



Merseyside
PENSION FUND

Planning Your Retirement

The Local Government
Pension Scheme







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Introduction

**This Guide
is for members
of the Local
Government Pension
Scheme (LGPS) who
are approaching
retirement.**

We tell you about the processes leading up to retirement and what happens once you have retired. We explain about your LGPS pension, how it is paid, how it relates to State Pensions and taxation and give you general information about the financial protection the LGPS offers you and your family.

We have avoided using pension terms where we can, but please refer to the glossary at the back of the guide for a full explanation of some of the terms used.

This guide cannot cover every personal circumstance and does not cover rights that apply to a limited number of employees e.g. those whose total pension benefits exceed the Lifetime Allowance

(£1.75 million in 2009/10), or those whose rights are subject to a Pension Sharing Order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This guide does not confer any contractual or statutory rights and is provided for information purposes only.

More detailed information about the Scheme is available from:

Merseyside Pension Fund
PO Box 120
Liverpool
L69 2NW
Telephone **0151 242 1391**
Fax **0151 236 3520**

Email: mpfadmin@wirral.gov.uk
www.merseysidepensionfund.org.uk

My Pension ONLINE

My Pension Online allows registered users to view details of any relevant membership(s) of the Local Government Pension Scheme (LGPS) administered by Merseyside Pension Fund and calculate your own pension estimates.

If you have not yet registered to use the service and wish to do so, go to www.merseysidepensionfund.org.uk

A close-up photograph of an elderly woman with short, light-colored hair, wearing a wide-brimmed straw hat and glasses. She is dressed in a light pink polo shirt and is smiling gently as she tends to a bush of vibrant pink roses. The scene is brightly lit, suggesting an outdoor setting like a garden or park. In the upper left corner, there is a purple circular graphic containing the text 'Planning Your Retirement'.

**Planning Your
Retirement**

Opinion varies as to when is the best time to plan for your retirement. But whether you are planning your retirement way ahead, taking early retirement, or about to retire, the earlier you take action the better.

Income in Retirement

Here are some of the things you need to consider:

- Occupational Pensions including your Local Government Pension Scheme (LGPS) pension
- State Pension and other State Benefits
- Investments
- Other earnings

There are many sources of information to help you make a decision about your retirement. You can contact the Fund about your LGPS pension and your Personnel or Administration Officer can provide useful information to help you plan your retirement.

You can ask your Personnel Officer if there is a pre-retirement course available for you to attend. These courses often cover many topics, not just your LGPS pension.

State Pension Forecast

A State Pension forecast tells you, based on current rates, the amount of State Pension you may get based on your National Insurance contributions so far and the amount you may get when you claim it. You can get a forecast if you are living in the U.K. and are more than 30 days away from your State Pension Age, contact:

Future Pension Centre
The Pension Service
Tyneview Park, Whitley Road
Newcastle upon Tyne, NE98 1BA
or Telephone **0845 300 0168**

Tracing Pension Rights

If you have lost touch with a previous employer or pension provider and still have pension entitlements with them, the Pension Tracing Service may be able to help by providing you with an up-to-date contact address.

If you need to use this tracing service write to:

The Pension Tracing Service
The Pension Service
Tyneview Park, Whitley Road
Newcastle upon Tyne, NE98 1BA
or Telephone **0845 6002 537**

Remember to keep your pension providers up to date with any change in your home address.

LGPS Retirement Benefits

Your LGPS retirement benefits are made up of:

- An annual pension paid monthly, and
- An automatic tax-free lump sum paid on retirement. (Only automatic for members with membership before 1 April 2008)

The two main factors used to calculate your retirement benefits are:

- Your membership in the Scheme, and
- Your final pay

New-look Scheme Introduced 1 April 2008

On 1 April 2008 a new-look LGPS was introduced and all members who were paying into the Scheme on 31 March 2008 automatically became members under the new Scheme and had the benefits in respect of their membership before 1 April 2008, banked, based on the rules under the 'old Scheme'.

For each year of 'old Scheme' membership your retirement benefits will be based on $1/80^{\text{th}}$ of your final pay – so if you had 40 years membership up to 31 March 2008 you would get $40/80^{\text{th}}$ or one half of your final years pay as an annual pension, plus an automatic lump sum of three times your pension at retirement. (See page 12 for ways to increase your tax free lump sum)

For each year of 'new Scheme' membership, your retirement benefits will be based on $1/60^{\text{th}}$ of your final pay – so if you have 6 years membership from 1 April 2008, you will get $6/60^{\text{th}}$ or one tenth of your final years pay as an annual pension. Although there is **no automatic lump sum**, you can elect to give up part of your pension to increase your tax-free cash at retirement. (See page 12)

Total Membership

The first important element used in working out your benefits is your **total membership**¹.

This normally includes:

.....
How long you have been a member of the LGPS worked out in years and days – not including membership for which you already receive a LGPS pension or hold an LGPS deferred pension.

.....
Membership purchased by a transfer into the LGPS from another scheme or pension plan.

.....
Any extra membership you have bought with additional contributions or by converting AVCs into membership

.....
Any extra membership you are awarded, such as ill-health enhancement.
.....

Your Total Membership could be different to your actual calendar length membership of the LGPS:

If you have worked part-time

your membership is reduced to its part-time equivalent length to calculate retirement benefits, although calendar length is used to decide if you are eligible for a benefit.

If you are a married man with membership before 1 April 1972

this will be converted to 89% of its length unless you have elected to pay additional 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.

¹ Certain membership is not used to calculate your benefits but only to decide if you are eligible for a benefit – this should be detailed on your Certificate of Membership.

Final Pay

The other important element used in working out your benefits is your **final pay**.

This is usually the pay you paid pension contributions on during your final year of Scheme membership, one of the previous 2 years if higher or, if you suffer a reduction or restriction in your pay after 31 March 2008 and this reduction/restriction occurs within your last ten years of membership, you can elect to have your benefits calculated using the average of the best three consecutive years in the last ten years using your pay as at 31 March of each year.

Final pay includes:

- normal pay
- shift allowance bonus
- contractual overtime
- Maternity Pay, Paternity Pay, Adoption Pay, and
- any other taxable benefit specified in your contract as being pensionable

We don't include such things as car allowances, casual overtime, travelling or subsistence allowances, pay in lieu of notice or pay in lieu of loss of holidays.

If you work part-time when you leave the LGPS, or have worked part-time in 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 was reduced in this period because of sickness, your final pay will be the pay that you would have received had you not been off sick.

