirely on the pensionable pay that you have received during the scheme year, any reduction in your pay will mean that you build up less pension from the day after the reduction takes place.

If applicable, how will my 'Final Salary benefits' be affected by a reduction /restriction in my pay?

If you became a member on or before 31 March 2014, your 'final salary benefits' will normally be based on the pensionable pay (NOT include any payments received for non-contractual overtime) that you have received during the last 365 days of employment, as usually this will be your highest level of pay, due to annual pay awards etc. However, if your pay has been reduced or restricted, you will have the following options:

- Your benefits may be based on any one of the last three years' pensionable pay (if higher than the last 365 days). This is known as the 'Best of the last 3 years.
- You may elect to base your benefits on an average of any 3 consecutive years' pay (as up rated by the appropriate cost of living index) within the last 13 years of employment (ending 31 March).

Please note that if you work part time, your final pay in respect of your 'pre 2014 membership' is based on your full-time equivalent rate of pay.

Best of the Last 3 Years example

A member retires on 30 September 2020 but suffered a reduction in his / her pensionable pay on 1 April 2020.

Rates of Pay:

Final Pay Calculation:

1 April 2020 - £14,000

1 October 2019 to 30 September 2020 - £15,994

1 April 2019 - £18,000

1 October 2018 to 30 September 2019 - £17,498

1 April 2018 - £17,000

1 October 2017 to 30 September 2018 - £16,501

1 April 2017 - £16,000

The pensionable pay in respect of **1 October 2014 to 30 September 2015** will be used to calculate this member's benefits.

The 'Best Average of any 3 Consecutive Years Pay within the Last 13 Years of Employment'

Example

To choose this option, you must make a written election to your Employer within 1 month of your date of leaving. The following example shows how the calculation would work.

A member has made an election to retire on 30 September 2020 but suffered a reduction in his/ her pensionable pay in April 2015 (as shown below).

Rates of Pay:

1 April 2020 - £17,500	1 April 2015 - £15,000	1 April 2010 - £17,000
1 April 2019 - £17,000	1 April 2014 - £19,000	1 April 2009 - £16,500
1 April 2018 - £16,500	1 April 2013 - £18,500	1 April 2008 - £16,000
1 April 2017 - £16,000	1 April 2012 - £18,000	
1 April 2016 - £15,500	1 April 2011 - £17,500	

Pensionable Pay Calculation:

Period (3 years)	Average Pay over Period	Pensions Increase	Total
1 April 2017 to 31 March 2020	£16,500	-	£16,500
1 April 2016 to 31 March 2019	£16,000	5.00%	£16,800
1 April 2015 to 31 March 2018	£15,500	7.00%	£16,585
1 April 2014 to 31 March 2017	£16,500	9.00%	£17,985
1 April 2013 to 31 March 2016	£17,500	11.00%	£19,425
1 April 2012 to 31 March 2015	£18,500	13.00%	£20,905
1 April 2011 to 31 March 2014	£18,000	15.00%	£20,700
1 April 2010 to 31 March 2013	£17,500	17.00%	£20,475
1 April 2009 to 31 March 2012	£16,500	19.00%	£19,635

The pensionable pay used would be average in respect of the period from **1 April 2012 to 31 March 2015**.

What other benefits will be affected?

If you were to retire through permanent ill-health, you may receive an enhancement depending on your degree of illness, which is based on your assumed pensionable pay at your date of leaving. By reducing your pensionable pay, any ill-health enhancement due will be proportionately less as a result.

If you die as an active contributor to the scheme, a lump sum death grant of 3 times your assumed pensionable pay would be paid in accordance with your death grant expression of wish, or in the absence of an expression of wish, to your Estate. Should

you reduce your pensionable pay, your assumed pensionable pay will be proportionately less, which means your death grant will be less as a result.

The assumed pensionable pay is an average of the pensionable pay that you received within the 3 complete months (or 12 weeks if weekly paid) prior to your date of leaving / date of death.

Can I separate my benefits if my pensionable pay is reduced?

