



North East Scotland Pension Fund

**nespf**



**BRIEF GUIDE TO**

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# **COUNCILLOR PENSIONS**

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# Joining the Scheme

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## Who can join?

The Local Government Pension Scheme (LGPS) is available to all councillors elected to a local authority in Scotland, including such councillors when exercising functions as a convenor or vice-convenor of a joint board. To be able to join the LGPS you need to be under age 75.

If you are eligible to join, you will automatically become a member of the main section of the scheme.

On joining the LGPS, a pension account will be set up and an official notification of your membership will be sent to you. You should check your pay slip to make sure that pension contributions are being deducted.

## Can I opt-out of the LGPS and re-join at a later date?

Yes, you can leave the LGPS at any time on or after your first day holding office. To leave simply complete an 'Opt out' form (available at [www.nespf.org.uk](http://www.nespf.org.uk)) and return to your council.

If you opt out of the LGPS with less than 3 months membership you will be treated as never having been a member and your council will refund any contributions you have paid during that time.

Too expensive? Try 50/50 and pay half the contributions.

If you opt out and your membership is more than 3 months but less than the 2 years, you can take a refund of your contributions or transfer out your pension to another scheme.

If you opt out of the LGPS with 2 or more years membership you will have deferred benefits. You can either transfer your deferred benefits to another pension provider, or leave them in the pension fund until they can be paid.

You can re-join the scheme at any time provided you are still eligible (see who can join?)

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

If you have deferred benefits from previous employment as a councillor and you rejoin the same LGPS Pension Fund as a councillor, your pension benefits from your new and previous employment will be automatically joined together. If you want to keep your benefits separate then you must elect to do so within 12 months of rejoining the scheme. If you rejoin the LGPS as a councillor in Scotland and have a deferred refund this must be joined with your new active pension account.

Pension built up as a councillor in Scotland cannot be joined with pension built up as an employee in Scotland and vice versa.

### **What about any non-LGPS pension rights I have?**

Other pension benefits from another scheme or provider, will not affect your LGPS benefits. You may be able to transfer these pension rights into the LGPS so that your pension is all in one place, provided you are not already drawing them as a pension. However the Fund can only accept pension benefits from other LGPS providers or from schemes which are members of the Public Sector Transfer Club.

You have 12 months from joining the LGPS to transfer your previous pension rights, unless your council allows you longer.

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

If you are already receiving a pension from the scheme, some or all of which you built up before 1 April 2015, 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 let you know whether your pension is affected in any way.

If you are drawing a pension from the scheme, all of which you built up after 31 March 2015, you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment.

# Contributions

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## What do I pay?

How much you pay is based on how much you earn. When you join and every April afterwards, your council will decide your contribution rate by comparing your annual pay with that year's contribution rates. These are rates set by the Government and are reviewed regularly. If there are changes to your terms and conditions which affect your pay, your council must also review your contribution rate. If there are any changes to your contribution rate, your Council will tell you.

Contribution rates for 2021/22 are detailed below:

Rate of Pay	Contribution Rates
On earnings up to £22,955	5.5%
On earnings between £22,956 and £29,857	Between 5.6% and 6.0%
On earnings between £29,858 and £37,474	Between 6.1% and 6.5%
On earnings between £37,475 and £52,876	Between 6.6% and 7.5%
On earnings between £52,877 and £59,569	Between 7.6% and 8.0%
On earnings between £59,570 and £79,762	Between 8.1% and 9.0%
On earnings between £79,763 and £120,666	Between 9.1% and 10.0%
On earnings on and above £120,667	10.1% and over

## Do I get tax relief?

As a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your pensionable pay.

There are restrictions on the amount of tax relief available on pension contributions. If the value of your pension savings increase in any one year by more than the £40,000 (the annual allowance limit of 2021/22) you may have to pay a tax charge. Most people will not be affected by the annual allowance.

## Does my council contribute?

Yes, however their contributions do not increase your pension, rather they help cover the cost of the pension scheme including administration and pension payments. Generally employers pay around 2/3<sup>rd</sup> of the scheme's cost, with member's paying the remaining 1/3<sup>rd</sup>.

## Can I reduce my contributions?

In the scheme there is an option known as 50/50 which allows you to pay half the normal contributions and build up half the pension.