If you received a Certificate of Protection (issued only up to 31 March 2008) from your employer within 10 years of retirement because your pay was reduced or increases to your pay were restricted through circumstances beyond your control, then we will work out your final pay as the best year's pay in the last 5 years, or the best 3 year average in the last 13 years.

If your pension benefits are calculated using a previous pay period to your final year, your benefits would be increased by appropriate inflation increases.

Calculating Retirement Benefits

Annual Pension

Your annual pension is calculated in two parts. Firstly your membership up to 31 March 2008 is divided by 80 and multiplied by your final pay. Then, any membership you have after 31 March 2008 is divided by 60 and multiplied by your final pay. When added together, the results of these calculations give your total pension.

Retirement Grant

Your automatic tax-free lump sum **Retirement Grant** is three times the annual pension you built up in the Scheme up to 31 March 2008.

Your benefits can be reduced or increased, depending upon your reason for retirement or whether you retire before or after age 65 and you will be able to exchange some of your pension for a bigger tax-free lump sum. (See page 12)

Examples of how your benefits are worked out are shown overleaf

If you work Whole-Time: On retiring at age 65 with 20 years whole-time membership (18 years up to 31.3.2008, two years from 1.4.2008) in the Scheme and a final years pay of £12,000. **The annual pension is:**

18 years	x	1/80	x	£12,000	=	£2,700	(‘old Scheme pension’)
+2 years	x	1/60	x	£12,000	=	£ 400	(‘new Scheme pension’)
						£3,100	

The automatic tax-free lump sum is three times the ‘old Scheme’ annual pension:

£2,700	x	3	=	£8,100
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If you work Part-Time: The same calculation is used, but your membership is scaled down to the part-time equivalent length based on your contractual hours and your final pay is scaled up to the whole-time equivalent rate. On retiring on 31 March 2010 at age 65 after 20 years (18 years up to 31.3.2008, two years from 1.4.2008) working half time - 18½ hours a week in a 37 hour job with a part-time final pay of £6,000.

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

20 years	x	18½	÷	37	=	10 years
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And we would use a whole-time equivalent pay, so: **The annual pension is:**

9 years	x	1/80	x	£12,000	=	£1,350	(‘old Scheme pension’)
+1 years	x	1/60	x	£12,000	=	£ 200	(‘new Scheme pension’)
						£1,550	

The automatic tax-free lump sum is three times the ‘old Scheme’ annual pension:

£1,350	x	3	=	£4,050
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This member will have paid half the contributions and receive half the benefits of an equivalent whole-time person.

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.

Options on Retirement

Taking a bigger lump sum

Instead of taking the standard benefits package, you can take a bigger tax-free lump sum by giving up some of your annual pension.

You can take up to 25% of the capital value of your LGPS benefits as a lump sum. The Capital Value is calculated as follows:

Total Pension (old plus new Scheme pensions) x 120/7
Plus Automatic lump sum x 10/7

Every £1 of annual pension that you give up will produce an additional £12 lump sum. In the same way, giving up £100 of your annual pension would give you an extra £1,200 lump sum.

An option to take a bigger lump sum has to be made in writing using a Retirement Declaration form (LGP 1b) before your benefits are paid. To ensure you have plenty of time to make up your mind and seek financial advice if you wish, it is important you contact your employer well in advance of your intended retirement date to request an estimate of your LGPS benefits.

In converting pension for extra lump sum, your pension may not be reduced below the level of your **Guaranteed Minimum Pension (GMP – see page 17)**.

Any future dependants pensions that may become payable would not be affected by you taking extra lump sum.

Example

A member with a standard benefit package of an annual pension of £7,000 and a lump sum of £9,000 goes for the option of a bigger lump sum, and decides to give up £300 of annual pension.

The benefits would be: **Annual Pension:** down by £300 to £6,700
Lump Sum: up by £3,600 to £12,600

An elderly couple, a man and a woman, are sitting together and looking at a laptop screen. The man is on the left, wearing glasses and a dark blue sweater. The woman is on the right, wearing glasses, a light-colored turtleneck sweater, and a colorful necklace. They both appear to be smiling and engaged with the content on the screen. The background is a plain, light-colored wall.

**Increasing
Your Pension
Benefits**

If you are buying extra LGPS pension by paying Additional Regular Contributions (ARCs)

Your contributions will cease on retirement and you will be credited with the extra pension that you have paid for. This will increase the value of your retirement benefits.

But if you are paying ARCs when you retire and qualify for the type of ill-health pension where your benefits are based on enhanced membership, you will be credited with all the extra pension that you set out to buy, even if you have not completed full payment for it.

If you choose to retire early and draw your benefits before age 65, or you are retired on redundancy or business efficiency grounds, the extra pension you have bought will be reduced for early payment.

If you draw your benefits on flexible retirement, you will be able to draw the extra pension you have paid for, although it will be reduced for early payment.

You can choose to exchange some of the extra pension you have bought for a cash lump sum in the same way as your main LGPS pension.

If you are paying in-house AVCs through the LGPS

Your contributions will cease on retirement and you have a choice of how you use your AVC fund:

Buy an Annuity

This is where an insurance company, bank or building society of your choice converts the value of your AVC Fund and pays you an annuity (pension) in return.

You can do this at the same time as you draw your LGPS benefits or you can choose to delay payment until any time up to the eve of your 75th birthday. An annuity is paid completely separately to your LGPS benefits.

The amount of annuity depends on several factors, such as interest rates and your age. You also have some choice over the type of annuity, for example whether you want annual increases and whether you want dependants' benefits.

Buy a Top-up LGPS Pension

If you retire with immediate payment of your benefits you may be able to use your AVC fund to buy a top-up pension from the LGPS. This automatically provides inflation proofed pension and dependants' benefits in the same way as your main Scheme benefits.

Buy extra membership in the LGPS

If you started paying **AVCs** before 13 November 2001 and you are aged 50 or more and ceased payment of your **AVCs** before you retire, or at any age if you are retiring on ill-health grounds, you have the choice to convert your AVC fund into extra LGPS membership. This will provide extra pension for you and your dependants, paid and increased in the same way as your LGPS pension.

Take your AVCs as cash

If you draw your AVC at the same time as your LGPS pension, you may be able to take some or all of your AVC as tax-free lump sum.

