

Reductions in Pay and the effect to your LGPS Pension

If you are currently paying into the Local Government Pension Scheme (LGPS) and experience a drop or freeze in your pensionable pay, as the result of a decision made by you or your employer, you may stand to lose value on your pension. However, protections may apply to some of your pension rights. This factsheet looks at these protections, and explains how and when they become applicable.

From 1 April 2014, the Local Government Pension Scheme became a 'CARE' (Career Average Revalued Earnings) scheme. Prior to this it was a 'Final Salary' scheme. Your level of protection depends on your membership of the scheme.

CARE PENSION

If you started contributing to the scheme from 1 April 2014; every year you will build up a pension based on your pensionable pay for that year, divided by 49. The amount of pension built up during the scheme year 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. For every £49 that you earn you get £1 of pension added to your pension account.

There are no protections available for pension benefits accrued in the CARE scheme. Therefore, if you experience a drop in pay after April 2014, your expected future accrual will be lessened.

FINAL SALARY PENSION

If you were contributing before 1 April 2014, a part of your pension will be based on your salary when you leave your employment, and your membership in the scheme. Your final salary is normally the pensionable pay received in the last 12 months of employment. If you were part-time, the full-time equivalent is used. Please see below the protections for the final salary aspect of your LGPS pension.

Best of last 3 years

Your employer should automatically check your full time equivalent pay for the two years prior to your date of leaving to ensure that the highest of the three years is provided to the Pension Fund administrator.

This means that if you suffer a reduction in pay in your last few years, whether voluntary or as the result of a decision made by your employer, you will not lose out on your pension entitlement as a result.

Please see overleaf for a working example of 'Best of the Last 3 Years' in effect.

Regulation 10

Regulation 10 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, provides protection to members whose pensionable pay suffers a reduction on or after 1st April 2008, whether it is due to an employer's decision or not. This is because scheme benefit calculations are based in part on your Final Salary figure (if you were active prior to April 1st 2014), so a reduction or restriction in pay can adversely affect the level of benefits paid.

If your pay has been reduced, or increases to your pay have been restricted in the last 10 years of continuous employment, then you have the option to have your benefits based on the average of any 3 consecutive years pay in the last 13 years (ending on 31 March). If applicable, **it is your responsibility** to request from your employer that your benefits are calculated in accordance with Regulation 10. As an example, if your pay was reduced from 1 April 2013, the 10 year protection would start on that date, and continue until 31 March 2023, so you would be fully protected if you retired or left the Scheme on or before 31 March 2023.

Best of the Last 3 Years - Example

Mr Morgan left the LGPS on 30th April 2016. He had been a member of the Scheme prior to 1 April 2014. This means that he will have a Final Salary element applied to the calculation of his benefits. Mr Morgan's pensionable pay was lower in the last year of his employment, so the rules of the Scheme allow for either of the previous 2 years to be used.

Mr Morgan's last three years' pensionable pay were as follows:

1 May 2015 - 30 April 2016 = £19,880

1 May 2014 - 30 April 2015 = £19,650

1 May 2013 - 30 April 2014 = £20,200

For Mr Morgan, the year 1 May 2013 - 30 April 2014 was his highest paid year in the 3 years prior to his date of leaving, so this pay figure is used, and any inflation based on the Consumer Price Index (CPI) is applied.

Please note that inflation by CPI is not taken into account prior to the highest pay figure being applied.

Regulation 10 - Example

Mrs Smith suffered a pay freeze within 10 years prior to her retirement date, and elected to have her benefits calculated in accordance with Regulation 10.

How it works

The last 13 years pay, ending 31st March, are looked at in 3 year 'blocks' and the average is calculated.

Years	Average pay	Year	Pensionable Pay
2014 - 2016	= £23,700.00 + Pension Increases	2016	23,700
2013 - 2015	= £23,700.00 + Pension Increases	2015	23,700
2012 - 2014	= £24,300.00 + Pension Increases	2014	23,700
2011 - 2013	= £24,800.00 + Pension Increases	2013	23,700
2010 - 2012	= £25,233.33 + Pension Increases	2012	25,500
2009 - 2011	= £24,933.33 + Pension Increases	2011	25,200
2008 - 2010	= £24,600.00 + Pension Increases	2010	25,000
2007 - 2009	= £24,233.33 + Pension Increases	2009	24,600
2006 - 2008	= £23,933.33 + Pension Increases	2008	24,200
2005 - 2007	= £23,700.00 + Pension Increases	2007	23,900
2004 - 2006	= £23,533.33 + Pension Increases	2006	23,700
		2005	23,500
		2004	23,400

After calculating the 3 year averages the highest pay figure is £25,233.37

This figure would have up-to-date Pension Increases applied to it in line with CPI and would be used to calculate the Final Salary aspect of her Pension.

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