



## Merseyside Pension Fund

### Fact Sheet 4: Your Pensions Choice



In this Fact Sheet we look at your pensions choice, who can join the Local Government Pension Scheme (LGPS) and the cost of joining.

Your retirement is a goal to look forward to. However, if your retirement is to meet your expectations, you need to plan for your income in retirement.

Your retirement income and benefits, over and above the basic flat-rate State pension, will in general be provided by the State Second Pension (S2P), a personal pension plan, a stakeholder pension scheme or the Local Government Pension Scheme. These are described briefly below.

#### **The Local Government Pension Scheme**

The Local Government Pension Scheme (LGPS) is a statutory, funded pension scheme. As such it is very secure because its benefits are defined and set out in law.

Highlights of the LGPS are:

#### **A secure pension**

The benefits you get when you retire are based on your membership in the Scheme and, normally, on your final year's pay. The pension you build up during your employment keeps pace with your pay rises. And after you retire, your pension keeps pace with cost of living increases.

#### **Tax-free cash**

You also have the option to exchange part of your pension for some tax-free cash on your retirement.

#### **Peace of mind**

Your family enjoys financial security, with immediate life cover and a pension for your husband, wife, civil partner or nominated co-habiting partner and eligible children, in the event of your death and, if you ever become seriously ill, you could receive immediate ill-health benefits.

## Early retirement

You can choose to retire from age 60 and receive your benefits immediately, although they may be reduced for early payment. It's also possible to retire from age 55 and receive your benefits immediately, either with your employer's consent or if you are made redundant or retired in the interests of efficiency.

## Flexible retirement

If you reduce your hours or move to a less senior position at or after age 55 you can, provided your employer agrees, draw some or all of the benefits you have built up - helping you ease into retirement - although your benefits may be reduced for early payment.

## Options to pay extra

You can boost your pension by paying more contributions. You get tax relief on these, too.

- Also, as a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your pay and, up to State pension age, you will also pay lower National Insurance contributions on earnings between the Lower and Upper Earnings Limits, unless you have opted to pay the married woman's/widow's reduced rate of National Insurance.
- The LGPS is contracted-out of the State Second Pension (S2P).

## State Second Pension (S2P)

The State Second Pension (S2P) is part of the State Pension payable in addition to the flat rate Old Age Pension. Benefits are paid by the Department for Work and Pensions (the old DSS) and cannot be paid before State pension age. Initially, S2P will be an earnings related pension but from April 2009 it begins building up as a flat rate pension, achieving full flat rate accrual by around 2030.

## Personal Pension Plans and Stakeholder Pension Schemes

Various institutions, such as banks, building societies and life assurance companies provide and administer personal pensions and stakeholder pension schemes. Your chosen organisation would invest your contributions and when you retire the investments are cashed in and the sum of money realised is used to buy retirement benefits from the insurance market. Your benefits are therefore based on investment returns and are not guaranteed or linked to your earnings. The age from which you may receive them will vary according to the plan, but you may not be able to receive that part which replaces the State Second Pension (S2P) before State pension age.



## Joining the Local Government Pension Scheme

### Who can join?

The LGPS is offered by Local Government employers and by other organisations that have chosen to participate in it.

If you are eligible for membership of the LGPS you will automatically become a member, unless you are employed by an admission body in which case you would have to opt to join. You have the right to decide not to join the Scheme.

To be able to join the LGPS you need to have a contract of employment that's for at least 3 months, be under age 75 and work for an employer that offers membership of the Scheme. If you are employed by a designating body, such as a Town or Parish Council, or by a non-Local Government organisation which participates in the LGPS (an admission body), you can only join if your employer nominates you for membership of the Scheme.

Teachers, police officers, operational firefighters and, normally, employees eligible to join another statutory pension scheme (such as the NHS Pension Scheme) are not allowed to join the LGPS.

### Can I join the LGPS if I already have a personal pension or stakeholder pension scheme?

If you currently contribute to a personal pension plan or stakeholder pension scheme and decide to join the LGPS, you can, if you wish, still continue to make your own contributions to the personal pension or stakeholder pension scheme or you can stop paying into it and consider transferring it into the LGPS.

You can, if you wish, pay up to 100% of your total taxable earnings in any one tax year (or £3,600 if greater) into any number of concurrent pension arrangements of your choice and be eligible for tax relief on those contributions.

Under HM Revenue and Customs rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. To find out about these controls, see **Fact Sheet 2 on Tax controls and your LGPS benefits**.

