

Leaving your job before retirement

About these notes

In these notes we look at what happens to your Local Government Pension Scheme (LGPS) benefits if you leave your job before retirement. This guide is for members leaving the LGPS after 1 April 2014.

If you leave your job before retirement and have been in the scheme for two years or more, you'll have built up pension benefits.

You've two options for these benefits:

- You can keep them in the LGPS. They become deferred benefits and are increased every year in line with the cost of living
- Transfer your deferred benefits to another pension scheme.

This guide can't cover every circumstance, and if there's a dispute, the appropriate law will apply. It doesn't give you any rights under a contract by law. You can find out what you can do if you are unhappy about a decision made about your LGPS pension, by contacting us or visiting our website.

What happens to my benefits once they're deferred?

When your benefits are deferred, the amount held in your active pension account at your leave date is moved to a deferred pension account to become deferred benefits. The benefits in your deferred pension account are held in the LGPS until they are due to be paid, or you decide to transfer them to another pension scheme.

Your deferred benefits are made up of an annual pension, due throughout your retirement, and the option at retirement to give up some pension for a one-off tax-free lump sum. They also include life cover and financial protection for your family.

How are deferred benefits worked out?

Your deferred benefits are worked out as:

- **Membership from 1 April 2014**

Your deferred pension for your membership of the scheme from 1 April 2014, is the value of the pension you've built up in your active pension account at the point of leaving. This is worked out as 1/49th of the pay you have paid contributions on for each scheme year (April – March).

- **Membership between 1 April 2008 and 31 March 2014**

This part of your deferred pension for any membership between 1 April 2008 and 31 March 2014, is worked out by dividing the period of membership between those dates by 60 and multiplying by your final pay on leaving.

- **Membership before 1 April 2008**

The part of your deferred pension for any membership before 1 April 2008, is worked out by dividing the period of any scheme membership you have before that date by 80 and multiplying by your final pay on leaving.

- **Tax free lump sum**

If you've membership before 1 April 2008 you'll have an automatic tax-free lump sum. This is three times your pension for your membership before 1 April 2008.

If you weren't in the LGPS before 1 April 2008, or you were and want to increase your automatic lump sum, you can give up some of your annual pension for a lump sum. You'll get 12 pounds of lump sum for each pound of annual pension given up. You can take up to 25% of the

capital value of your pension benefits as a lump sum.

What if I've paid extra contributions?

If you've paid extra contributions, these will stop when you leave the LGPS. You'll benefit from these extra contributions, which we work out with your deferred benefits.

If you're buying extra LGPS pension by paying additional pension contributions (APCs) or additional regular contributions (ARCs)

You'll be granted the extra pension you've paid for at the time of leaving. This will increase the value of your deferred benefits and any transfer value which could be paid to a new pension scheme.

If you're buying extra years in the LGPS (added years)

You'll be granted the extra membership that you've paid for at the time of leaving. This will increase the value of your deferred benefits and any transfer value which could be paid to a new pension scheme. The extra benefits will be worked out based on the rules in place when you agreed to buy extra years.

If you move to a new employer in the LGPS in England or Wales within 12 months of leaving, you can carry on paying additional contributions. However, you must also pay to cover the period between leaving and starting your new job and join your pension benefits together. Contact your new LGPS administrator within three months of re-joining the LGPS to arrange this.

If you pay additional voluntary contributions (AVCs)

The value of your AVC fund will continue to be invested until it is paid. Your AVC plan is like your main LGPS benefits in that it can be:

- transferred to another pension scheme

- taken at the same time as your LGPS benefits.

As you can't pay AVCs after leaving, any extra cover paid for through AVCs will stop.

If you're paying additional contributions to buy extra cohabiting partner's survivor's pension

The period of your pre-6 April 1988 membership you've paid extra for at the time of leaving, will be included when working out any survivor's pension due to an eligible cohabiting partner on your death.

When are deferred benefits paid?

Your deferred benefits are due to be paid at your normal pension age in the LGPS. From 1 April 2014 your normal pension age is linked to your State Pension age (but with a minimum of age 65). Benefits built up before 1 April 2014 have a normal pension age of 65.

You can find out what your State Pension age is by using the government's State Pension age calculator. This is available on their website www.gov.uk or by calling 0345 3000 168.

Deferred benefits can be paid earlier or later than your normal pension age. There are two ways they can be paid earlier, and these are:

- early payment through your choice from age 55
- early payment because of permanent ill-health decided by your former employer.

Please be aware that you can't take payment of your deferred benefits if you're still working in the job which these deferred benefits are from (unless you have reached age 75).

Early payment of deferred benefits

You can choose to take early payment of your deferred benefits from age 55. You don't need your former employer's agreement to

take your pension before your normal pension age.

If you choose to take your benefits before normal pension age, your benefits will normally be reduced because of early payment. This is because your pension will be paid for longer.

How much your deferred benefits are reduced by depends on how early you take them. The reduction is worked out in line with guidance from the Secretary of State.

The percentage reductions for retirements up to 13 years early are shown in the following table.