Key features:

- 50/50 is designed to be a short term option for when times are financially tough. As such you will be brought back into the main section, where you pay full contributions, approximately every 3 years. You will be notified when this is happening, and you will have the option to re-join 50/50 if you wish
- Being in 50/50 does not affect the value of any ill health or death in service cover. You receive the same amount of ill health and death in service benefits as you would in the main section
- You can move between 50/50 and the main section as often as you wish
- You cannot join 50/50 if you are paying Additional Pension Contributions to buy extra pension
- Your pension will be lower as you are only paying half the contributions, and therefore only build up half the pension
- If you have more than 1 job, you can join 50/50 in one, some or all of your jobs

More details can be found in the “Join 50/50” form (available at [www.nespf.org.uk](http://www.nespf.org.uk)).

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

You can increase your benefits by paying additional contributions, known as Additional Pension Contributions (APCs), to buy extra LGPS pension, or by making payments to the scheme’s Additional Voluntary Contributions (AVC) arrangement.

You are also able to make payments to a personal pension or stakeholder pension or free-standing AVC scheme of your own choice. You may wish to take independent financial advice before you make a decision about paying extra.

**More information on these options is available in the Guide to Increasing your Pension.**

## Your Pension

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Your LGPS benefits are made up of:

- An annual pension which keeps up with the cost of living and is payable for the rest of your life, and
- The option to exchange part of your pension for a tax-free lump sum paid when you draw your pension benefits.

### How is my pension worked out?

Your pension is worked out every year as follows:

**Step 1:** Divide the pensionable pay you received that year by 49 (or 98 if you are in the 50/50 section)

**Step 2:** Add that value to your pension account

**Step 3:** Increase or decrease your pension account in line with the cost of living (Consumer Prices Index (CPI))

**Step 4:** Repeat steps 1- 3 the following year, and every year you are in the scheme

For example: A member joins the main section of the scheme and earns £16,739 in their first year. This is how their pension builds up over the next 3 years.

<b>Year 1 pay</b> £16,739	<b>Pension built up in year</b> £341.61 (£16,739 ÷ 49)	+	<b>Inflation</b> 1%	=	<b>Closing balance</b> £345.03		
<b>Year 2 pay</b> £16,989	<b>Opening Balance</b> £345.03	+	<b>Pension built up in year</b> £346.71 (£16,989 ÷ 49)	+	<b>Inflation</b> -1%	=	<b>Closing balance</b> £684.82
<b>Year 3 pay</b> £17,258	<b>Opening Balance</b> £684.82	+	<b>Pension built up in year</b> £352.20 (£17,258 ÷ 49)	+	<b>Inflation</b> 1.5%	=	<b>Closing balance</b> £1052.58

So after 3 years, this member has an annual pension worth £1052.58.

**If you joined the LGPS before 1 April 2015, these benefits are calculated differently:**

- **For membership built up to 31 March 2009**, you receive a pension of  $1/80^{\text{th}}$  of your career average pay plus an automatic tax-free lump sum of 3 times your pension.
- **For membership built up from 1 April 2009 to 31 March 2015**, you receive a pension of  $1/60^{\text{th}}$  of your career average pay. There is no automatic lump sum for membership built up after March 2009, but you do have the option to exchange some of your pension for a tax-free lump sum.

Career Average Pay is the average pay you received over your LGPS membership. In calculating your average pay, the pay you received each year while in the LGPS is revalued so it keeps up with the cost of living. Your total revalued pay is divided by your membership to get Career Average Pay. This figure is then used to work out your benefits in the old career average scheme up to 31 March 2015.

### **Can I exchange part of my pension for a lump sum?**

You can swap some of your annual pension for a tax-free lump sum. For every £1 of annual pension you give up, you get £12 of lump sum. You can only take up to 25% of the capital value of your pension benefits as a lump sum (subject to HMRC limits). Details of the maximum tax-free lump sum you can take will be given to you before retirement.

### **Taking AVCs as cash**

If you pay Additional Voluntary Contributions (AVCs) via the LGPS you may elect to take all of your AVC fund as a tax free lump sum if you draw it at the same time as your main LGPS benefits provided, when added to your LGPS lump sum, it does not exceed 25% of the overall value of your LGPS benefits (including your AVC fund) and the total lump sum doesn't exceed £263,750 2019/20 figure) less the value of any other pension rights you have in payment. Details of this option will be given to you shortly before your retirement.



