



## Linking Membership Fact Sheet - points to consider

# Linking Type B2

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**Important:** These notes are based on current scheme rules and our understanding of these at the present time. Future changes in the rules could affect the information given in these notes.

### How LGPS benefits are worked out

#### Benefits built up in the final salary scheme to 31 March 2014

These are based on membership and final pay. This is usually your final year's pensionable pay, or one of the two previous years if higher.

#### Final Pay:

- Certain elements of pay, eg non contractual overtime, were not classed as pensionable under the final salary scheme – so are not used to calculate these benefits.
- If you are part-time the pay you would have got if you worked full-time is used to calculate your benefits.

#### Benefits built up in the CARE (Career average revalued earnings) scheme from 1 April 2014

At the end of March each year a pension equal to  $1/49^{\text{th}}$  of your pensionable pay for that year is added to your pension account ( $1/98^{\text{th}}$  if you are in the 50/50 section). If you receive reduced pay because of sickness, relevant child related leave or reserve forces leave, a notional figure based on the pay you would have received in the 12 weeks prior to reduction is used to calculate your pension. Your pension account is revalued every year in line with the cost of living.

**If your benefits are linked – you'll then have only one set of benefits – so you'll have:**

**A current pension account** - made up of:

1. Benefits based on membership from your old job in the final salary scheme up to 31 March 2014 and final pay when you leave your current job
- +
2. Pension built up in the CARE scheme in your old job from 1 April 2014
- +
3. Pension built up in the CARE scheme in your new job

**Pension sharing order** – if you have a pension sharing order applied to your benefits and your benefits are linked, this order will be transferred to your current pension account.

**If you choose to keep separate benefits – you'll keep your deferred benefits and build up separate benefits in your current job – so you'll have:**

**Deferred benefits**

made up of:

1. Benefits based on membership and final pay from your old job for membership of the final salary scheme up to 31 March 2014 (plus cost of living increases)
- +
2. Pension built up in the CARE scheme in your old job from 1 April 2014

+

**A current pension account**

made up of:  
Pension built up in the CARE scheme in your new job

Deferred benefits are revalued each April so they maintain their value.

**Whether it's better to link could depend on whether your new Final Pay is lower or higher than before:**

**If your pay is lower** If the pay in your current job is lower, and likely to remain lower, than the pay your deferred benefits were worked out on (plus cost of living increases), you may want to keep your deferred benefits separate. This is because your pre 1 April 2014 benefits will remain based on the higher pay.

**If your pay is higher** If the pay in your current job is higher, or likely to become higher, than the pay your deferred benefits were worked out on (plus cost of living increases), linking your benefits could produce higher benefits. This is because your pre 1 April 2014 benefits will be based on the higher pay.

**Cost of living increases** Deferred benefits are revalued each April so they maintain their value. The total pension in your current pension account is also revalued each April to keep pace with inflation. If we have a year of negative

inflation (which is a rare event) – the value of your deferred benefits would remain the same (they can't be reduced), but the total value of your current pension account could go down.

### **Normal Pension Age (NPA)**

This is the earliest age you can retire and draw your benefits without having any reductions applied

- All linked benefits must be drawn at the same time; but
- A different NPA could apply to different parts of your benefits, so any reductions would cease to apply to different parts on different dates
- The reductions decrease the closer you get to NPA
- NPAs are not affected by whether or not you decide to link your benefits – unless **the 85 year rule** applies (see below) or possibly if your deferred benefits include membership before 1 April 1998

**The 85 year rule** – can only apply to you if you joined the scheme before 1 October 2006

**Applies automatically if** – at the date you draw your pension:

- You are aged at least 60; and
- Your age (in whole years) plus your membership and potential membership (at full length and in whole years) adds up to 85 or more

**Applies to:**

- Members born before 1 April 1956 – to all benefits built up to 31 March 2016\*
- All other members – benefits built up to 31 March 2008\* – some additional protection applies to some members born between 1 April 1956 and 31 March 1960

\* excludes some transferred in membership and additional benefits

### **Linking – and break in membership**

If you link your benefits, the 85 year rule will apply to any 'protected' benefits in your active pension account – details shown above. However, any break between the date you left your previous job and the date you rejoined the scheme, could move the date you meet the 85 year rule to a later date.

## **Leaving before retirement**

If you opt out of the scheme with less than 3 months membership in your new job:

- Any contributions you have paid will be refunded to you by your employer though your pay
- You will no longer have the option to link your deferred benefits - as you will be treated as though you had never been a member of the scheme

If you opt of the scheme with at least 3 months membership, or leave your new job, before being entitled to payment of retirement benefits:

- If you've chosen to keep your benefits separate - you will be awarded deferred benefits (you won't be able to claim a refund of the contributions you have paid as your earlier deferred benefits give you a benefit entitlement in your new job)
- If you've chosen to link your benefits - your entitlement will depend on the membership you have in the scheme

## **Transferring pension rights**

- Even if you elect not to link your deferred benefits to your current pension account – you won't be able to transfer these deferred benefits to a different scheme until you cease to be a member of the scheme in your current job
- You won't be entitled to a transfer once you are within 1 year of (or past) your NPA

## **Early retirement**

If, after completing 2 years membership, you retire early due to:

- Voluntary retirement over age 55 (reductions may apply); or
- Redundancy or efficiency over age 55; or
- Ill health at any age (must satisfy scheme medical criteria)

you will only be paid the benefits from your current membership, if you have kept your deferred benefits separate.

Your separate benefits will be paid later, from your NPA (unless the ill health criteria for these to be paid early is also satisfied, or other early retirement provisions apply).

## **Death in service benefits**

**Lump sum death grant** - the amount payable would be:

- If you link your benefits – three times your assumed pensionable pay at date of death (this means any reduction in your pay due to sickness or relevant child related leave is ignored).
- If you retain separate benefits – the higher of three times your assumed pensionable pay at date of death OR the combined lump sum payable in respect of all deferred benefits and any pensions in payment.

**Eligible partner's and children's pensions** – the amount of these would be affected by whether or not you decided to link your benefits.

## **Tax implications - Annual Allowance**

In most cases there are no tax implications when linking benefits. However, there is a limit by which the value of all your pension benefits may increase in any one year without you having to pay a tax charge. This is called the annual allowance and includes pension benefits from all pension schemes. If your benefits increase significantly as a result of linking, you may exceed the annual allowance. However, you may still not have to pay a tax charge if you have unused allowance from the 3 preceding tax years. More information about the annual allowance can be found at:

[www.hmrc.gov.uk/pensionschemes/tax-basics.htm](http://www.hmrc.gov.uk/pensionschemes/tax-basics.htm)

In some instances this tax charge can be paid by the scheme and recovered from pension benefits.