North Yorkshire Pension Fund

Combining benefits guide

February 2020

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1. Purpose of the Guide

This guide is provided to help further explain some of the terms used in our communications about combining your pension benefits. It gives more detail about how your benefits are calculated in the Local Government Pension Scheme (LGPS), when they become payable and other important information about protections and paying extra contributions in the LGPS.

2. Working out your benefits in the LGPS

Working out your LGPS benefits depends on when you were a member of the scheme.

The scheme is currently made up of three sections as follows:

Effective Date	Benefit Type
From 1 April 2014	Career Average Scheme
Between 1 April 2008 & 31 March 2014	Final Salary Scheme on a 1/60th basis
Before 31 March 2008	Final Salary Scheme on a 1/80th basis

Career Average Scheme

Every year, for membership from 1 April 2014, you will earn pension at a rate of 1/49th of the amount of **pensionable pay** you receive in that scheme year if you are in the main section of the scheme (or half this rate (1/98th) for any period you have elected to be in the 50/50 section). This pension is then added to your pension account and re-valued at the end of each scheme year in line with the increase in the **Consumer Prices Index** so your pension keeps up with the cost of living.

Pensionable Pay: For benefits built up from 1 April 2014 your pensionable pay is the amount of pay on which you pay your normal pension contributions. However, if during the scheme year you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on relevant child related leave or reserve forces service leave then, for the period of that leave, your pension is worked out based on your **assumed pensionable pay**.

Assumed Pensionable Pay: This provides a notional pensionable pay figure to ensure your pension is not affected by any reduction in pensionable pay due to a period of sickness or injury on reduced contractual or no pay, or relevant child related or reserve forces service leave.

Consumer Prices Index (CPI): This is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your pension account at the end of every scheme year when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

Final Salary Scheme on a 1/80th basis

You receive a pension of 1/80th of your **final pay** for each year you have been a member of the scheme before 1 April 2008. Alongside this you also receive an automatic tax-free lump sum of 3 times your pension.

Final Salary Scheme on a 1/60th basis

You receive a pension of 1/60th of your **final pay** for each year you have been a member of the scheme between 1 April 2008 and 31 March 2014. There is no automatic tax-free lump sum for this period of membership, but you do have the option to exchange some of your pension for a tax-free lump sum.

Final pay: This is usually the pay in respect of (i.e. due for) your final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher. The main differences to the pay used for career average benefits include:

- If you are working part-time when you leave the LGPS, or worked part-time at some point during your last year of membership, your final salary pay is the whole-time pay that you would have received if you had worked whole-time.
- It does not include non-contractual overtime.

There are further protections for final salary pay if your pay is reduced due to a period of sickness, if you are on maternity, paternity or adoption leave or if you pay is reduced or increases to your pay are restricted.

Working part time: If you worked part-time before 1 April 2014, your membership is reduced accordingly. For example, if you worked 17.5 hours per week and the full time equivalent hours for the job were 35 hours per week, your membership will be reduced by 17.50/35.00, which is half. We use your full-time equivalent pay to calculate your benefits.

Remember, if your benefits are combined with your new active pension account and they buy an amount of earned pension in the career average scheme, any final salary benefits you had built up will no longer be worked out using the final salary calculations. Instead they will be treated as career average benefits.

Benefit Calculation example

The following example shows how LGPS benefits are calculated for a member:

- retiring at normal pension age on 31 March 2019
- with 39 years of LGPS membership
- whose final pay is £22,000

who has built up a pension account since 1 April 2014 as shown in the table.