Working out how much scope you have is fairly complex especially if you also wish to convert some of your ordinary LGPS pension into lump sum. We will explain your own position close to the time you retire. If you decide to draw your AVC later, you can have up to 25% of your AVC fund as a lump sum. Any extra life cover paid for through AVCs will cease, as you can no longer pay **AVCs** after leaving.

AVC benefits can be drawn early on flexible retirement (See page 24)

If you are buying extra years in the LGPS

If you are paying additional contributions to buy extra years in the LGPS, your contributions will cease when you retire.

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 retirement benefits.

If you retire early because of redundancy or efficiency, we will give you the opportunity to pay the remaining contributions due in a lump sum in order to complete your contract.

If you retire on ill-health grounds, you will be credited with the whole extra period of membership that you set out to buy, even if you have not completed full payment for it.

If you draw benefits on flexible retirement you can continue to pay for any extra years you are buying. The benefits from the extra membership will not be paid until you finally retire.

For further information relating to Increasing Your Pension Benefits please call the Fund on 0151 242 1396.

Increases to Your Pension

Your LGPS pension increases with the cost of living

Retirement pensions are increased every April in line with the cost of living (Retail Prices Index) for the 12 months to the end of the previous September - protecting their purchasing power.

If you retire early before age 55, apart from ill-health retirement, your pension is normally paid at a flat rate until age 55, when it will be increased to the level it would have been, had it been increased every year by the rise in the cost of living since your early retirement.

If you are retired on ill-health grounds, your pension is increased each year regardless of your age.

If you haven't been on pension a full year, then you won't get a full year's increase unless we have used a previous years final pay to calculate your benefits. For example, if you retire in September, you get half a year's increase.



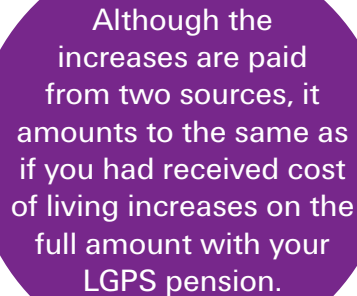
Guaranteed Minimum Pension (GMP)

The LGPS was contracted out of the State Earnings Related Pension Scheme (SERPS), so if you were a member of the LGPS between 6 April 1978 and 5 April 1997 the LGPS must pay you a guaranteed minimum amount of pension (**GMP**) based on the state entitlement you would have earned if you had not been a member of the LGPS during this time.

At state pension age your pension will be compared with this **GMP** and increased to the rate of your **GMP** should this be higher. In most cases, your LGPS pension is higher than your **GMP**.

How increases are applied to your LGPS pension from State Pension Age

Up to state pension age your LGPS pension is fully increased and paid by the Fund. Once you reach state pension age the **Department for Work & Pensions (DWP)** pays the increases on the **GMP** part of your LGPS pension with your State Pension – although the Fund has to pay the first 3% increase on the **GMP** generated by any membership after April 1988.



Although the increases are paid from two sources, it amounts to the same as if you had received cost of living increases on the full amount with your LGPS pension.

Your State Pension

In addition to your LGPS benefits, you may also qualify for a state retirement pension paid by the Government from State Pension Age.

The State Retirement Pension is based on the National Insurance contributions you pay, or are given as credits, during your working life.

The Additional State Pension, also known as the **State Earnings Related Pension Scheme (SERPS)** or **State Second Pension (S2P)**, is the part of your state

pension that depends on your earnings since April 1978. LGPS members are **contracted out** of the Additional State Pension and most pay lower national insurance contributions as a result.

More information on your State Pension is available from the Pension Service – see page 6.

State Pension age is 65 for men and 60 for women. However, from the year 2020, the Government will have equalised the state pension age for both men and women at 65.

The increase in the state pension age for women will be phased in gradually from the year 2010 as shown here:

Further changes to those people born after 5 April 1959 will increase State Pension Age to 68 for both men and women by 2046.

Date of Birth	State pension age
Before 6 th April 1950	60
6 th April 1950 - 5 th April 1951	Between 60 & 61
6 th April 1951 - 5 th April 1952	Between 61 & 62
6 th April 1952 - 5 th April 1953	Between 62 & 63
6 th April 1953 - 5 th April 1954	Between 63 & 64
6 th April 1954 - 5 th April 1955	Between 64 & 65
After 5 th April 1955	65

**Early
Retirement**



Can I retire early?

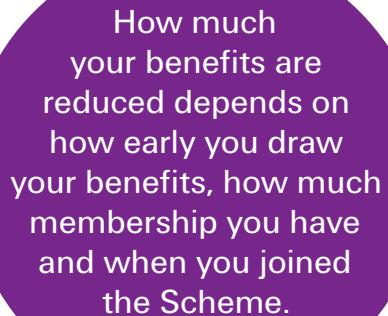
If you have at least three months **total membership** or have brought a transfer value into the LGPS you can elect, in writing to your employer, to retire and receive your LGPS benefits at any time from age 60 onwards.

Between and including the ages of 55* and 59 you may also elect to retire and receive your LGPS benefits, but only if your employer gives their consent. This is an employer **discretion** and under the LGPS your employer's policy with regard to this must be included on their Policy Statement.

Will my pension and lump sum be reduced if I retire early?

If you choose to retire before age 65 your benefits may be reduced to take account of being paid for longer. Your pension and lump sum are initially calculated as detailed in the section on LGPS Retirement Benefits (see pages 7 - 9) and are then reduced to reflect that they are being paid for longer (see table page 23)

Your employer can agree to waive these reductions on compassionate grounds.



How much your benefits are reduced depends on how early you draw your benefits, how much membership you have and when you joined the Scheme.

* 50 for existing members at 31 March 2008 until 1 April 2010 when it will increase to 55

If you joined the LGPS after 30 September 2006

Your benefits will be reduced if paid before age 65. The reduction is based on the length of time (in years and days) that you retire early - from the date your benefits are paid to age 65. The earlier you retire, the greater the reduction.

Example

A man who joined the LGPS in October 2006 asks to retire at 60. He is choosing to receive his benefits five years before 65, so his pension and lump sum will be reduced as follows:

Pension reduction: 24%
Lump sum reduction: 12%

If you were already Paying into the LGPS on 30 September 2006

Some or all of your benefits paid early could be protected from reduction.

All members who joined the Scheme before 1st October 2006 retain the 85 year rule in respect of membership up to 31st March 2008.

The 85 year rule is satisfied if your age at the date you draw your benefits and your Scheme

membership add up to 85 or more (each in whole years).

