Joining Your Pension Records Factsheet

These notes are for members who have re-joined the Local Government Pension Scheme (LGPS) with North East Scotland Pension Fund (NESPF) and have deferred benefits with NESPF from a previous employment.

You need to decide what should happen to the deferred benefits you have built up. This decision needs to be made within 12 months of re-joining and once you make a decision it cannot be changed.

If you left the previous employment before 1 April 2015

- Your deferred benefits will remain separate from your ongoing active pension account, unless you tell us otherwise
- We must receive your decision within 12 months of starting your new employment (or within 6 weeks of the date of the Joining Your Pension Records option letter if 12 months has already passed)
- If you take no action then your deferred benefit will remain separate from your new active pension account.

If you left the previous employment after 31 March 2015

- Your deferred benefits will automatically be combined with your ongoing active pension account, unless you tell us otherwise
- We must receive your decision within 12 months of starting your new employment (or within 6 weeks of the date of the Joining Your Pension Records option letter if 12 months has already passed)
- If you take no action then your deferred benefit will be automatically joined to your new active pension account.

The options available to you will be different depending on what type of benefits make up your deferred benefits, when you left the previous employment and whether there is a *disqualifying break* between leaving the previous employment and re-joining in your new employment.

Combining previous benefits in the LGPS with your new (or ongoing) active pension account requires you to consider your options and make a decision. The information set out in your our Joining Your Pension Records option letter is specific to your circumstances.

This factsheet is provided to help further explain some of the terms used in the option letter and give more detail about how your benefits are calculated in the LGPS, when they become payable and other important information about protections and paying extra contributions in the LGPS.

Working out your benefits in the LGPS

Working out your LGPS benefits depends on when you built up your service in the scheme.

From 1 April 2015	Career Average Revalued Earnings (CARE) Scheme
Up to 31 March 2015	Final Salary Scheme (2 different calculations) - From 1 April 2009 to 31 March 2015, and - Up to 31 March 2009

CARE Scheme
For membership built up from 1 April 2015 - every year you will build up a pension at a rate of 1/49th of the amount of pensionable pay you received in that scheme year if you are in the main section of the scheme (or half this rate of build up for any period you have chosen to be in the 50/50 section of the scheme). This pension is then added to your pension account and revalued at the end of each scheme year so your pension keeps up with the cost of living.

Pensionable Pay: For benefits built up from 1 April 2015 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.

Final Salary Scheme
For membership built up from 1 April 2009 to 31 March 2015, you receive a pension of 1/60th of your *final pay*. There is no automatic lump sum for membership built up after 31 March 2009, but you do have the option to exchange some of your pension for a tax-free lump sum.

For membership built up to 31 March 2009, you receive a pension of 1/80th of your *final pay* plus an automatic tax-free lump sum of 3 times your pension.

Annual Allowance

The *annual allowance* is the amount your pension savings can increase by in any one year without paying extra tax. For the LGPS the pension savings year runs from 6 April to 5 April. The *annual allowance* for 2025/26 is £60,000.

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 £60,000. If you decide to combine your previous final salary benefits (and keep the final salary link), the value of your pension would be based on your new ongoing *final pay.* If this is higher than your previous *final pay* (taking into account any yearly pensions increase), this would result in your pension savings increasing in the year that you transfer, and could result in you approaching or exceeding the £60,000 *annual allowance.* 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 £60,000 in a 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 £60,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

Consumer Prices Index (CPI) (i.e. Cost of Living increase)

The *Consumer Price Index (CPI)* is the official measure of inflation of consumer prices in the United Kingdom.

CPI 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. This revaluation is in accordance with HM Treasury Orders and, in times of negative inflation, the adjustment under a HM Treasury Order could be negative.

After you have left your employment (or opted-out of the scheme), CPI is used to increase (each April) the value of your deferred pension and any pension in payment from the scheme. This revaluation called Pensions Increase and, in times of negative revaluation, Pensions Increase would be set to 0% i.e. it cannot be a negative amount.

The adjustment ensures your pension keeps up with the cost of living.

Final Pay

The definition of final salary pay for benefits built up before 1 April 2015 remains the same as before the scheme changed from a final salary to a CARE scheme on 1 April 2015 .

Final salary pay is usually the pay in respect of (i.e. due for) the final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher. The main difference to the pay used for CARE benefits is that 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 full-time pay that you would have received if you had worked full-time.**

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.

Remember, if your benefits are combined with your new active pension account and they buy an amount of CARE pension in the CARE 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 CARE pension.

