



HOW IS MY PENSION WORKED OUT?

Introduction

The Local Government Pension Scheme (LGPS) is changing from 1 April 2015. This is one of a series of Member Briefings developed to explain the main changes to the LGPS. Further information as well as a video can be found on the LGPS 2015 website: <http://www.scotlgps2015.org>

In this Member Briefing we will look at the way your pension will be worked out from April 2015 in the new career average scheme. Remember your pre 1 April 2015 benefits will continue to be worked out on a final salary basis. This briefing covers:

- The two sections of the new scheme
- The bits of 'pay' that will count towards your pension
- Pension Accounts
- The scheme year
- The period after which you are entitled to benefits in the LGPS
- How your pension builds up
- How your pension takes account of changes in the cost of living
- Checking your Pension Account
- Taking part of your pension as a lump sum
- Protections for pension built up to 31 March 2015

Let's look at these in more detail.

Sections of the scheme

There are two sections in the scheme from 1 April 2015 – the main section and the 50/50 section.

The main section of the scheme is where you will be placed. In that section, you pay normal contributions and get normal pension build up.

The 50/50 section is a new option. You will be able to elect to move to this section if you wish. If you do so, you will then pay half contributions but, whilst you are in the 50/50 section, you will only be building up half the normal pension benefits. Anyone in the 50/50 section can move back to the main section whenever they wish.

Regardless of the section you are in, you get full life assurance cover and full ill health cover.

Pensionable Pay

Pensionable pay is the amount of pay on which you pay contributions. It includes your normal salary plus contractual overtime, bonuses, shift allowances and child related leave pay. For part time members, your pensionable pay will be based on your actual earnings (including any additional hours up to your post's full time hours), not full time equivalent.

Pensionable pay also determines how much pension you build up each year.

Pension Accounts

From 1 April 2015 you will have a Pension Account in the scheme for each pensionable employment you hold. So, for example, if you hold two separate pensionable part-time employments you will have two Pension Accounts.

Your Pension Account for an employment will hold the pension you have built up in that employment.

Scheme Year

The scheme year runs from 1 April to 31 March.

The period after which you are entitled to benefits from the LGPS

The period after which you are entitled to benefits in the LGPS is 2 years. This means you need to have been a member of the scheme for 2 or more years to be awarded a pension unless you meet the requirement for some other reason including, for example, if you have received a transfer from another pension scheme or because you already have a deferred pension or a pension in payment with another LGPS Fund in Scotland. If you leave the scheme before being entitled to benefits in the LGPS, you have the option of taking a refund of contributions from the scheme or transfer out to another pension scheme.

Rate of pension build up

Each year, you will build up a pension at a rate of $1/49^{\text{th}}$ of the amount of pensionable pay you received in that scheme year (or, if you had been on reduced pay due to sickness or relevant child related leave¹, the pay you would have received). The amount of pension you build up is added to your Pension Account at the end of each scheme year.

For any period you were in the 50/50 section the pension you build up would be half your normal pension build up.

You can add extra amounts into your Pension Account - for example, if you decide to pay extra contributions to buy additional pension, or you transfer pension from another pension scheme, the amount of extra pension bought will be added to your Pension Account.

¹ Ordinary maternity, paternity or adoption leave and any period of paid additional maternity, paternity or adoption leave.

In certain circumstances, amounts can be deducted from your Pension Account – for example, if a Court decides that part of your pension should be transferred to an ex-spouse or civil partner following divorce or dissolution of a civil partnership.

Cost of living adjustment

The amount of pension in your Pension Account at the end of each scheme year will be adjusted in line with the cost of living - as currently measured by the Consumer Prices Index (CPI) - to ensure it keeps its value.

How a pension will be worked out – an example.

Susan is in the main section of the scheme from 1 April 2015 to 31 March 2016 and earned £24,500 in that year.



Scheme year:	2015/16
Section of scheme:	Main Section
Rate of build up:	1/49 th of pensionable pay
Pensionable pay:	£24,500
Amount of pension built up:	£500 (i.e. £24,500 divided by 49)

So, at the end of the scheme year, £500 is added to Susan's Pension Account. To make sure the amount keeps its value, the total in the Pension Account will be adjusted in line with the cost of living. If inflation was, say, 3%, the £500 in Susan's account at the end of the scheme year (31 March 2016) would be increased on 1 April 2016 to £515.

Susan remains in the main section of the scheme during the next scheme year (1 April 2016 to 31 March 2017) and earns £25,333 in that year.



Scheme year:	2016/17
Section of scheme:	Main Section
Rate of build up:	1/49 th of pensionable pay
Pensionable pay:	£25,333
Amount of pension built up:	£517 (i.e. £25,333 divided by 49)
Amount of pension brought forward:	£515
Total pension in Account:	£1,032

So, at the end of the second scheme year, Susan has £1,032 in her Pension Account. As before, to make sure the amount keeps its value, the total in the Pension Account will be adjusted in line with the cost of living. If inflation was, say, 3.1%, the £1,032 in the account at 31 March 2017 would be increased on 1 April 2017 to £1,064.

If Susan had been in the 50/50 section during those two scheme years, the amount in her Pension Account would be half the amounts shown above.

Checking your Pension Account

Your employer will, at the end of each scheme year, pass details of your pensionable pay for your employment to your pension fund. That information

will be used to update your Pension Account. You will have an opportunity to check the amount in your Pension Account each year as the information will be shown on the Annual Statement that will be sent to you. Your Annual Statement will also show the value of any pre 2015 benefits you have built up. It's important that you check your Annual Statement each year.

Lump sum

In the new scheme you can still exchange some pension to get a tax-free cash lump sum. For every £1 of pension you give up you will get £12 of tax-free lump sum (subject to HM Revenue and Customs limits).

Protections

Any pension you have built up before 1 April 2015 is fully protected. When your pension is due for payment your pension fund will work out and pay you the combined value of the pension you built up in the final salary scheme before 1 April 2015, which will still be calculated using your final year's pay when you leave, and the value of the pension you build up from 1 April 2015 in your Pension Account. A separate Member Briefing providing more information on protections 'Paying into the LGPS before April 2015' is also available.

Further Member Briefings available

There are four further Member Briefings in this series:

- The LGPS is changing from 1 April 2015
- Paying into the LGPS before April 2015?
- Member contributions and the flexibility to pay more or less
- When can I take my pension?

For more information on the new scheme and to view a video explaining the new scheme and to try out the modeller showing how a pension account works and the contribution cost calculator please visit <http://www.scotlgps2015.org>

Disclaimer

This Member Briefing has been produced by the SLOGPAG Communications sub-group. It reflects known changes at the time of publication. It represents the current understanding of the law. It should not be treated as a complete and authoritative statement of the law.

Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information.

Version 8 dated 11 11 2014