# Retirement

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## When can I retire and draw my LGPS pension?

You can retire and take your pension anytime between age 55 and 75. (Your pension must come into payment before your 75<sup>th</sup> birthday).

However if you choose to retire before your Normal Pension Age your pension may be reduced as it is being paid early. If you take your pension later than your Normal Pension Age it will increase as it is being paid later.

## What is Normal Pension Age?

Normal Pension Age is the age you can take your pension without it being reduced for early payment. Normal Pension Age varies depending on when you built up pension benefits:

- Benefits built up before 31 March 2015: Normal Pension Age = 65
- Benefits built up on or after 1 April 2015: Normal Pension Age is the same as your State Pension Age (or age 65, if your State Pension Age is lower than 65). If the State Pension Age changes in the future then your Normal Pension Age for these benefits will change too. You can find out your State Pension Age at <https://www.gov.uk/state-pension-age>

When retiring you must take all your benefits at the same.

## What happens if I have to retire early due to ill health?

If you have to leave your office due to illness you may be able to receive immediate payment of your benefits.

To qualify for ill health benefits you must have been a member of the pension scheme for at least 2 years, and your council, based on an opinion from an independent occupational health physician appointed by them, is satisfied that you are permanently incapable of doing your job until your Normal Pension Age. Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact, your benefits would be increased to make up for your early retirement.

## What if I carry on in office after my Normal Pension Age?

If you carry on in your office after your Normal Pension Age you will continue to pay into the LGPS, building up further benefits. When you eventually retire you will receive your pension unless you choose to delay drawing it. Payment of your pension must begin before your 75<sup>th</sup>

birthday. Your pension will be paid at an increased rate to reflect the fact that it will be paid for a shorter time.

## Protection for your family

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### What benefits will be paid if I die?

**If you die in service as a member of the LGPS** the following benefits are payable:

- A lump sum death grant, provided you are under 75 at date of death
- Pensions for eligible children
- A spouse's, civil partner's or, subject to certain conditions, an eligible cohabiting partner's pension. For more information, view our Guide to Survivors' and Dependants' Pensions.

**If you die after leaving the scheme but before your pension can be paid** the following benefits are payable:

- A lump sum death grant
- Pensions for eligible children
- A spouse's, civil partner's or, subject to certain conditions, an eligible cohabiting partner's pension. For more information, view our Guide to Survivors' and Dependants' Pensions.

**If you die after retiring on pension** the following benefits are payable:

- A spouse's, civil partner's or, subject to certain conditions, an eligible cohabiting partner's pension
- Pensions for eligible children
- A lump sum death grant will be paid if you die after retiring on pension, less than 10 years pension has been paid and you are under age 75.

### Who is the lump sum death grant paid to?

You can nominate any individual(s) and/or charities to receive this grant by updating your death grant nominations online via [My Pension](#) or by completing the "Death Grant – Expression of Wish" form. The Fund has absolute discretion on who to pay the death grant to and does not have to follow your wishes but we will do so wherever we can.

## Leaving the Scheme Before Retirement

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If you leave your office before retirement and have been a member of the scheme for at least 2 years, you will have built up an entitlement to a pension. You will have two options in relation to that pension entitlement:

- you can choose to keep your benefits in the LGPS. These are known as deferred benefits and will be adjusted every year to keep up with the cost of living, or
- alternatively, you may be able to transfer your deferred benefits to another pension arrangement.

If you leave your office before retirement and have less than 2 years membership you will have three options:

- you will normally be able to claim a refund of your contributions, or
- you may be able to transfer your benefits to a new pension arrangement, or
- you can delay your decision until you either re-join the LGPS, transfer your benefits to a new pension arrangement, or want to take a refund of contributions. A refund of contributions must, in any event, be paid within 5 years of your leaving the scheme (or age 75 if earlier).

The Fund will write out to you when you leave explaining what options you have.

### Refunds of Contributions

If you are entitled to a refund of your contributions, your contributions will be paid back to you minus tax. A refund of contributions must be paid within 5 years of you leaving the scheme (or age 75 if earlier).