If your pensionable pay is reduced, the Dyfed Pension Fund will provide you with the option to separate your benefits once the appropriate notification has been received from your Employer. Your election to separate your benefits must then be made in writing to the Fund within 12 months of the specified date i.e., the anniversary of the date your reduction took place.

Should you elect to separate your benefits, any 'pre 2014 benefits' that you may have will potentially be safeguarded against the higher rate of pensionable pay. This may be a viable option if you are more than 13 years away from retirement, however, there are a few issues that you may wish to consider before making your election.

If your pensionable pay at retirement exceeds what your pay was before the reduction took place, the benefits payable from the two separate periods could potentially be less. However, the value of any deferred benefit is increased annually in line with the appropriate cost of living index.

Any **85-year rule** protection that may apply to your deferred benefit will subsequently not apply to your second period of membership, which means your second set of benefits may be reduced to take account of early payment, if paid before your Normal Pension Age i.e., your State Pension Age.

If you are age 55 or above and made redundant (or your employment is terminated on efficiency grounds), the benefits that you have built up under your current period of membership will become payable immediately (unreduced), whereas your deferred benefit will NOT be brought into payment.

You will have the option to receive the payment of your deferred benefit from age 55, but these benefits may be reduced. (For further information on the 85-year rule, please refer to the 85 Year Rule factsheet).

If you are paying towards an Additional Regular Contribution (ARC) / Additional Pension Contribution (APC) contract, or paying towards the purchase of additional membership, you

will not be able to transfer this arrangement to your new period of membership (should you elect to separate your benefits).

If you elect to separate your benefits, you will simply be credited with the proportion of additional benefit that you have purchased to the date of reduction, which will then be included in the calculation of your deferred benefit.

Note that you will be unable to start another ARC contract / additional membership contract under your new period of membership, as these options have now been removed from the Scheme regulations. However, you will be able to purchase an additional pension amount via an APC arrangement, although the cost of doing so will be higher, as the repayment is calculated in accordance with age related factors provided by the Government Actuary's Department (GAD).

If you are paying Additional Voluntary Contributions (AVC), you will be able to continue this arrangement under your new period of membership. However, be sure to check that your contribution is being deducted correctly.

Frequently Asked Questions

- If I choose to use an earlier pay figure to calculate my 'final salary benefits', such as the 'best 3-year average in 13 years', won't I lose out because of inflation?

No, as we up rate this earlier pay figure in line with the appropriate cost of living increase.

- If my pay falls because I've chosen to reduce my working hours, can I then choose to use the protections described?

No, it is only in the event of an actual reduction to your full-time equivalent rate of pensionable pay that the final salary protections may be used.

- Can I use the protections if I have been in receipt of an honorarium payment which has subsequently ceased?

If you have been receiving 'additional pensionable payments' that have then cease before your retirement, you will be eligible for the 'best of the last 3 years' calculation but will NOT be able to apply the 'best average of any 3 consecutive years pay within the last 13 years of employment'.

- As I'm more than 13 years from retirement, will this protection still help me?

This protection may still help if you are enforced to retire on ill health grounds or from age 55, you are made redundant or your employment is terminated on efficiency grounds. Also, if you were to leave the scheme your benefits will more than likely be deferred, in which case these protections can be used to calculate your 'final salary' benefits.

- Will my contribution rate change if my pay is reduced?

As the LGPS operates a contribution banding arrangement, a reduction in your pensionable pay may mean that you contribute at a lower rate. Please contact your Employer for further information on this matter.

Further Information

If you require any further information or have queries relating to your personal circumstances, please contact the Dyfed Pension Fund.

Disclaimer

The Dyfed Pension Fund is unable to provide any financial advice. After reading this factsheet, you may want to seek independent financial advice to make an informed decision.

These bodies may be able to help you:

Unbiased: <https://unbiased.co.uk/> Money Advice Service: <https://www.moneyadviceservice.org.uk/en/articles/choosing-a-financialadviser>