

Retirement process guidance notes

About this guide

If you are retiring, with this retirement process guide you will have been given:

- **Retirement form 1:**
- **Retirement form 2:**
- **Retirement form 3:** (*This form is only given to members who meet the criteria to take a small pension as a lump sum. If applicable, this option will be covered in your letter.*)

The notes are to help guide you through the retirement process by explaining how to fill in your retirement option forms. However, these notes are for guidance only and can't be treated as a statement of law. This guide can't cover every personal circumstance and doesn't cover all members, for example those whose total pension benefits are more than the lifetime allowance, or those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. If there is a dispute, the appropriate law will apply.

We hope you find the information useful, but if you have any questions, please contact us. Our contact details can be found at the end of these notes.

You'll be given a payroll number once your pension is in payment. Please keep this safe. You may need to quote this number or your national insurance number in any future contact with us.

How are my benefits worked out?

Along with your retirement letter and forms, you'll get a breakdown of your pension benefits.

Your Local Government Pension Scheme (LGPS) retirement benefits are made up of:

- An annual pension paid monthly
- A tax-free lump sum paid on retirement. (This is automatic if you have membership before 1 April 2008.)

Membership up to 31 March 2008

Benefits in this period are built up in the final salary scheme and worked out according to length of membership and your final pay when you leave the scheme. For each year of membership, your retirement benefits are based on 1/80th of your final pay. So, if you've 20 years full time membership up to 31 March 2008, you'll get 20/80ths or one quarter of your final pay as an annual pension, plus an automatic lump sum of three times your annual pension.

The calculation is:

- Annual pension = $1/80 \times \text{period of membership} \times \text{final pensionable pay (pre-2014 definition)}$
- Automatic lump sum = $3/80 \times \text{period of membership} \times \text{final pensionable pay (pre-2014 definition)}$

Membership between 1 April 2008 and 31 March 2014

Benefits in this period are also built up in the final salary scheme and worked out according to length of membership and your final pay when you leave the scheme. For each year of membership from 1 April 2008 to 31 March 2014, your retirement benefits are based on 1/60th of your final pay. So, if you've six years full time membership from 1 April 2008 to 31 March 2014, you'll get 6/60ths or one

tenth of your final pay as an annual pension. There's no automatic lump sum, but you can give up some of your annual pension for a lump sum. For every £1 of pension given up, you would get £12 of lump sum.

The calculation is:

- Annual pension = $1/60 \times$ period of membership \times final pensionable pay (pre-2014 definition)

Membership up until 31 March 2014

Before the LGPS changed in 2014, your scheme membership included:

- Any membership of the LGPS worked out in years and days. This doesn't include membership you've already received an LGPS pension or deferred benefit for (see below if you are part time).
- If you've worked part-time your membership is reduced to its part-time equivalent length to work out retirement benefits, although calendar length is used to decide if you are eligible for a benefit.
- Any membership bought by a transfer to the scheme from elsewhere, or pension plan
- Any extra membership you've bought with additional contributions or by converting an AVC fund into membership.

Final pay used for membership up to 31 March 2014

For membership built up to 31 March 2014 when the LGPS was a final salary scheme, your final pay, under the LGPS 2008 regulations definition is used to work out your benefits. This is the pay during your final year of scheme membership, or one of the previous two years if higher. If you suffered a reduction in your pay after 31 March 2008 and this reduction happened within your last ten years of

membership, you can choose to have your benefits worked out using the average of the best three following years over the last ten years.

The 2008 definition of final pay includes:

- Normal pay
- Shift allowance
- Bonus
- Only contractual overtime and additional hours
- Maternity pay, paternity pay, adoption pay,
- Any other taxable benefit mentioned in your contract as being pensionable.

If you worked part-time during your final year, your final pay, under the 2008 definition, is the full-time equivalent that you would've had, if you'd worked full-time. If your pay was reduced in this period because of sickness, your final pay will be the pay that you would've had if you'd not been off sick.

Membership from 1 April 2014

The scheme changed to a career average revalued earnings scheme (CARE) from 1 April 2014. For each scheme year (April – March), your pensionable pay for that year is divided by 49 and added to your pension account. Each following year of membership builds up the same way and is added to your pension account. Whilst you're an active member, to make sure your pension account keeps up with the cost of living, your pension is increased each year by a Treasury Revaluation Order.

Pay used for membership after 31 March 2014

For membership built up after to 31 March 2014 in the CARE scheme, the 2014 definition of pensionable pay includes:

- Normal pay
- Overtime and additional hours

- Shift allowance
- Bonus
- Maternity pay, paternity pay, adoption pay,
- Any other taxable benefit mentioned in your contract as being pensionable

If your pay was reduced in this period because of sickness, your pensionable/CARE pay will be the pay you would've had if you'd not been off sick.