Benefits based on 28 years' membership up to 31 March 2008-

Pension: 28/80th x £22,000 = **£7,700**

Lump sum: 3 x 28/80th x £22,000 = **£23,100**

Benefits based on six years' membership from 1 April 2008 to 31 March 2014-

Pension: 6/60th x £22,000 = **£2,200**

Table 1: Benefits built up in the career average scheme from 1 April 2014

Scheme year	Opening balance	Pension built up in Scheme year	Total account 31 March	Cost of living adjustment (CPI)	Updated total account
2014/15	£0.00	£18,500 / 49 = £377.55	£377.55	£4.53 (1.2%)	£382.08
2015/16	£382.08	£19,000 / 49 = £387.76	£769.84	-£0.77 (-0.1%)	£769.07
2016/17	£769.07	£20,000 / 49 = £408.16	£1,177.23	£11.77 (1.0%)	£1,189.00
2017/18	£1,189.00	£21,000 / 49 = £428.57	£1,617.57	£48.53 (3.0%)	£1,666.10
2018/19	£1,666.10	£22,000 / 49 = £448.98	£2,115.08	£50.76 (2.4%)	£2,165.84

The member is entitled to:

Annual pension	**£12,065.84**

Which is made up of pension built up:

before 1 April 2008	£7,700.00
between 1 April 2008 and 31 March 2014	£2,200.00
after 31 March 2014	£2,165.84

Tax-free lump sum	**£23,100**

Further information

For more information about how to work out your LGPS benefits and to use an online modeller, please visit the LGPS member website.

3. Annual Allowance

The annual allowance is the amount your pension savings can increase by in any one year without paying extra tax. The pension savings year runs from 6 April to 5 April and the limit is set each year by the Government.

You would only be subject to an annual allowance tax charge if the value of your pension savings for a tax year increases by more than the limit, currently £40,000. Combining your previous deferred benefits where your final salary benefits are now linked to your new ongoing **final pay** would increase your pension savings in the year you transfer. However, a three year carry forward rule allows you to carry forward unused annual allowance from the last three tax years.

This means that even if the value of your pension savings increase by more than £40,000 in a single tax year you may not be liable to the annual allowance tax charge.

Most people will not be affected by the annual allowance tax charge because the value of their pension savings will not increase in a tax year by more than the limit or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

4. Normal Pension Age

Your Normal Pension Age depends on which section of the scheme you have been a member of.

The Normal Pension Age for benefits that are deferred and relate to a period of membership that ended before 1 October 2006 (i.e. in the final salary scheme) is:

- age 60 if, by that age, you would have had a minimum of 25 years' membership if you had remained in the scheme until then, ***or***
- the date you would have achieved 25 years' membership, if that date would fall between ages 60 and 65, ***or***
- age 65 if, by that age, you would not have had 25 years' membership if you had remained in the scheme until then.

The Normal Pension Age for benefits that are deferred and relate to a period of membership that ended after 30 September 2006 and before 1 April 2014 (i.e. in the final salary scheme) is age 65.

The Normal Pension Age for benefits earned from 1 April 2014 (i.e. the career average scheme) is linked to your State Pension Age (but with a minimum of age 65).

If your deferred benefits are combined with your new active pension account and your final salary benefits continue to be counted as final salary benefits, then they will have a Normal Pension Age of 65.

If your benefits are combined with your new active pension account and your final salary benefits are converted to career average benefits, then they will have a new Normal Pension Age which is linked to your State Pension Age (but with a minimum of age 65).

If your benefits are combined with your new active pension account, any existing career average benefits will continue to have a Normal Pension Age linked to your State Pension Age (but with a minimum of age 65).

If you choose to take your pension before your Normal Pension Age the pension you have built up in the scheme will normally be reduced, as it's being paid earlier. If you take it later than your Normal Pension Age, it will be increased because it's being paid later.

The amount of any reduction or increase will be based on how many years earlier or later than your Normal Pension Age you draw your pension. If your Normal Pension Age for benefits in the final salary scheme is different from your Normal Pension Age in the career average scheme, then the level of the reductions or increases applied to each section of benefits will be different.

Please note that you cannot take your benefits built up in the final salary scheme separately from the benefits you build up in the career average scheme if they have been combined. All of your pension would have to be drawn at the same time (except in the case of Flexible Retirement).

If you have **rule of 85** protections these will still apply. For more information, see the explanation of **rule of 85** below.

5. Rule of 85

If you were a member of the scheme at any time between 1 April 1998 and 30 September 2006, some or all of your benefits could be protected from an early payment reduction under what is called the rule of 85. If you have rule of 85 protection, this continues to apply from 1 April 2014. The only occasion where this protection does not automatically apply is if you choose to voluntarily draw your pension on or after age 55 and before age 60.