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

Your former employer can agree to remove the reduction if they wish. This is an 'employer discretion' and you can ask your employer what their policy on this is.

If you've built up pension in the LGPS before 1 April 2014, protections are in place for the normal pension age that applies to those benefits. Also, if you were a member of the LGPS on 30 September 2006, some or all your benefits could be protected from the

early payment reduction if you're a rule of 85 member.

Early payment of deferred benefits due to ill-health

You can ask for payment of your deferred benefits without reduction if, because of your health you'd be permanently unable to do the job you were working in when you left the LGPS. You must also be unlikely to be able to take on any 'gainful employment' within three years of applying for ill-health or by your normal pension age, whichever is earlier.

You should contact your former employer to ask for early payment of your deferred benefits because of ill-health. This decision can't be made by the pensions team or by you.

Payment of deferred benefits at normal pension age

If you don't take early payment of deferred benefits, they'll be paid at your normal pension age. You can delay payment after your normal pension age, but your benefits can't be paid later than age 75.

What if I die before receiving my deferred benefit?

If you die before receiving your deferred benefits, a death grant would be due. The death grant would be five times the annual deferred pension. This would be increased in line with the cost of living to the date of your death.

If you're paying into the LGPS in another job, any death grant due would be either the death in service grant, or the pension guarantee from your deferred pension (or multiple deferred pensions). Whichever is more.

Who will my death grant be paid to?

If you've filled in an expression of wish form saying who you'd like the death grant to be

paid to, your wishes will be considered. But, the final decision is made by us. If you've not filled in a form or want to update your information you can find a copy of this form on our website, or you can ask for a copy to be sent to you by calling the helpdesk number. You can also update these details through 'My Pension Online'.

How do my deferred benefits keep their value?

If your benefits are paid on or after age 55, or before age 55 because of ill-health, they will be adjusted each year in line with the cost of living.

What happens if I transfer my LGPS benefits to another (non-LGPS) scheme?

If you're joining another pension scheme, you may want to think about transferring your LGPS benefits. You can only transfer to a scheme that meets HMRC conditions. Also, you can't transfer your benefits if you leave less than one year before your normal pension age. If a full transfer payment is made, you'll not get any further benefits from the LGPS for yourself, or your family.

Your new pension scheme will need a transfer value quote (sometimes known as a CETV) which we can give you. This quote is guaranteed for three months from the date it's worked out. Your new pension scheme can then tell you what benefits the transfer will buy in their scheme. If you want to continue with the transfer, a written statement saying you want to go ahead must be sent to us within the three-month guarantee period.

If you're thinking about whether to transfer benefits, make sure you've information about the two pension schemes. You'll need details of what your benefits are worth in the LGPS and details of what your benefits would be worth in the new pension scheme if transferred.

Transfers to public sector schemes usually give benefits like those in the LGPS. This is

known as the club transfer rules. To meet these rules, you must apply for the transfer within twelve months of joining your new pension scheme, and not had a continuous break in active membership of a public service pension scheme of more than five years.

Transferring your pension benefits isn't always an easy decision. We recommend you see an independent financial adviser before you decide to transfer your deferred benefits. Remember, you will be bearing the investment risk which could significantly affect your future pension benefits. You must take advice from an independent financial adviser (registered with the Financial Conduct Authority), if the value of your LGPS benefits is over £30,000. An independent advisor can be found on the following websites: FCA register, Personal Finance Society Website, The Association of Professional Financial Advisors, or the local Citizens Advice Bureau.

Freedom and choice

Changes in the law brought in by the Pensions Act 2015 mean that many members of UK pension schemes offering defined contribution (DC) benefits have more choice over how they take their pension from age 55. This includes the option to take the whole pension pot as a lump sum in one go, or at different stages. Only 25% of the cash taken will be tax-free.

The LGPS isn't a DC scheme, but a defined benefit (DB) scheme. This means these new options don't apply to members of the LGPS.

What happens if I change jobs but stay in the LGPS?

If you're changing your job, but still working for an employer offering the LGPS, or if you re-join the LGPS before your deferred benefits are paid, your deferred benefits are automatically joined with your new active pension account when you re-join the scheme, unless you choose to keep them separate. If you want to keep your deferred

benefits separate, you must tell us within twelve months of re-joining the LGPS. Your employer can allow you longer through use of an employer discretion. You can ask your employer what their policy is.

What if I've two or more LGPS jobs?

If you've two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all, and you're given deferred benefits from the job (or jobs) you've left, your deferred benefits from the job that's ended are automatically transferred to the active pension account for the job you're continuing in, unless you choose to keep them separate. If you want to keep your deferred benefits separate, you must tell us within twelve months of re-joining the LGPS. Your employer can allow you longer through use of an employer discretion. You can ask your employer what their policy is.

If you're not given deferred benefits from the job (or jobs) you've left, but would've had a refund of contributions, you can't have this refund. Instead, you must transfer these benefits to the pension account for the job you're continuing in.

Contact information

Write:

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

Office hours:

Monday – Thursday 8.45am to 5pm
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