If you are part-time, your membership counts towards the 85 year rule at its full calendar length. Working out how you are affected by the 85-year rule can be quite complex, but the following examples should help you work out your position.

If you choose to retire before age 65 and do not satisfy the 85-year rule when you draw your benefits, your benefits are reduced

The reduction is determined by the date you reach age 60 and is based on either; how far short you are of satisfying the 85 year rule, the years remaining to age 65, or a combination of both.

Example

A woman retires at 60 on 31 March 2007 with 12 years LGPS membership.

As she does not satisfy the 85-year rule on retirement ($60 + 12 = 72$) her benefits are reduced. As she would not have satisfied the 85-year rule by age 65, the reduction is based on her receiving her benefits 5 years early, so her pension and lump sum will be reduced as follows:

Pension reduction: 23%
Lump sum reduction: 12%

If you choose to retire before age 65, and you satisfy the 85-year rule when you draw your benefits, then:

Members who joined prior to October 2006 who attain age 60 by 31.3.2016, have the benefits they have accrued up to 31.3.2016 fully protected under the 85 year rule.

Members who joined prior to October 2006 who reach age 60 between 1.4.2016 and 31.3.2020, receive partial 85 year rule protection on their benefits accrued up to 31.3.2020; the nearer to 1.4.2016 that they attain age 60, the greater the level of protection.

Members who joined prior to October 2006 who reach age 60 on or after 1.4.2020, only have 85 year rule protection in respect of their membership before 1.4.2008.

The earliest retirement date for all members in respect of membership from 1.4.2020 will be age 65.

Example

A woman retires at age 61 on 31 December 2007 with 24 years continuous membership in the LGPS.

She was born before 1 April 1956 and all her membership is before 31 March 2016. She satisfies the 85-year rule on retirement ($61 + 24 = 85$), so her benefits are not reduced for early payment. Let's assume she retired a year earlier, aged 60 with 23 years membership.

In that case, she would not have satisfied the 85-year rule on retirement ($60 + 23 = 83$), so her benefits are reduced. She would have satisfied the 85-year rule by age 61, so the reduction is based on her choosing to receive her benefits 1 year early and her pension and lump sum would be reduced as follows:

Pension reduction: 5%

Lump sum reduction: 2%

You can reduce or avoid the reductions by delaying payment until a later date. If you are a woman aged 60 or more and you choose to delay payment of your benefits so they are not reduced, we have to pay you the **GMP** element of your pension from your retirement date.

The early retirement reduction table (below) is used to work out how much your reduction would be. Where the number of years is not exact, we adjust the reduction percentages accordingly.

Early Retirement Reductions			
No. of years paid early	Pensions reduction		Lump sum reduction
	Men	Women	Both Sexes
0	0%	0%	0%
1	6%	5%	2%
2	11%	10%	5%
3	16%	15%	7%
4	20%	19%	9%
5	24%	23%	12%
6	28%	27%	14%
7	32%	30%	16%
8	35%	33%	18%
9	38%	36%	20%
10	41%	39%	22%
11	44%	42%	24%
12	47%	45%	26%
13	50%	47%	27%
14	52%	49%	29%
15	54%	51%	31%

*please note: these reductions do not apply where retirement is due to redundancy, business efficiency or ill health

The reduction is based on the length of time (in years and days) that you retire early - from the date your benefits are paid to age 65 or the date you would have satisfied the 85-year rule.

As we describe earlier, if you are paying into the LGPS on 30 September 2006, some or all of your benefits paid early may not be reduced by as much.



Flexible Retirement

Can I have a gradual move into retirement?

Rather than continuing in your job to 65, you can, on or after age 55* with your employer's consent, reduce your hours or move to a less senior position and draw some or all of the pension benefits you have built up to then – helping you ease into retirement. This is known as Flexible Retirement.

Drawing your benefits in this way is only possible if your employer agrees.

You can still receive your wages / salary from your job on the reduced hours or grade and continue paying into the LGPS, building up further benefits in the Scheme.

Will my pension and lump sum be reduced if I take flexible retirement?

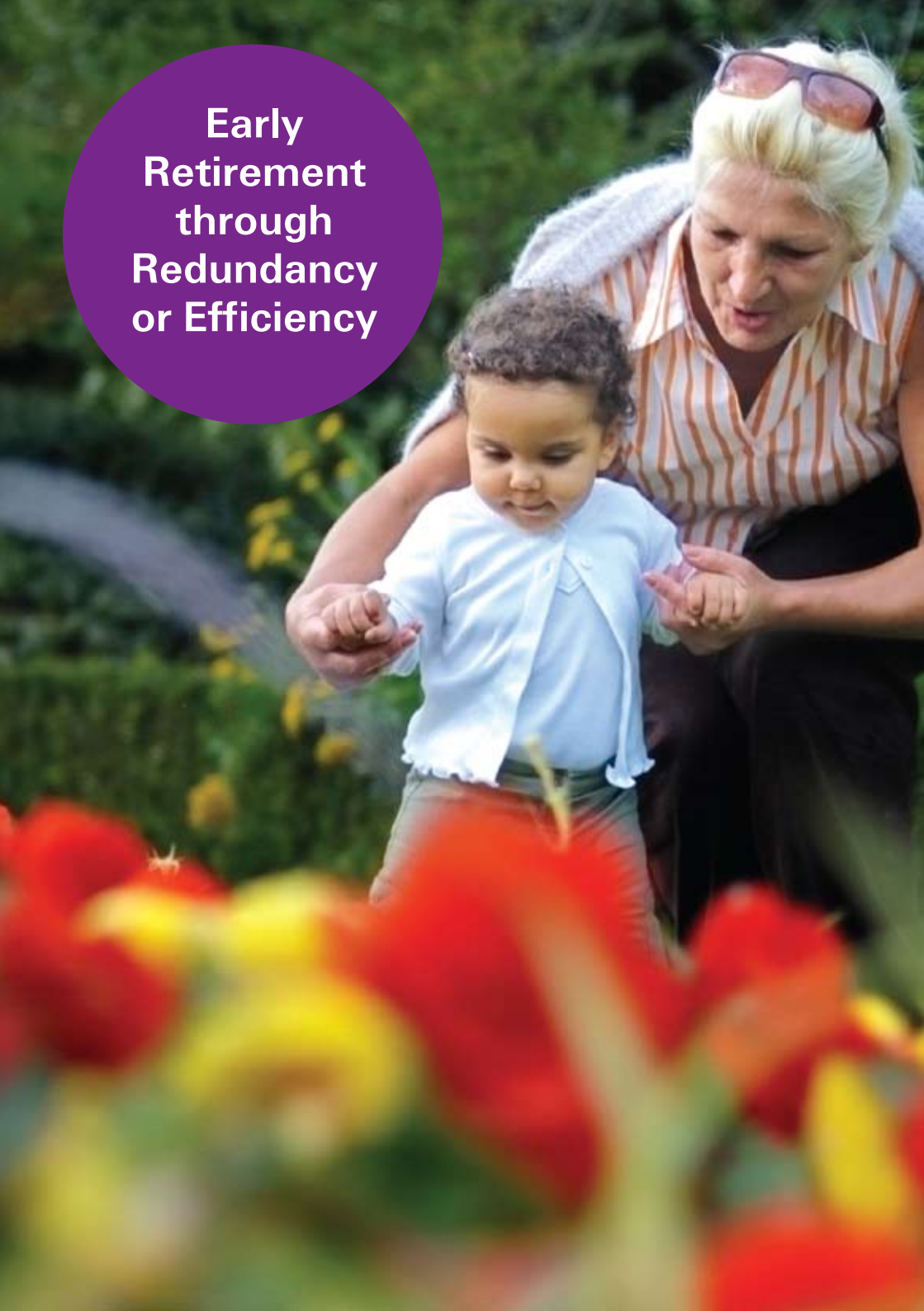
If you joined the LGPS after 30 September 2006 and take flexible retirement before age 65, your pension and lump sum, initially calculated as on pages 7 - 9, will be reduced for early payment.