Normal Pension Age

The *Normal Pension Age* for benefits built up from 1 April 2015 (i.e. in the CARE scheme) is linked to your State Pension Age (with a minimum of age 65). As your Normal Pension Age is linked to your State Pension Age, if your State Pension Age increases so too will your Normal Pension Age.

The *Normal Pension Age* for deferred benefits with a date of leaving after 30 November 2006 and before 1 April 2015 (i.e. in the Final Salary scheme) is age 65.

The *Normal Pension Age* for deferred benefits with a date of leaving before 1 December 2006 (i.e. in the Final Salary scheme) is age 65 unless you were a member of the scheme before 1 April 1998 in which case *Normal Pension Age* is:

- age 60 if, by that age, you would have had at least 25 years membership of the scheme; or
- the date you would have achieved 25 years membership, if that date would fall after age 60 and before age 65; or
- age 65 if, by that age, you would not have had 25 years membership of the scheme.

If your deferred benefits are combined with your new active pension account and any final salary benefits you have previously built up 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 any final salary benefits are used to buy CARE pension then they will have a new *Normal Pension Age* which is linked to your State Pension Age (with a minimum of age 65).

If your benefits are combined with your new active pension account, any existing CARE benefits will continue to have a *Normal Pension Age* linked to your State Pension Age (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 the pension you have built up in the scheme. If your *Normal Pension Age* for benefits in the final salary scheme is different from your *Normal Pension Age* in the CARE scheme then the level of the reductions or increases applied to each set 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 CARE 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.

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.

1. Buying Added Years (extra membership)

These are existing contracts to purchase extra membership and the contract must have commenced before 1 April 2009.

If you combine your deferred benefits with your new active pension account and keep the final salary link, 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 choose 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 use your final salary benefits to buy CARE pension, then your existing contract cannot continue. Any extra membership you have already bought and that has been credited is used to work out the extra CARE pension to be added to your new active pension account, i.e. it would count as CARE pension. You cannot take out a new contract to buy extra membership; you can however consider buying extra pension (known as Additional Pension Contributions) or paying Additional Voluntary Contributions (AVCs). More information can be found on our website: https://www.nespf.org.uk/active-member/your-pension/increasing-your-pension/

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 choose to keep separate deferred benefits.

2. Paying Additional Regular Contributions (ARCs)

These are contracts to purchase extra pension taken out between 1 April 2009 and 31 March 2015.

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

If you do combine your benefits with your new active pension account and keep the final salary link, 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 use your final salary benefits to buy CARE pension, any extra pension you have already bought and been credited with is taken account of when calculating the extra CARE 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) or paying Additional Voluntary Contributions (AVCs). More information can be found on our website: https://www.nespf.org.uk/active-member/your-pension/increasing-your-pension/

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 for your ARCs contract if you choose to keep separate deferred benefits.

3. Paying Additional Pension Contributions (APCs)

These are contracts to purchase extra pension taken out on or after 1 April 2015.

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

Any extra pension built up via APCs 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 included in your deferred benefits. You cannot continue to pay towards your previous APC arrangement if you choose to keep separate deferred benefits.

You can take out another APC arrangement in your new employment. More information can be found on our website: https://www.nespf.org.uk/active-member/your-pension/increasing-your-pension/

4. Additional Voluntary Contributions (AVCs)

If you have paid AVCs, and choose to combine your deferred benefits with your new active pension account, the value of your AVCs would be linked to the active pension account and treated as a post-2015 AVC.

If you choose not to combine your benefits the value of the AVCs would remain linked to the deferred benefits.

Disqualifying break

A *disqualifying break* is a continuous break in active membership of *public service pension schemes* of more than 5 years.

If there has not been a *disqualifying break* between leaving the previous employment and re-joining in your new employment and you choose to combine your benefits, you will have the option to keep the final salary link for any final salary benefits in your deferred record. Any CARE pension from your deferred benefits would be added to your active pension account based on HM Treasury Orders. Therefore if you had left your previous employment in a year of negative revaluation, your CARE pension may be slightly lower.

If there has been a *disqualifying break* between leaving the previous employment and re-joining in your new employment and you choose to combine your benefits, you will not have the option to keep the final salary link for any final salary benefits in your deferred record. Any CARE pension from your deferred benefits would be added to your active pension account based on Pensions Increase.

Public service pension scheme

A *public service pension scheme* includes a pension scheme in Scotland, England, Wales, or Northern Ireland covering the following groups:

- civil servants
- teachers
- the judiciary
- local government workers
- NHS staff
- Firefighters
- police officers
- armed forces personnel.

