



North Yorkshire Pension Fund

Can I take cash from the Local Government Pension Scheme?

The 2014 Budget made major changes to pension schemes but the majority of the changes do not apply to the Local Government Pension Scheme (LGPS). This is because the Budget changes are designed to make 'money purchase' pension arrangements more flexible from 6 April 2015. The LGPS is **not** a money purchase pension scheme.

What is a money purchase pension scheme?

Money purchase pension schemes require their members to build up a 'pension pot' and then use this pot to provide pension benefits (income and cash) at retirement. The Budget flexibilities will allow members of these schemes to have more freedom to choose how and when to use their pension pot.

That main reason for this change is that money purchase pension schemes do not give a guaranteed level of retirement income. The amount of pension payable at retirement depends on how much pension can be 'bought' using the pension pot. The cost of buying a pension varies over time depending on a number of factors. The budget flexibilities will allow members of money purchase pension schemes to choose whether to buy a pension or to use their pension pot in some other way to provide the money (lump sum, regular income or both) they need in retirement.

There is a risk that the new flexibilities could see some people using up all of their pension pot or losing it to bad investment choices. The Government will be providing financial advice to try to ensure that members of money purchase pension schemes do not run out of money in retirement and, instead, make appropriate choices so they have the money they need for the whole of their retirement.

What type of pension scheme is the Local Government Pension Scheme?

The LGPS is **not** a money purchase pension scheme. It is a 'defined benefit' pension scheme. This means that a guaranteed level of pension is built up over the time a member pays into the Scheme based on their pensionable pay. For each year you pay pension contributions you build up a pension amount rather than a pot of money. The benefits from the LGPS are also increased to keep pace with inflation. So, if you know what your pay will be, you can work out how much your LGPS pension will be and you have the comfort of knowing that the value of your pension will keep pace with inflation. The LGPS is, therefore, very different to money purchase pension schemes because:

- LGPS benefits build up based on pensionable pay and are guaranteed
- LGPS benefits keep pace with inflation

Is 'keeping pace with inflation' really that important?

You will no doubt be aware that the cost of living goes up year on year and the Government keeps track of this increase by measuring the rate of increase in prices of goods and services which is known as 'inflation'. When you retire (or if you leave your employment before retirement age) your pension benefits in the LGPS will increase in line with the Consumer Price Index (CPI), one of the measures of inflation. This measure of inflation has increased at a faster rate than wages in recent years.

If your pension did not increase with inflation, as the cost of living rose each year the 'spending power' of your pension would reduce. The table below shows how the CPI measure of inflation has risen in recent years compared with wage inflation.

	Wages Increase	Pension Increase
April 2012	1.1%	5.2%
April 2013	0.8%	2.2%
April 2014	1.7%	2.7%

Source: Office for National Statistics

The inflation-proofing of your pension is a valuable part of the pension package which you receive from the LGPS. As an example, based on the above table a pension in payment of £3600 a year or £300 a month will have increased to £3975.02 a year or £332.25 a month in three years. This is an increase in the annual pension of £375.02 and of £32.25 in the monthly pension in just three years.

Can I take my LGPS pension benefits as cash?

Even though the 2014 Budget flexibilities don't apply to the LGPS, you can still take some cash from the LGPS.

All members of the LGPS have the right to take 25% of their pension benefits as a tax free cash lump sum when they retire. It is important to note that this option is only available **when you retire**. We will automatically provide this option to you in the letter which is supplied shortly before you retire. The tax free lump sum is increased by giving up some of your annual pension to convert to tax free cash. The rate of conversion is an additional £12 of tax free lump sum for each £1 of annual pension given up.

If you are currently paying into the LGPS you can go onto ['Your Online Record'](#) to see how much lump sum would be available at different retirement ages. If you have not done so already, please go onto the ['Home'](#) page and click on the link which says 'Your online pension record - important changes'.

Once registered if you go to the Benefit Projector and select 'Voluntary Retirement' you can run calculations at different ages from age 55 onwards. Once you have run the calculation at your selected retirement date, click on the sentence in blue which says ['Click here for more details'](#). This will take you to a graph where you can drag the circle along the line on the graph to move between the lowest and highest tax free lump sum available. At the bottom of the graph it will show you how your annual pension decreases as your tax free lump sum increases.

You can repeat the calculation at different retirement ages as often as you like to compare the benefits provided at different retirement dates.

If you have left employment and have 'deferred benefits' in the LGPS then unfortunately the calculation facility on 'Your Online Record' is not currently available but our software provider is working to provide this and we will let everyone know when this is available.

Taking all your pension as cash – this applies in limited circumstances

There are some circumstances where all of your LGPS pension benefits can be taken as cash **at retirement**. We would automatically tell you if this option applies to you at the time of retirement if your benefits are below the limits which allow this to happen and you have reached the minimum age. The minimum age is currently 60 (or 65 for certain male Scheme members).

The limits involved can change over time but the current rules allow for benefits to be taken as cash in the following circumstances:

Standard Trivial Commutation from age 60 onwards

If the combined value of all your pension benefits is less than £30,000 then you can take your LGPS benefits as a one off lump sum when you retire.

‘Small Pot’ Trivial Commutation from age 60 onwards

If you left the LGPS after 1 April 2008 and the total value of your LGPS benefits is less than £10,000 you can take your pension benefits as a one off lump sum when you retire regardless of other pension benefits that you have elsewhere.

Do I have any other options to allow me to take my pension as cash?

You can look to transfer your pension benefits elsewhere but we would strongly recommend that you take independent financial advice as, if you chose to do so, you would be losing valuable index-linked pension benefits which are guaranteed and in the case of your annual pension, are payable for life.

You would need to choose an arrangement to transfer your pension benefits into and then ask for a ‘transfer value’ from us, once you know which company you wish to look to use. It may be that you would need to prove that you have taken independent financial advice before a transfer can go ahead.

As a starting point, you may wish to discuss this matter with The Pensions Advisory Service (TPAS) who give practical advice to pension scheme members on different types of pension schemes and can help explain the options you have and the potential pitfalls of certain courses of action. They will also be able to suggest where you can obtain independent financial advice. They can be contacted on 0300 123 1047 or visit the TPAS website at: <http://www.pensionsadvisoryservice.org.uk/contacting-us>