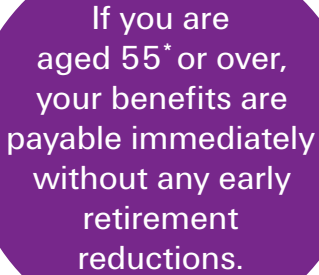
If you were contributing to the Scheme on 30 September 2006, some or all of your benefits paid early could be protected from the reduction (see pages 19 - 23). Your employer may, however, determine not to apply all or part of any reduction.

Your employer will have a policy on flexible retirement - you can ask your employer for details of their policy.

* 50 for existing members at 31 March 2008 until 1 April 2010 when it will increase to 55

**Early
Retirement
through
Redundancy
or Efficiency**





If you are aged 55* or over, your benefits are payable immediately without any early retirement reductions.

If you retire before age 55, your pension is normally paid at the same rate until age 55, when it will be increased to the level it would have been, had it been increased by the rise in the cost of living (Retail Prices Index) every year since you retired.

In the event of your employer having to introduce a redundancy programme or a policy to improve the efficiency of the service, members with at least 3 months membership, including any transferred in from a previous pension scheme, who are at least 55* years of age and leave either compulsorily or voluntarily, are eligible for immediate payment of benefits. In these circumstances benefits are not subject to reduction as for Early Retirement.

The 3 months minimum membership does not apply if you have transferred a previous pension into the LGPS.

* 50 for existing members at 31 March 2008 until 1 April 2010 when it will increase to 55

Ill Health Retirement

What happens if I have to retire early due to ill health?

If you have to give up work because of illness, you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits, an independent doctor, who is qualified in occupational health and appointed by your employer, must be satisfied that you will be permanently unable to do your job until you reach age 65.

Ill-health benefits can be paid at any age and are not reduced on account of early payment – in fact, you can be awarded extra membership to increase the value of your benefits and make up for your early retirement.

How is an ill health pension and lump sum calculated?

If you have at least 3 months total membership

An immediate pension and tax-free lump sum is payable based on actual membership, plus additional membership depending on the level of incapacity – see below.

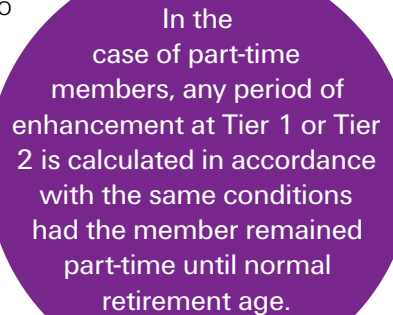
Tiered Ill Health

From 1 April 2008 the LGPS introduced a new system for the early payment of pensions due to permanent ill health.

When establishing a member's incapacity to carry out their job, the independent occupational medical practitioner appointed by employers will also need to indicate a member's likelihood of being capable of further employment. This will determine under which tier the pension will be paid.

Tier 1: Immediate benefits can be paid to members who, in addition to being permanently unable to carry out their job, are medically certified as incapable of 'gainful employment*' before age 65. The benefits under Tier 1 are based on the membership the Scheme member has built up to that point, **plus** a period of enhancement equal to the member's potential membership up to age 65. (For members aged 45 or over at 1 April 2008, the enhancement under the 'old' rules, where greater, would be applied instead).

Tier 2: Immediate benefits can be paid to members who, in addition to being permanently unable to carry out their job, are certified as incapable of any alternative 'gainful employment*' within three years of retirement, but capable before age 65, the Fund will pay an ill-health pension with benefits based on the membership the Scheme member has built up to that point, **plus** a period of enhancement equal to 25% of their potential membership to age 65 (For members aged 45 or over at 1 April 2008, the enhancement under the 'old' rules, where greater, would be applied instead).



In the case of part-time members, any period of enhancement at Tier 1 or Tier 2 is calculated in accordance with the same conditions had the member remained part-time until normal retirement age.

Tier 3: Immediate benefits can be paid to a member who is permanently unable to carry out their job, but is certified as capable of obtaining gainful employment* within three years of leaving his/her employment.

The Fund will pay an ill-health pension with benefits based **only** on the membership the Scheme member has built up to that point, **without enhancement**. Members retired under these circumstances will be required to notify their previous employer when gainful employment is found providing details, including pay, working hours and length of contract of that employment. Former employers will be required to undertake a review when payments have been made for 18 months to determine whether payments should cease, continue, or be paid under Tier 2.

Pension payments cease after 3 years and the member becomes entitled to a deferred benefit, payable from age 60 at a reduced rate, if applicable, or in from age 65 without reduction.

*gainful employment is defined as 'paid employment for no less than 30 hours per week for a period of no less than 12 months'.