### What happens if I have a contract for less than 3 months which is subsequently extended?

If you have a contract of employment for less than 3 months which is subsequently extended so that the total period is for 3 months or more, you will (provided you are otherwise eligible to join the Scheme) automatically be entered into the Scheme upon the extension of the contract unless you are employed by an admission body, in which case you would have the right to opt to join. Also, unless you are employed by a designating body or by an admission body, you will have the right to backdate your membership to your first day of employment by paying the relevant contributions.

## Contributions

### What do I pay?

Your contribution rate depends on how much you're paid but it will be between 5.5 and 7.5% of your pay. The rate you pay depends on which pay band you fall into. Your employer decides which pay band you fall into.

Here are the pay bands that apply from April 2008:

Standard pay band table	
If your Whole Time Pay Rate is:	You pay a contribution rate of:
Up to £12,000	5.5%
£12,001 to £14,000	5.8%
£14,001 to £18,000	5.9%
£18,001 to £30,000	6.5%
£30,001 to £40,000	6.8%
£40,001 to £75,000	7.2%
More than £75,000	7.5%

For example, someone who works full-time at a pay rate of **£16,000** would pay a contribution rate of **5.9%**

The pay band ranges will be increased each April in line with the cost of living.

**If you work part-time hours** your contribution rate is based on the whole-time pay rate for your job, although you will only pay contributions on the pay you actually earn. For example, someone who works half-time with an actual pay of £10,000 a year will pay a contribution rate of 6.5% as their whole-time pay rate is £20,000.

**If you work term time weeks** (e.g. in a school) your contribution rate is based on the whole-time pay rate for term time working, although you will only pay contributions on the pay you actually earn. For example, someone who works full-time hours for 44 weeks a year, with an actual pay of £15,000 will pay 5.9%. If they were to work half-time for 44 weeks with an actual pay of £7,500, then they would still pay 5.9% as their whole-time rate for term time working would still be £15,000.

You pay contributions on your normal salary or wages plus any shift allowance, bonuses, contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as being pensionable.

You do not pay contributions on any non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice, pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

If you have no contractual hours of employment, contributions are deducted on all your pay up to the full-time hours for your job.

You should check your payslip to make sure that pension contributions are being deducted.

Your contributions are very secure. As the LGPS is set up by Statute, payment of benefits to Scheme members is guaranteed by law.

### What does my employer pay?

Your employer pays the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the Scheme. The amount will vary, but generally the present underlying assumption is that employees contribute approximately one third of the Scheme's costs and the employer contributes the remainder. However, increases or decreases in the cost of providing the Scheme may, in future, need to be shared between members and employers, in accordance with government guidance.

### Do I receive tax relief on my contributions?

The LGPS is fully approved by HM Revenue and Customs, which means that you receive tax relief on your contributions. To achieve this, your contributions are deducted from your salary before you pay tax. So, for example, if you pay tax at the rate of 20%, every £1 that you contribute to the Scheme only costs you 80p net.

### What about my National Insurance contributions?

As the LGPS is contracted out of the State Second Pension (S2P) you will, up to State pension age, pay reduced National Insurance contributions on your earnings between the Lower and Upper Earnings Limits, unless you have opted to pay the married woman's/widow's reduced rate of National Insurance.

### Am I protected if I had a right to pay 5% before 1 April 1998?

If you have continued working in a manual or craft job with a scheme employer since 31 March 1998 or earlier, and you were paying into the LGPS on 31 March 2008, you could have a protected contribution rate (as shown in the table below). But if you change to a job which isn't manual or craft, or leave your employer, you will pay the normal contribution rate from the standard pay band table based on your whole-time pay rate (unless you re-join the same employer in a manual or craft role within 1 month and 1 day).

#### Protected Contribution Rates

From:	You pay a contribution rate of:
1 April 2008	<b>5.25%</b>
1 April 2009	<b>5.5%</b>
1 April 2010	<b>6.5%</b> or, if lower, the relevant rate from the standard pay band table
1 April 2011	the relevant rate from the standard pay band table

### Can I make extra contributions to increase my benefits?

You can increase your benefits by paying additional contributions to buy extra LGPS pension, by making payments to the scheme's Additional Voluntary Contributions (AVC) arrangement, or by paying contributions into a personal pension, stakeholder pension or Free-standing AVC scheme of your own choice. These options are explained in more detail in our future Fact Sheet on **Increasing your Benefits**.