Important

Your final salary pay and CARE pay is provided by your employer. If this is found to be wrong after your benefits have been brought into payment, your benefits will be worked out again and changes made retrospectively. You should check your pension breakdown carefully and let us know if you think the information is wrong.

Retiring early and taking immediate benefits

If you're taking your pension and lump sum before your normal pension age, your benefits will normally be reduced because they are being paid early and will be in payment for longer. The early retirement reductions applied to your benefits is based on guidance from the Secretary of State and can be found in the table below. Where the number of years is not exact, the reduction percentages accordingly.

Early retirement reductions (as at January 2019)

Years early	Pension reduction	Lump sum reduction %
0	0%	0%
1	5.1%	2.3%
2	9.9%	4.6%
3	14.3%	6.9%
4	18.4%	9.1%
5	22.2%	11.2%
6	25.7%	13.3%
7	29%	15.3%

8	32.1%	17.3%
9	35%	19.2%
10	37.7%	21.1%
11	41.6%	N/A
12	44%	N/A
13	46.3%	N/A

Retirement form 1

On retirement form 1, we ask you for personal details such as your name, address and bank details. We also ask for your email address, so you can view your payslips and P60 information online. Your details won't be shared with any other organisation unless it's to carry out an administrative function of the fund.

We'll need you to prove your date of birth and marital status, so please make sure that copies of the certificates asked for on the form have been included. **Please avoid sending original documents.**

For every £1 of annual pension you give up, you'll get £12 of (additional) lump sum. This lump sum is paid to you tax free when your pension comes into payment but HMRC limits how much annual pension you can change to a lump sum.

To help you, we've shown the maximum amount of pension you can give up in your letter. You can choose to give up any amount of annual pension up to the maximum limit. If you decide to give up some of your annual pension to increase your lump sum, you are reducing your annual pension permanently.

However, any survivor's benefit that may be due after retirement won't be based on the reduced pension. Any lump sum taken within HMRC limits is tax free.

Retirement form 2

On retirement form 2, we ask you to tell us about other pension benefits you already have in payment, whether you have

transferred benefits overseas and what you plan to do with your pension lump sum when you get it.

Other pension benefits in payment

Please give us information about pension benefits from other providers. We need to know this because HMRC restricts pension benefits to an amount, known as the lifetime allowance, before a tax charge becomes due (other than income tax). The lifetime allowance as at April 2020 is £1,073,100. Your pension benefits from us will count towards your lifetime allowance and the percentage used will be shown in your retirement letter. If this percentage, together with any other pension benefits isn't more than 100%, no additional tax charge is due.

Overseas transfers on or after 6 April 2006

Don't forget to fill in the overseas transfer section by selecting either the 'yes' or 'no' option.

Recycling of your lump sum

When you take your benefits, as well as your pension you may also have a lump sum. This is sometimes called a pension commencement lump sum (PCLS) by HMRC. If you plan on using some, or all your lump sum to fund additional contributions to this pension scheme, or to any other pension arrangement, this is known as 'recycling' and special tax rules may apply. If you break the recycling rules, you'll have to pay a tax charge of between 40% and 55% of the value of your lump sum. **Please make sure you're aware of 'pension recycling' rules by reading the guidance on the gov.uk website and the information on retirement form 2.**

Retirement form 3

Trivial commutation is where a small pension benefit can be paid as a one-off

lump sum. The trivial commutation option will only be given to you if we think you might meet the criteria. If this applies to you, you'll have been given retirement form 3.

How do I know if I can take all my pension as a one-off lump sum?

The trivial commutation rules which must be met to take your pension as a one-off lump sum are:

- You must be at least age 55, or age 60 in the case of a woman with a guaranteed minimum pension (GMP), or age 65 in the case of a man with a GMP, with no upper age limit.
- You must add all your benefit values, of all pension arrangements including company pensions/personal pensions/stakeholder pensions/retirement annuities/buy-out plans (but not State Pension), together and if they don't add up to more than £30,000, trivial commutation may be possible.
- All your benefits in the LGPS must be taken, including all benefits from other LGPS funds.

You don't have to commute all your non-LGPS pension arrangements to one-off lump sums if you have other pensions. You can commute some and leave others to give you a retirement income. However, all trivial commutations must take place within twelve months of the first one.

What are my options in the LGPS?

In the LGPS, it may be possible for you to take a lump sum under the 'de minimis' rules even if the trivial commutation rules described above haven't been met. However, this option isn't available if you're taking payment of deferred pension benefits from leaving the LGPS before 1 April 2008.

The 'de minimis' rules are:

- You must be 55 or over or GMP age
- You must not be a controlling director of the sponsoring employer
- The payment mustn't be more £10,000
- The payment extinguishes your right to benefits under the scheme
- There must not have been a transfer-out of the scheme in the three years before the date of payment

If these rules are met, we'll pay your benefits built up in our fund as a one-off lump sum, unless a formal request is made by you explaining any exceptional circumstances which should be considered.