Examples of calculating increased membership on Ill-health Retirement

Example

Tier 1: A Scheme member aged 53 with 5 years calendar length membership retires due to permanent ill-health and is found to be incapable of **any** work before age 65. Membership used to work out the member's retirement benefits:

Actual membership: **5 years**

Extra membership: **12 years** (100% of membership to age 65)

Total Membership used in working out benefits: 17 years

Example

Tier 2: If the same Scheme member aged 53 with 5 years calendar length membership retires due to permanent ill-health but is found to be capable of some gainful employment after 3 years, the Membership used to work out the member's retirement benefits would be as follows:

Actual membership: **5 years**

Extra membership: **3 years** (25% of membership to age 65 - 12 years)

Total Membership used in working out benefits: 8 years

*Please note that members aged over 45 at 1 April 2008 retired on health grounds will be granted the extra years they **would** have received under the regulations prior to April 2008. So for this example, an additional 6 $\frac{2}{3}$ years, making 11 $\frac{1}{3}$ in total.

If you work **part-time**, any extra membership awarded is reduced to reflect the hours worked.

Example

Tier 1 - Part-time: Once again, the Scheme member aged 53 but this time with 5 years part-time membership (job share – 50%) retires due to permanent ill-health and is found to be incapable of **any** work before age 65. Membership used to work out the member's retirement benefits:

Actual membership:

5 years (Calendar Length) **2½ years** (Reduced to work out benefits)

Extra membership:

12 years (Calendar Length) **6 years** (Reduced to work out benefits)

Total Membership used in working out benefits: 8½ years

Members retired under tiers 1 and 2 who were paying extra contributions to buy added years will be credited with the whole extra period of membership that they set out to buy, even if they have not completed the full contract.

Late Retirement

Your pension has to be paid before your 75th birthday.

What if I carry on working after age 65?

If you carry on working after age 65 you may continue to pay into the Scheme, accruing further benefits. You can receive your pension when:

- you retire, or
- you reach the eve of your 75th birthday, or
- you have your employer's consent for flexible retirement - see page 24

whichever occurs first.

If you draw your pension after age 65 the pension you accrued prior to age 65 will be increased to reflect the fact that it will be paid for a shorter time.

**Tax
Matters**



HM Revenue and Custom controls and your Retirement Benefits

From 6 April 2006 HM Revenue and Customs introduced controls on the pension savings you can have before you become subject to a tax charge.

The **Lifetime Allowance** is the total capital value (see page 12) of all your pension arrangements, but not your state pension, which you can build up without paying extra tax.

If the value of your benefits when you draw them (not including any State Retirement Pension, State Pension Credit or any spouse's, civil partner's, cohabiting partner's or dependant's pension you may be entitled to) exceed your Lifetime Allowance, a tax charge will be made against the excess.

The Lifetime Allowance for current and future years

2009/2010	£ 1.75 million
2010/2011	£ 1.80 million
2011/2012	£ 1.80 million

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.

You can find out more about these from the leaflet 'Your LGPS benefits and tax changes in England and Wales' available from the Fund, on our Factsheet 2 at www.tinyuril.com/dhwwkz or on request on **0151 242 1360**.

The Fund will let you know the value of your LGPS benefits on retirement and ask you about any other pensions you may have in payment, so we can work out whether we need to deduct a recovery tax charge.

If you do not provide this information promptly it could delay the payment of your pension. Also, under HM Revenue and Custom rules, if the LGPS makes an unauthorised payment or if you recycle your lump sum back into a pension arrangement, there will be a tax charge.

Income Tax and your Pension

Your LGPS pension is taxable, but your lump sum is tax-free. Whether you pay tax when you retire depends on the amount of your pension and your personal circumstances including:

- whether you are going to work again or have other income
- whether you have any income from savings and investments
- how old you are

When you Retire

Tax form P45 is a statement showing your current tax code, pay and tax details to date that an employer normally gives an employee on leaving work.

When you retire on an immediate occupational pension you only get a copy of your P45. Your employer has to forward tax form P45 directly to the Fund where the Payroll Section applies your appropriate tax code against your pension under a special temporary arrangement which does not permit any tax refunds. This is because the tax office needs to re-assess your tax code to take account of any income and any changes in your personal circumstances.

On behalf of the tax office, the Fund will send you a tax form P161 that you should complete promptly and forward directly to the tax office. Once your tax code is re-assessed, the tax office notifies you and the Fund of your new tax code and any tax refund due is paid with your LGPS pension.

What counts as Income

Income is subject to tax and can include:

- your LGPS pension and any other occupational pension
- state pensions
- your earnings if you work again interest from investments
- Jobseekers allowance
- Incapacity Benefit

The tax office needs to know your income from all sources and your personal circumstances in order to assess your tax allowance. Your tax allowance is offset against your total income and tax is due on the rest. As tax is not deducted from any state pension or benefit, any tax due is likely to be collected through your LGPS pension. So it is important you fill in Form P161 and send it to the tax office as soon as possible.

Your Tax Office

Regardless of where you worked and which tax office you had whilst working, the tax office that deals with the Fund is:

HM Inspector of Taxes

Liverpool - Riverside
(Reference 428/M1)

Regian House

James Street

Liverpool

L75 1AA

Tel: 0845 302 1459

Tax Queries

If you have any question about your tax you should contact the tax office, quoting the above reference number, 428/M1 and your National Insurance number as this helps them find your record.

If your tax code is changed, the tax office will let you know. They will also tell us so we can apply it.

Other Tax Matters

If you decide to get another job don't worry about not having a P45 to give your new employer. Your new employer will give you a form to fill in.

Your new employer's tax office will deal directly with the tax office that deals with your LGPS pension and between them they will decide how to deal with your tax.

Every year in May we send you a P60. This is a statement of your LGPS pension and tax paid during the previous year from April to March. You need to keep this safe as other organisations often ask to see it as a proof of earnings if you make a claim for such things as Council Tax Benefit, Income Support or tax rebate.

How your Retirement Benefits will be Paid

In most cases, a full explanation of your benefit calculations is sent to your home address within seven working days of the Fund receiving all relevant documents from both yourself and your employer.

First Payment of Pension

Your first payment of pension is paid directly into your chosen bank or building society account at the same time as your lump sum. This special first payment covers the period from the date of your retirement to the end of the month and usually all of the following month.

Payment of Lump Sum

Your lump sum is paid directly in to your chosen bank or building society account. You can choose to have your lump sum and pension paid into different accounts if you wish. You are strongly advised to seek some independent financial advice on how best to use or invest your lump sum.