To have protection under the rule of 85 you must satisfy the following condition at the date you draw your pension benefits:

Your age (in whole years) plus your scheme membership (in whole years) must add up to 85.

If you work part-time, your membership counts towards the rule of 85 at its full calendar length. Not all membership may count towards working out whether you meet the 85 year rule.

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from an early payment reduction.

Working out how you are affected by the 85 year rule can be quite complex, but this should help you work out your general position.

If you would not satisfy the 85 year rule by the time you are 65	All your benefits are reduced if you choose to draw your pension before your Normal Pension Age. The reduction will be based on how many years before your Normal Pension Age you draw your benefits. (Normal Pension Age is, usually, age 65 for pension built up before 1 April 2014 and is linked to State Pension Age for pension built up from 1 April 2014)
If you will be age 60 or over by 31 March 2016 and choose to draw your pension before your Normal Pension Age	Provided you satisfy the 85 year rule when you start to draw your pension, the benefits you build up to 31 March 2016 will not be reduced
If you will be under age 60 by 31 March 2016 and choose to draw your pension before your protected Normal Pension Age (usually age 65)	Provided you satisfy the 85 year rule when you start to draw your pension, the benefits you've built up to 31 March 2008 will not be reduced
If you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85 year rule by 31 March 2020	Some or all of the benefits you build up between 1 April 2008 and 31 March 2020 will not have a full reduction

The only occasions where rule of 85 protection does not automatically apply is if you became entitled to the deferred benefits after 31 March 2014 and:

- elect to keep those benefits separate from your new or ongoing employment and choose to voluntarily draw those deferred benefits on or after age 55 and before age 60, ***or***
- do not elect to keep those benefits separate from your new or ongoing employment, subsequently leave the scheme before age 60 and choose to voluntarily draw your combined benefits on or after age 55 and before age 60.

When considering whether to combine your benefits in the LGPS or not you need to be aware of the potential impact on any rule of 85 protections.

Please note that if the rule of 85 applies to part or all of your previous benefits in the LGPS and there is a long gap between the day you previously left the scheme and the day you re-joined the scheme then combining your benefits could impact on your rule of 85 protection as it could make your rule of 85 date later.

If this is the case, keeping your deferred benefits separate could protect your earlier rule of 85 date on the deferred benefit but you would not have rule of 85 protection on your benefits accruing in your new employment.

The earlier rule of 85 date on the deferred benefit would be protected because when working it out the period after you left membership (known as notional service) is also included in the calculation even though you were not a member of the LGPS. If you re-join and combine your previous benefits the notional service would no longer be used when calculating when you would meet the rule of 85 in the new employment.

6. Paying extra contributions

In the LGPS there are a number of ways members can pay more contributions to increase their benefits. You may have one of the following arrangements. If so, you need to understand what happens to any payments you have already made and whether you can continue to pay these extra contributions in your new employment.

Buying Added Years (extra membership)
These are existing contracts to purchase extra membership and the contract must have commenced before 1 April 2008.

If you combine your deferred benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 final salary benefits then your existing contract can continue only if:

- The break between leaving your old employment and starting your new employment is less than 12 months, ***and***
- Within 3 months of re-joining the LGPS in your new employment you make an election to continue paying your extra contributions to buy added years, ***and***
- In those 3 months you pay any extra contributions towards your added years contract that would have been due during the break (if any) between employments.

These added years count towards your benefits in the final salary scheme.

If you combine your deferred benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) then your existing contract cannot continue. Any extra membership you have already bought and has been credited is used to work out the extra earned pension to be added to your new active pension account, i.e. it would count as career average pension. You cannot make a new election to buy extra membership; you can however consider buying extra pension (known as Additional Pension Contributions). You should contact us for more information.

If you choose not to combine your deferred benefits any existing added years' contract cannot continue and any extra membership you have already bought will be included in your deferred benefits. You cannot continue to pay for your added years' contract if you elect to keep separate deferred benefits.

