



Merseyside Pension Fund

Fact Sheet 1: Reductions in Pay

(July 2009)

Protecting your Pension Benefits

This fact sheet is intended for those whose level of pay is reduced by reasons other than a change in the hours worked. It does not apply if you are changing to part-time hours or reducing the part-time hours you work.

The fact sheet also does not apply when payment of either an honorarium or acting-up allowance ends. This is because neither is deemed to be a reduction in pay; it is merely the ending of a temporary increase.

The Local Government Pension Scheme (LGPS) is a FINAL SALARY scheme, which means that your pension benefits are usually based upon your length of membership of the Scheme and your final pay during the last **12 months** before retirement. For part-time workers the final pay is the equivalent for a full time employee, however, membership is reduced to reflect the part-time hours.

There are circumstances in which, because someone suffers a reduction in their pay, that an earlier pay figure may be used: -

Best of the last three years

You can choose to have your pension based upon your pensionable pay for any of the last three years ending with the anniversary of your retirement, if that is higher than your final year's pay.

If you are likely to retire more than 3 years after the reduction, then this protection will not apply to you.

Best 3 year average in the last 10 years

You may also choose to have your pension benefits calculated on an average of your pay in any **3 consecutive years** ending on **31 March**, within the **last 10 years** before retirement. The reduction in pay must take place on or after **1 April 2008**. The protection does not apply if the reduction is because a temporary increase in pay ceases to be paid. This protection only applies if you have been continuously employed by the same employer who you worked for when the reduction happened, or you have been involved in a TUPE transfer of employment to another employer.





Certificate of Protection

Some people whose employer imposed a compulsory reduction or restriction in pay prior to 1 April 2008 will have been issued with a Certificate of Protection. With a Certificate of Protection the final pay used in the calculation of your retirement benefits can be: -

- If you retire **within 5 years** of the reduction, any of the **previous 5 years** ending on the anniversary of leaving; or
- The average of any **three year period** ending on the anniversary of leaving in the **13 years** before you retire.

Pension Increases

When a pay figure other than your final year is used, the benefits are adjusted to reflect inflation. Any inflationary increase is payable from age 55 if you retire before that age for any reason other than ill health.

Keeping your Benefits Separate

¹Your employer may offer to split your pension scheme membership at the date you suffer your pay cut. If you choose this, you will have a deferred retirement benefit based on the membership of the pension scheme and your pensionable pay before the cut. This will increase each year in line with inflation. You will then start a second pension entitlement based on your new pay and membership built up from that date.

This is only possible with the consent of your employer. You cannot voluntarily opt out of the scheme in order to choose deferred benefits and then opt back in. If you do this, your benefits would automatically be linked together with your new

membership and based on your new pay which may cancel the effect you are aiming for.

¹This section corrects information contained in earlier versions of this Fact Sheet.

Even if your employer offers to allow you to separate your pension benefits, there are a number of issues to consider.

- If you keep a period of membership separate, you have **12 months** from rejoining the pension scheme to decide if you wish to combine the earlier membership with your later membership. It is impossible to forecast what changes may lay ahead before you eventually retire. If your pay, allowing for inflation, reaches or exceeds the level before the reduction, the total benefits payable to you from 2 separate pensions may be less than if you had combined all of your membership calculated on the final, higher pay figure. Your employer can extend the 12 month limit, but would incur additional costs if they did so.
- If you are paying extra contributions to purchase added years, are a man purchasing pre-1972 membership reduction, or are paying into AVC's or ARC's, please contact the Fund, as there may be problems if you choose to opt out.
- If your earlier membership included protection for the 85 year rule, because you were in the pension scheme at 1 April 2008 and were born prior to 1 April 1960, this would still apply to your deferred benefit, but would not apply to your new period of membership, unless you choose to combine the 2 periods and you have continuous membership of the LGPS. Your choice should be made within 12 months of your decision to keep your benefits separate, unless your employer agrees to extend the period.



Should you wish to discuss this further you should contact your employer's Pension Liaison Officer, the contact details appear on your Annual Benefit Statement.