Interest on Late Payment of Lump Sum

If payment of a lump sum is delayed for any reason for more than 1 month from the date of retirement, the current bank rate of interest plus 1% is paid for every day of delay as compensation.

Payment of Pension

All pensions are paid monthly no later than the 10th of each month for the whole of that month. You can choose to have your pension paid either:

- directly into a bank
- directly into a building society

It is very important that both the sort code and account number details are accurately completed on form LGP1b.

Trivial Pensions

At State Retirement Age or later, should the value of your annual pension plus any other pensions be no more than 1% of **Lifetime Allowance**, it may be possible to convert your LGPS pension to a one-off payment. The conversion rate depends on your age, sex and marital status at state retirement age. Under no circumstances can pensions in excess of this amount be commuted. Any decision to commute is final and means that there is no further liability on the Fund to pay any dependants' benefits in the event of your death.

Payslips

The Fund does not normally send a payslip to you every month as, for the majority of pensioners, the amount paid each month does not alter significantly. You will receive a pay advice when you first retire, thereafter you will receive one in April giving details of any pension increase, May including form P60, and in December. You will also receive a pay advice in any month when your net pay varies by more than 25p from the previous month.

My Pension Online

My Pension Online allows registered users to view details of any relevant membership(s) of the Local Government Pension Scheme (LGPS) administered by Merseyside

Pension Fund and calculate your own pension estimates. By using this free service, registered users can also view recent pension payslips. If you wish to register for this service, please contact the Fund.

Payment Overseas

If you decide to emigrate, your pension can still be paid monthly into a bank account anywhere in the world. All overseas transactions are dealt with by the Bank of Scotland who make a small charge for currency conversion and transmission of the payment.

Any Queries

Any queries you have regarding payments should be directed to the Payroll Section at the Fund.



What If I get another job after I retire?

If you get another job there will be no change to your pension. It will continue to be paid, as usual, unless you were granted Compensatory added Years of Membership through a redundancy/efficiency of the service retirement, in which case your benefits may be affected.

Protection for your Family

What benefits will be paid if I die after retiring on pension?

If you die after retiring on pension, your benefits will no longer be payable. Your widow, widower, civil partner, cohabiting partner, next-of-kin or person dealing with your Estate must immediately inform the Fund of your date of death as otherwise an overpayment could occur.

The following benefits may then be payable:

A lump sum death grant

A lump sum death grant will be payable if the death occurs in the first ten years on pension and is the amount by which the annual pension multiplied by ten exceeds the pension paid to the date of death. You should ensure that you have completed an up to date death grant nomination form so that the Fund may consider your wishes when making payment of the death grant. Nomination forms are available from your Pension Liaison Officer or the Fund.

A Survivor's pension

Following your death a survivor's pension will be payable to your widow, widower or surviving civil, or nominated cohabiting partner.

The survivor's pension is payable for the lifetime of your widow, widower, civil partner or nominated cohabiting partner.

A widow's pension is based on 1/160th of your final years pensionable pay for each year

of membership. However, if you married after your retirement, the widow's pension will be based only on membership you had in the Scheme since 5 April 1978. For widowers the survivor's pension will be based upon membership you had after 31 March 1972.

For civil and nominated cohabiting partners, the survivor's pension will be based upon membership you had after 5 April 1988.

Pensions for eligible children

Following your death, pension are payable for eligible children who are under age 18, or, if in full-time education, under age 23. If the child is physically or mentally handicapped, the pension may be payable for the life of the child. The pension is based on $1/320^{\text{th}}$ of your pay for each year of membership.

Points to Note

The Fund has the **discretion** to pay the lump sum death grant to your nominee or personal representatives or to any person who appears, at any time, to have been your relative or dependant. If any part of the death grant has not been paid by the second anniversary of your death, it must be paid to your personal representatives, i.e. to your Estate. If you have not already made your wishes known, or you wish to change a previous nomination, a nomination form is available from the Fund.

Widow's, widower's, civil partner's, nominated cohabiting partner's and children's pensions are increased each year in line with the **Retail Prices Index** regardless of age.

In order to nominate a cohabiting partner to receive a survivor's pension on your death, a completed form LGP25a, available from your Pension Liaison Officer or the Fund, must be completed and returned to the Fund, prior to your death.



Help with Pension Problems

If you are in any doubt about your benefit entitlements or have a concern about your LGPS membership or benefits, please contact the Fund.

We will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible. If you are still dissatisfied you can start the complaints process.

You have the right to have your complaint independently reviewed if you are dissatisfied with any decisions made in relation to the Scheme.

The review process begins with the Internal Disputes Resolution Procedure and, if no satisfactory answer is found, continues to The Pensions Advisory Service (TPAS) and finally, the Pensions Ombudsman, whose decision is final and binding.

What you should do

Stage 1

Write, within 6 months of the original decision, to whoever made the decision. If this is your employer, your Pension Liaison Officer, usually located in the Finance Department, will advise you who to write to. If the complaint is against the Fund, write to:

**The Nominated Person,
Merseyside Pension Fund,
PO Box 120, Liverpool,
L69 2NW**

You should receive a decision within 2 months.

Stage 2

If you disagree with the Stage 1 decision, you have a further 6 months to appeal to the Stage 2 referee. All correspondence should be addressed to:

**The Pensions Referee,
Merseyside Pension Fund,
PO Box 120, Liverpool,
L69 2NW**

You should receive a decision within 2 months of your appeal.

The Pensions Advisory Service

TPAS is available at any time to assist Scheme members and beneficiaries in connection with queries or difficulties they cannot resolve with their scheme administrators. TPAS can be contacted at:

**11 Belgrave Road,
London, SW1V 1RB
Tel: 0845 601 2923
www.pensionsadvisoryservice.org.uk**

The Pensions Ombudsman

When a complaint or dispute cannot be resolved even after TPAS intervention, an application for adjudication can be made, within three years of the event, to the Pensions Ombudsman. The Ombudsman can investigate and determine any complaint or dispute involving maladministration or matters of fact or law.

The Ombudsman's decision is final and binding and the Ombudsman cannot investigate matters where legal proceedings have already started. The Pensions Ombudsman can be contacted at:

**1st Floor 11 Belgrave Road,
London, SW1V 1RB
www.pensions-ombudsman.org.uk**



Glossary

Additional Voluntary Contributions (AVCs)

These are extra payments to increase your future benefits. All local government pension funds have an in-house AVC scheme where you can invest money through an AVC provider, often an insurance company or building society. AVCs are deducted directly from your pay.