### Deferred benefits

If you leave before your Normal Pension Age, and have at least 2 years membership you will be entitled to deferred benefits. During the period your pension benefits are deferred they will increase in line with the cost of living.

Deferred members, no matter when they left, can take payment from age 55 even if they are in local government employment. Unless you decide to transfer your deferred benefits to another pension scheme, they will normally be paid unreduced at your Normal Pension Age, but:

- they may be put into payment earlier due to ill health, or

- you can elect not to draw your deferred benefits at your Normal Pension Age and defer drawing them till some time later (although they must be paid by age 75).

Benefits paid earlier than your Normal Pension Age, other than on the grounds of permanent ill health, will be reduced to take account of their early payment and the fact that your pension will be paid for longer. Conversely, benefits paid after your Normal Pension Age will be increased.

## Death with Deferred Benefits

If you leave with deferred benefits and die before they come into payment the following is payable:

### Death Grant

This is a tax-free lump sum payable upon your death and is equal to:

- 5 times your pension value if you left the scheme after 1 April 2009, or
- 3 times your pension value if you left the scheme before 1 April 2009.

You can tell the Fund who you would like to receive this grant. Although we do not have to follow your expressed wishes we will do so wherever we can. To make or change a nomination complete the “*Expression of Wish*” form available from our website. Alternatively you can update nominations via My Pension.

Note: If you are also an active member, then in the event of your death only one death grant is payable; either the death in service lump sum or the deferred benefits lump sum, whichever is greater.

### Survivor’s Pension

A pension is payable to your:

- Spouse, or
- Civil Partner, or
- **Eligible** cohabiting partner

A survivor’s pension is payable from the rest of their life and will increase in line with the cost of living. For a cohabiting partner to receive a pension your relationship must meet certain conditions. More information can be found in the “[Notification of Co-habiting Partner for Survivor’s Pension](#)” form. Additionally a children’s pension may also be payable to [eligible children](#) in the event of your death.

## Transferring your benefits

If you leave the scheme and you are entitled to deferred benefits or a refund you can generally transfer the cash equivalent of your pension benefits into another pension arrangement or a new employer's pension scheme. You cannot transfer your benefits if you leave with less than 3 months membership or if you leave less than one year before your Normal Pension Age. An option to transfer must be made at least 12 months before your Normal Pension Age.

## Transferring to a flexible benefit scheme

Flexible benefits were introduced by the Government from 6 April 2015 to allow members of defined contribution schemes, who are over age 55, more freedom on how they take money from their pension pot.

The LGPS is not a defined contribution pension scheme (it is a defined benefit scheme) and as such, it is not directly affected by these changes. However, if you stop paying into the LGPS and you have three or more months' membership, then unless you are retiring with immediate effect due to redundancy, business efficiency or ill health, you will have the right to transfer your LGPS pension to a defined contribution scheme providing flexible benefits.

Please note that you will be required by law to take independent financial advice from an authorised independent advisor or an appointed representative if the value of your pension benefits in the LGPS (excluding AVCs) is more than £30,000. You are not required to take independent financial advice if the value of your benefits is less than £30,000. However, transferring your pension rights is not always an easy decision to make and seeking the help of a financial adviser or an appointed representative before you make a decision to transfer could help you in making a decision.

## More Information

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More detailed information about the Local Government Pension Scheme is available from:

**North East Scotland Pension Fund**

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Broad Street  
Aberdeen  
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Helpdesk: (01224) 264 264

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Website: [www.nespf.org.uk](http://www.nespf.org.uk)

### DISCLAIMER

This guide cannot cover every personal circumstance. For example, it does not cover all ill health retirement benefits. Nor does it cover rights that apply to a limited number of councillors e.g. those whose total pension benefits exceed the lifetime allowance (£1,073,100 in 2021/22), those whose pension benefits increase in any tax year by more than the annual allowance (£40,000 in 2021/22 or, for higher earners, the tapered annual allowance), those whose rights are subject to a pension sharing order following divorce or dissolution of a civil partnership. In the event of any dispute over your pension benefits the appropriate legislation will prevail. This brief guide does not confer any contractual or statutory rights and is provided for information purposes only.