Rule of 85

What is the Rule of 85?

The *rule of 85* is not a type of retirement. It is a way of checking whether a member's pension would be reduced if it is paid early.

The *rule of 85* is met if your age at the date you take payment of your pension and your scheme membership (each in whole years) add up to 85 or more.

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 *rule of 85*.

Who does it apply to?

If you were a member of the LGPS before 1 December 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 rule of 85 can be quite complex, but this should help you work out your general position.

- **If you would not meet the *rule of 85* by the time you are 65,** then all your benefits are reduced if you choose to take your pension before your *Normal Pension Age*. The reduction will be based on how many years before your *Normal Pension Age* you take your benefits.

- **If you were born before 1 April 1960** and choose to take your pension before your *Normal Pension Age*, then, **provided you meet the *rule of 85* when you start to take your pension**, the benefits you build up to 31 March 2020 will not be reduced. Any benefits built up after 31 March 2020 will be reduced based on how many years before your *Normal Pension Age* you take your benefits.

- **If you were born on or after 1 April 1960** and choose to take your pension before your protected *Normal Pension Age,* then, **provided you meet the *rule of 85* when you start to take your pension**, the benefits you've built up to 31 March 2008 will not be reduced. Any benefits built up after 31 March 2008 will be reduced based on how many years before your *Normal Pension Age* you take your benefits.

The *rule of 85* only applies if you take your pension on or after age 60. So even if you meet the *rule of 85* before 60, your benefits would still be reduced if you took them before age 60.

The *rule of 85* is applied on a record-by-record basis. So if you have *rule of 85* protection in one record but not another, it is only applied to the record which does have it. Similarly it is only membership for the record that qualifies for *rule of 85* which counts. You do not add your length of membership from each record to help you reach 85.

If I choose to combine my benefits will that impact on the rule of 85 protections I have?

If you are deciding whether or not to combine your benefits in the LGPS you need to be aware of the potential impact on any *rule of 85* protections.

If the *rule of 85* applies to part or all of your deferred benefits in the LGPS and you choose to combine your benefits and keep the final salary link, if there is a gap between the day you previously left the scheme and the day you re-joined the scheme then combining your benefits 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 that deferred benefit but you would not have *rule of 85* protection on your new benefits.

If the *rule of 85* applies to part or all of your deferred benefits in the LGPS and you choose to combine your benefits and use your final salary benefits to buy CARE pension, you would not have *rule of 85* protections on your new benefits. However, the amount of CARE pension bought is increased to take account that the CARE pension will be payable unreduced from your new *Normal Pension Age*, which is typically a later date.

More information and a Rule of 85 checker can be found on our website:
https://www.nespf.org.uk/active-member/retirement/rule-of-85/

McCloud Judgement and Statutory Underpin

In April 2015 when pension rules changed, protection was put in place for older members to ensure their pension would not be negatively impacted. This protection is known as the “underpin.” The underpin compared the pension these members built up versus the pension they would have built up had the rules not changed. If their pension would have been higher under the old rules, their pension is increased.

The McCloud Judgement relates to two employment tribunal cases that were brought against the Government. The claimants argued that protection introduced following changes to public sector pension schemes in 2014/2015 amounted to unlawful discrimination as the protections only applied to certain older members. Due to the court ruling, underpin protection has been expanded to include younger members and the benefits they built up between 1 April 2015 and 31 March 2022.

Not all members are eligible for underpin protection. For example, you must have been paying into the pension scheme during certain time periods and you must not have a *disqualifying break*.

Any increase to your pension due to the underpin is not applied until the pension benefits are paid, therefore a deferred member is not actually credited with the underpin amount until they take payment of their deferred benefit.

If there has not been a *disqualifying break* between leaving the previous employment and re-joining in your new employment and you choose to combine your benefits, there will be no change to any underpin protection you already have, whether you choose to keep the final salary link or buy CARE pension with your final salary benefits.

If there has been a *disqualifying break* between leaving the previous employment and re-joining in your new employment and you choose to combine your benefits, any underpin protection in your deferred benefits will be extinguished. If you are using final salary benefits to buy CARE pension, the amount of CARE pension bought is increased to take account of any underpin protection.

More information and an underpin checker can be found on our website:
https://www.nespf.org.uk/resources/mccloud/

Advice & Guidance

Please note - we can only provide information, we cannot provide any advice on which option would be best for your own personal circumstances. Should you require financial advice, you should seek this from a registered Independent Financial Advisor.

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