

WILTSHIRE PENSION FUND Local Government Pension Scheme (LGPS)

Reductions in Pensionable Pay

This information below is intended for LGPS members working for anyone whose pay has been affected by a job evaluation exercise or a reduction in pay.

Calculating final pay

The LGPS is a final salary pension scheme with pension benefits based on the period of membership and **'final pay'**.

Final pay

Final pay is normally the pay received in your last 12 months of employment that you pay pension contributions on. If you are a part time worker it is the full time equivalent pay that is used.

However, the Scheme rules allow pension benefits to be calculated on one of two different basis should they prove beneficial for the member:

1). **'Best of the last 3 years' rule**

Your employer should automatically check to see if your full time equivalent pay for either of the two years immediately preceding the final one gives a higher figure. If either of these figures is higher, the highest figure should be used by your employer.

2). **Average of 3 consecutive years from the last 13 years.**

In the event of a reduction in pensionable pay made within 10 years of the date of retirement or leaving the Scheme you can request for the:

Annual average of the best three consecutive years of pensionable pay ending 31 March, within a period of 13 years, ending with the last day of Scheme membership to be used.

This means if you have a reduction in basic pay on 1 April 2013 (after the 3 year pay protection) and you leave the Scheme on or before 31 March 2023 (within 10 years), the calculation of the final pay would be based on the annual average of the best three consecutive years, within the last 13 years of Scheme membership (ending 31 March).

Full protection would last for 10 years from the date of the reduction in pay and end on 31 March 2023.

Please note that pensionable allowances and enhancements are not subject to pay protection from 1 April 2010 so the 10 years protection ends on 31 March 2020.

Examples & FAQs

Example 1 (Best of the last 3 years)

Joe leaves the Scheme on 30 November 2009. His pensionable pay was lower in his last year so the Scheme rules allow for either of the previous 2 years to be used.

Joe's last three years' pensionable pay were:

1 December 2008 to 30 November 2009 = £15,950

1 December 2007 to 30 November 2008 = £15,880

1 December 2006 to 30 November 2007 = £16,130

In Joe's case the final pay used in the calculation of his benefits is £16,130 and this is increased for inflation by the Retail Price Index (RPI) from 1 December 2007 to date of payment.

Example 2 (Average of three consecutive years in the last 13)

Trevor suffers a reduction to his pensionable pay. Trevor's pay is reduced from 1 April 2010 but has three years' pay protection so his pensionable pay actually reduces from 1 April 2013. The 10 year protection starts on 1 April 2013 and ends on 31 March 2023.

The calculation is made by taking the highest three consecutive years pensionable pay (ending 31 March) within the last 13 years of Scheme membership, and dividing this by three.

The figure is increased for inflation (by RPI).

1 April 2022 to 31 March 2023 = £17,540

1 April 2021 to 31 March 2022 = £17,230

1 April 2020 to 31 March 2021 = £16,990

1 April 2019 to 31 March 2020 = £16,680

1 April 2018 to 31 March 2019 = £16,220

1 April 2017 to 31 March 2018 = £15,990

1 April 2016 to 31 March 2017 = £15,640

1 April 2015 to 31 March 2016 = £15,230

1 April 2014 to 31 March 2015 = £14,750

1 April 2013 to 31 March 2014 = £14,440

1 April 2012 to 31 March 2013 = £19,870

1 April 2011 to 31 March 2012 = £19,320

1 April 2010 to 31 March 2011 = £18,860

In this case the three years before the pay reduction are used to give a final pay figure calculated as:

$18,860 + 19,320 + 19,870 = \mathbf{£19,350}$

In Trevor's case his final pay is £19,350 and this is increased for inflation (by RPI) from 1 April 2013 to date of payment.

How long is Trevor's final pay protected?

Trevor's final pay is fully protected if he retires or leaves the Scheme on or before 31 March 2023.

If Trevor continues to work after 31 March 2023, he may decide to opt out of the Pension Scheme in March 2023 to protect his final pay. However, opting out of the Pension Scheme has other important implications that he would need to consider. (See Below).

Trevor need not make a decision about opting out until March 2023.

What would happen if Trevor continued in the Pension Scheme after 31 March 2023?

Trevor's final pay would not be protected because he is outside of the 10 year protection period.

What if pensionable pay reduces from 1 April 2010 as a result of a drop in pensionable allowances and/or enhancements?

Pensionable pay for the purpose of calculating pension benefits will be fully protected until 31 March 2020.

What are the implications of opting out?

There are several potential disadvantages that you need to consider when thinking about opting out of the Pension Scheme and having preserved benefits.

1. If you were made redundant at age 55 or later, only the pension calculated from the period of membership from the point of rejoining would be payable immediately.

Whilst the preserved benefits could be paid at age 60 or later, they may be reduced to reflect early payment, or paid unreduced at age 65.

2. If you had to retire on ill health grounds from the same job, preserved benefits may not be payable. This would depend on the level of incapacity as certified by the Occupational Health doctor.

3. Even if you could have retired at 60 with unreduced benefits, by opting out and then rejoining, the benefits for the future period of membership would only be payable in full at age 65. Whilst the preserved benefits could be paid at age 60 or later, they may be reduced to reflect early payment, or paid unreduced at age 65.

4. If you died and had not rejoined the Scheme at that point, the lump sum death in service death grant (3 x annual final pay) would not be payable.

5. Any future pay increases you receive from pay awards and promotion will not be used in the calculation of final pay for your preserved benefits. For a reduction in basic pay you do not need to make a decision about opting out until March 2023.

If your pensionable pay reduces because of a reduction in pensionable allowances or enhancements you need not make a decision about opting out until March 2020.

What if final pay is already protected following a drop in pensionable pay that happened before 1 April 2008?

Example 3:

Ruth had a permanent drop in her pensionable pay before April 2008 and was issued with a **Certificate of Protection** of pension benefits.

Ruth's final pay is already protected by this certificate and either of the following can be used in the calculation of her final pay,

- the highest final pay in the last 5 years
- or
- the highest consecutive three years pensionable pay in the last 13 years increased by RPI and divided by 3 to give her final pay

What happens if Ruth now suffers a further reduction to her final pay?

Ruth will now have 2 types of protection.

Ruth will still retain protection from her Certificate of Protection of pension benefits and now has further protection under the Scheme rules following her reduction in pensionable.

Can a Certificate of Protection of pension benefits be issued if pay reduces in future?

No. Only members who suffered a permanent reduction in pensionable pay before April 2008 and who were issued with a Certificate of Protection of pension benefits before that date are protected under the previous Scheme rules. No further certificates may be issued.

FURTHER INFORMATION

More information about the Local Government Pension Scheme is available at www.wiltshirepensionfund.org.uk

IMPORTANT NOTE: Wiltshire Pension Fund cannot provide financial advice. If you need advice before making a decision regarding your pension benefits, you may wish to contact an Independent Financial Adviser.

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