Contracted-out

The LGPS is contracted-out of the State Second Pension Scheme (S2P). This means that, up to State pension age, you pay reduced National Insurance contributions between the Lower and Upper Earnings Limits, unless you have opted to pay the married woman's/widow's reduced rate of National Insurance, and that you do not earn a pension under S2P. Instead, the LGPS must guarantee to pay you a pension that in general is as

high as you would have earned had you been in the State Earnings Related Pension Scheme / S2P. For contracted-out membership on and between 6 April 1978 and 5 April 1997, this is dealt with as detailed in the section entitled Guaranteed Minimum Pension on page 17. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will, in general, be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Discretion

This is the power given by the LGPS to enable your employer or the Fund to choose how they will apply the Scheme in respect of certain of its provisions. Under the LGPS your employer or the Fund are obliged to consider certain of these discretionary provisions and to pass resolutions to form a policy of how they will apply the provision. In respect of the remaining discretionary provisions they are advised to do so. They have a responsibility to act with 'prudence and propriety' in formulating their policies and must keep them under review. You may ask your employer or the Fund what their policy is in relation to discretion.

Final pay

This is the figure used to calculate most of your pension benefits and is normally your pay in the last year before you retire, or one of the previous two years' pay if that amount is higher, or, if you have suffered a reduction or restriction in your pay (occurring after 31 March 2008) in the last 10 years before retirement, the average of the best three consecutive years pay, ending on a 31 March, in the ten years before retirement.

For a part-time employee, the figure used is normally the pay you would have received if you had worked whole-time.

If your pay is reduced—because of sickness, the final pay is taken to be the pay you would have received if you had not been sick.

During any period of maternity, paternity or adoption leave in respect of which you pay (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 a Certificate of Protection has been issued please refer to page 9. Should you reach age 65 and continue in employment please refer to page 30.

Guaranteed Minimum Pension (GMP)

This is the minimum pension that the LGPS must pay you in relation to the period that you were a member of the LGPS on and between 6 April 1978 and 5 April 1997. It is calculated by reference to the State Earnings Related Pension Scheme entitlement that you would have earned if you not been a member of the LGPS during this period.

Lifetime Allowance

This is the total capital value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any State Retirement Pension, State Pension Credit or any spouse's, civil partner's, cohabiting partner's or dependant's pension you may be entitled to) is more than the lifetime allowance, or more than any primary lifetime allowance protection or enhanced protection you may have, you will have to pay tax on the excess benefits. The lifetime allowance is set by the Treasury. The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements - not just the LGPS. Most Scheme members' pension savings will be significantly less than the lifetime allowance.

Retail Prices Index

This shows the changes in the cost of living. It reflects the movement of prices covering a range of goods and services over time. The amount by which pensions are increased annually is based on movement in the Retail Prices Index during the 12 months to September.

State Earnings Related Pension Scheme (SERPS)

The State Earnings Related Pension Scheme (SERPS) is an earnings-related element of the State Scheme. Benefits are paid by the Department for Work and Pensions (formerly the Department for Social Security) and are based upon any National Insurance contributions you paid between the Lower and Upper Earnings Limits between 6 April 1978 and 5 April 2002 (with a maximum of 20 years counting).

State Second Pension (S2P)

The State Second Pension (formerly SERPS) is the additional state pension, payable from state pension age by the Department for Work and Pensions. It is currently an earnings-related pension but

the Government is expected to change it to a flat rate pension from a future date, for people under age 45 at the time. LGPS members are contracted out of S2P and most pay lower national insurance contributions as a result.

Total Membership

Your period of membership is the number of years and days that you have been a member of the LGPS plus any membership transferred in from another scheme. It also includes any extra period of membership bought with additional contributions, awarded by your employer or by the LGPS. Any period of part-time membership is converted to whole-time membership to calculate retirement benefits.

If 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, which 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 - treating you as though you had never been subject to capped pay.



How to find us

Directions from North Wales/Chester/Wirral

Follow M53 Motorway northbound as far as Junction 3 (it is of course possible to continue and use the Wallasey Mersey Tunnel but reaching us from the exit of that tunnel is more complicated).

Follow signs for Birkenhead Town Centre / Liverpool on A552 for approx 3 miles until the approach to Birkenhead Toll Tunnel. The Toll is currently £1.40.

On entering the tunnel keep to left hand lane - it is compulsory to keep to the same lane within the tunnel - this will make turning left immediately after the tunnel exit easier.

At the exit of the tunnel there is a small roundabout - the first exit of the roundabout is signposted for Dale Street. Turn left into Dale Street and continue until the set of traffic lights at the point where the flyover merges with Dale Street.

About 400 yards ahead on Dale Street is Liverpool Town Hall (the pillared building which protrudes slightly into Dale Street). Castle Street is the road on your left. Turn into Castle Street. Level access is available from the 43 Castle Street entrance.

Directions from the M62

Follow M62 westbound to the end at Junction 4. At end of M62 follow signs for Liverpool City Centre/Albert Dock.

Follow Edge Lane dual carriageway for approx 2 miles until the road is reduced to only one lane as it approaches the junction with Holt Road. From this point it is best to keep to the left in readiness for a left turn further ahead.

At traffic lights after those at Jubilee Road take the left hand lane which turns left into a one-way system. Then continue downhill to the right around the church into Irvine Street/Pembroke Place and past the Royal Liverpool Hospital into London Road.

Continue downhill the full length of London Road toward the end of London Road be ready to turn right at the T junction. A tall monument and the Liverpool Museum are opposite the end of London Road.

After turning right at the end of London Road, keep to the left in order to be ready to turn left at the traffic lights which then lead onto Churchill Way flyover.

The flyover leads to a set of traffic lights at the start of Dale Street. About 400 yards up Dale Street on the right is Liverpool Town Hall which is the pillared building which protrudes out into Dale Street slightly. At the Town Hall turn left into Castle Street.

Level access is available from the entrance via 43 Castle Street.

Travelling by train

Liverpool Lime Street Station is a ten minute walk across the City Centre to Castle Chambers. If you do not know central Liverpool we would suggest you take a taxi.

An alternative is the underground rail link on the Wirral Line - James Street Station is the second stop from Liverpool Lime Street Station and is around the corner from our offices.

To check the timetables for local trains, you may want to use the website of Merseyrail. You can check out real time service information and facilities at local stations. You can also link to National Rail sites to check information if you are travelling from further afield.



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