### Is there a limit to how much I can contribute?

At the present time there is no overall limit on the amount of contributions you can pay (although there is a limit on the extra LGPS pension you can buy and on the amount you can pay into the Scheme's AVC arrangement). However, tax relief will only be given on contributions up to 100% of your taxable earnings. Additionally, under HM Revenue and Customs rules there are controls on the pension savings you can have before you become subject to a tax charge - these will mainly affect some higher paid people. To find out about these controls, see **Fact Sheet 2 on Tax controls and your LGPS benefits**.

### I'm already paying into the LGPS in my other job – can I also join in this job?

If you are already paying into the LGPS and you get another job as well where your employer offers you membership of the Scheme, you can be a member of the LGPS in both positions, provided you are eligible to join (see the paragraph above on '**Who can join?**'). You will build up two separate sets of pension rights and receive two separate retirement packages.

If you leave one of the jobs before leaving the other, you will have the choice of joining the two sets of pension rights together. Details will be provided by the Fund at the time.

Pension rights built up as a councillor or mayor cannot be joined with rights built up as an employee and vice versa.

### What about my other non- LGPS pensions?

If you have paid into another non-LGPS pension arrangement, you may be able to transfer your previous pension rights into the LGPS (provided you are not already drawing them as a pension). You only have 12 months from joining the LGPS to opt to transfer your previous pension rights, unless your employer allows you longer. This is an employer discretion; you can ask your employer what their policy is on this matter.

The Fund can advise you of their process for transferring previous pension rights into the LGPS.

Transferring your pension rights is not always an easy decision to make, and you may wish to seek the help of an independent financial adviser.

For more information, see our future Fact Sheet on **Transferring pension rights into the LGPS**.

### What if I've been a member before and can now re-join the LGPS?

If you re-join the LGPS, you can normally transfer your previous LGPS pension rights to your new membership, enabling you to enjoy benefits based upon your entire membership and linked to your final pay in your new job.

They will not be transferred automatically. You only have 12 months from re-joining the LGPS to opt to transfer your previous LGPS pension rights, unless your employer allows you longer. This is an employer discretion; you can ask your employer what their policy is on this matter. But if you have previously chosen to keep earlier LGPS pension rights which you built up in England and Wales separate, you will not normally be able to transfer them to your new job.

Transfers from the LGPS in Scotland or Northern Ireland may not buy day for day membership.

If your new job is less well paid, you will need to decide whether it may be better not to join the benefits together.

If you wish to transfer your previous LGPS pension rights you should contact the Fund as soon as possible to find out about this and about the matters you will need to consider in making your decision.

Pension rights built up as a councillor or mayor cannot be joined with rights built up as an employee and vice versa.

### What if I change my mind – can I opt out of the LGPS?

If you join, then decide the LGPS is not for you, you're free to opt out from your next available pay period. You might, however, want to take independent financial advice before opting out.

If you opt out of the LGPS you will have the same options as anyone leaving their job before retirement except you cannot draw deferred benefits or, normally, transfer any pre 6 April 1988 benefits to another pension scheme unless you have left your job. You can find details of these options in our future Fact Sheet on **Leaving your Job before Retirement**.

### I'm already receiving an LGPS pension – will it be affected if I join again?

If you are re-employed in local government or by an employer who offers membership of the LGPS, you must tell the LGPS Fund that pays your pension about your new position, regardless of whether you join the Scheme in your new position or not. They will then check to see whether the pension they are paying should be reduced.



## Forms to fill in:

### Membership Form (LGP2)

To secure your entitlement to the Scheme benefits, even if you automatically become a member, it is important that you complete and return the joining form. On receipt of your form, relevant records will be set up and you will be sent an official notification of your membership of the Scheme.

You should check your payslip to make sure that pension contributions are being deducted.

### Death Benefit forms

If you die in service, a lump sum death grant of three times your final year's pay is paid no matter how long you have been a member of the LGPS. For part-time employees, it is **three times** your actual part-time pay. The Fund has absolute discretion when deciding who to pay any death grant to. The LGPS, however, allows you to express your wish as to who you would like any death grant to be paid to by completing and returning a nomination form. The **LGP25 Death Grant Nomination** form is available from the Fund.

You can nominate a co-habiting partner, of either opposite or same sex, to receive a survivor's pension on your death, providing your relationship meets certain conditions laid down by the LGPS. You can find out about these conditions from our future Fact Sheet on **Life cover – protection for your family**. If this applies to you the **LGP25a Survivor's Pension Nomination of Cohabiting Partner** form is available from the Fund.

### More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact:

#### Address:

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