Is a trivial commutation lump sum taxed?

It's considered 'income' for tax purposes. The first twenty five percent of the lump sum payment is tax free but the other seventy five percent will be taxed. However, if you're giving up a pension in payment, the whole lump sum is taxed. Instructions from HMRC mean the tax is taken at source and you're paid the remaining balance.

To read more about 'trivial commutation', visit HMRC's website: www.gov.uk/hmrc, or the Pensions Advisory Service website: www.pensionadvisoryservice.org.uk.

The total value of your Shropshire County Pension Fund (SCPF) pension is: 20 x your annual pension plus your lump sum (if any) plus your in-house AVC fund (if any). Before we can tell you if your benefits fall within the trivial commutation limit, we need information about other pensions you may have that aren't yet in

payment. While your SCPF benefits may be below the HMRC limit, when your other pension benefits are also included, you may be over the limit. **It's our policy to trivially commute all pensions that fall below the HMRC limits.** In our letter we'll give you at least two trivial commutation options:

1. Uncrystallised pension benefits. Instead of paying you a lump sum, if this applies, and then commuting your annual pension benefits, your pension and lump sum are combined to work out the value of the one-off payment. Twenty five percent of this figure is tax free and the rest is taxable. If you wish to take this option, please tick "I do not wish to give up any of my annual pension" on form 1 and tick uncrystallised pension on form 3.
2. Standard lump sum: If you wish to take your standard lump sum (which is tax free) and then commute your pension into a one-off lump sum, please tick "I do not wish to give up any of my annual pension" on form 1 and tick option 2 on form 3.
3. Maximum lump sum: If you wish to take the maximum lump sum and then commute your annual pension into a one off taxable lump sum, please tick "I wish to give up the maximum annual pension allowed to increase my retirement grant" on form 1 and tick option 3 on form 3.

What happens next?

Once your completed forms have been received and if your payment date/leave date has passed, we'll process your pension benefits and send a letter to you confirming your annual pension and the payment date of your lump sum, if applicable.

This letter should be sent within five working days after we get your completed forms and other necessary information. If

your payment/leave date hasn't yet passed, a letter will be sent to let you know that your forms have been received but we won't be processing the benefits until closer to the benefits payable date.

If all the forms aren't returned, or have been filled in incorrectly, this may delay payment of your benefits.

We will also confirm your payroll number, the date of your first pension payment and how to access your payslips/P60s online once we have set you up on our payroll system. Please note that these details may be provided in a separate letter. More information can be found in 'frequently asked questions' on our website.

State pension

Along with your LGPS benefits, you may also get a State Pension paid by the Government from your State Pension age. More information on your state pension is available from the State Pension Agency.

Tel: 0345 606 0265

Website: www.gov.uk/calculate-state-pension

Pensions increase

Public service pensions such as the LGPS are increased annually in line with the Consumer Price Index (CPI) to keep up with the cost of living.

Every April we'll tell you if any increase has been applied as set by the Pensions Increase Act. The annual pensions increase is normally only paid if you're aged 55 or over, except if you've retired on ill-health.

Appeals procedure

In accordance with Regulation 74 of the Local Government Pension Scheme Regulations 2013 (as amended), we must tell you that if you're unhappy with any

decision about your rights or liabilities under the scheme, you can make an appeal application to the body responsible for the decision. This is either your employer or the administering authority.

This is called a first stage appeal, and it must be made within six months of the event. We'd suggest that you go to the pensions team first with any matter with which you are not in agreement before starting the appeal process.

Standard forms and guidelines on the appeal process can be found on our website, or you can ask for a copy by calling 01743 252130. After you've been through the first stage, if you're still unhappy, you can apply for a reconsideration using the second stage to:

Claire Porter: Head of Legal Services
Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND.

The Pensions Ombudsman's details can be found on our website.

Communications

Shropshire County Pension Fund website

Visit our website for more information about your pension scheme and contact details for other organisations.

InTouch

We issue a newsletter to retired members called InTouch. The newsletter features updates from us, including articles from the Pensions Manager and member representatives on the Pensions Committee and Pensions Board. If you have something you want to include in the magazine, please let us know.

Annual meeting

An annual meeting is held to update members. Topics covered include

investments, financial performance and administration of the scheme. The annual meeting is open to active, deferred and retired members to attend.

Contact information

Write:

Shropshire County Pension Fund
The Shirehall,
Abbey Foregate,
Shrewsbury, SY2 6ND

Office hours:

Monday – Thursday 8.45am to 5pm
Friday 8.45am to 4pm

Phone: 01743 252130

Email: pensions@shropshire.gov.uk

Website:

www.shropshirecountypensionfund.co.uk