Paying Additional Regular Contributions (ARCs)
These are contracts to purchase extra pension taken out between 1 April 2008 and 31 March 2014.

Whether or not you elect to combine your benefits with your new active pension account, there are no circumstances where an existing ARC contract can continue.

If you do combine your benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 final salary benefits then the amount of ARCs which you have already bought will be added to the value of your final salary pension.

If you combine your benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) any extra pension you have already bought and been credited with is taken account of when calculating the extra earned pension to be added to your new active pension account.

If you do wish to pay more contributions in your new employment you can consider buying extra pension (known as Additional Pension Contributions). You should contact us for more information.

If you choose not to combine your benefits, any extra pension you have already bought will be included in your deferred benefits. You cannot continue to pay ARCs if you elect to keep separate deferred benefits.

Paying Additional Pension Contributions (APCs)
These are contracts to purchase extra pension taken out on or after 1 April 2014.

Any existing APC arrangements which you have entered into, to buy lost or extra pension, cease once you leave the employment they are linked to.

Any extra pension built up via an APC will be added to your new active pension account if your benefits are combined.

If you choose not to combine your benefits any extra pension you have already bought will be payable with your deferred benefits. You cannot continue to pay towards your previous APC arrangement if you elect to keep separate deferred benefits.

You can elect to take out another APC arrangement in your new employment. You should contact us for more information.

Additional Voluntary Contributions (AVCs)
If you have paid AVCs, the accrued value of your AVCs must be transferred to an AVC arrangement offered by your new fund if you transfer your main scheme benefits.

However, there is an exception to this rule.

If you were previously a member of the LGPS on 31 March 2014 and 1 April 2014 and you do not have a continuous break in active membership of a **public service pension scheme** of more than 5 years, you can choose **not** to transfer the accrued value of your AVCs to your new fund.

If you were not a member on those dates but elect within 12 months of returning to the LGPS to be treated as if you had been by way of combining your pension accounts and you do not have a continuous break in active membership of a **public service pension scheme** of more than 5 years, you can choose **not** to transfer the accrued value of your AVCs to your new fund.

If you do transfer your accrued AVC value; then once it's transferred to the new arrangement, it is considered a contract under the scheme rules in force at the time of the transfer.

If the benefits being combined are in the same fund your AVCs will automatically be linked to your new active pension account.

7. Public service pension scheme

A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, teachers, health service workers, fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

8. Effect of combining benefits

When pension accounts are combined the effect on your benefits differs depending on a number of factors and we have tried to clarify the various scenarios below:

Automatic combining required by scheme regulations
Automatic combining applies where you have re-joined the LGPS after 1 April 2014 and have previous deferred benefits in the scheme. This must occur within 12 months of re-joining unless you make an election to keep your accounts separate.

Where the gap between memberships is less than 5 years any final salary benefits you have will continue to be treated as final salary even though they have been combined into your later pension account. This means your years and days membership will be added to your pension account and calculated on your final pensionable pay when you eventually leave or retire as shown in **Section 2 - Working out your benefits in the LGPS** above.

Sometimes automatic combining may not be in your best interests, particularly if your pay has dropped between memberships and it is likely you will still be on lower pay when you eventually leave or retire. As your final benefits are dependent on your final pay a reduction in pay results in a reduction in the benefits available.

Where the gap between memberships is more than 5 years any final salary benefits you have will be converted into career average benefits. This means your pension account will be credited with an amount of additional pension. This pension is then revalued in line with inflation and the link to your final pay is removed completely.

The conversion is not a like for like conversion as the two sections of the scheme are quite different and consideration needs to be given to things like the amount of additional career average pension versus the final salary pension being given up, rule of 85 protections, normal pension age, etc.

Where you establish that combining your records is not in your best interests it is important that you confirm in writing to us that you do not wish to proceed with combining. If we do not receive your written confirmation we will proceed with the combining as it is required by the scheme regulations.

Combining on request

You can if you wish request to combine some of your records even if they do not qualify for automatic combining. You just need to make the request to us in writing and we will write out to you with the information.

Your benefits are treated the same as for automatic combining above we just don't combine them until you actually confirm you do want to go ahead.