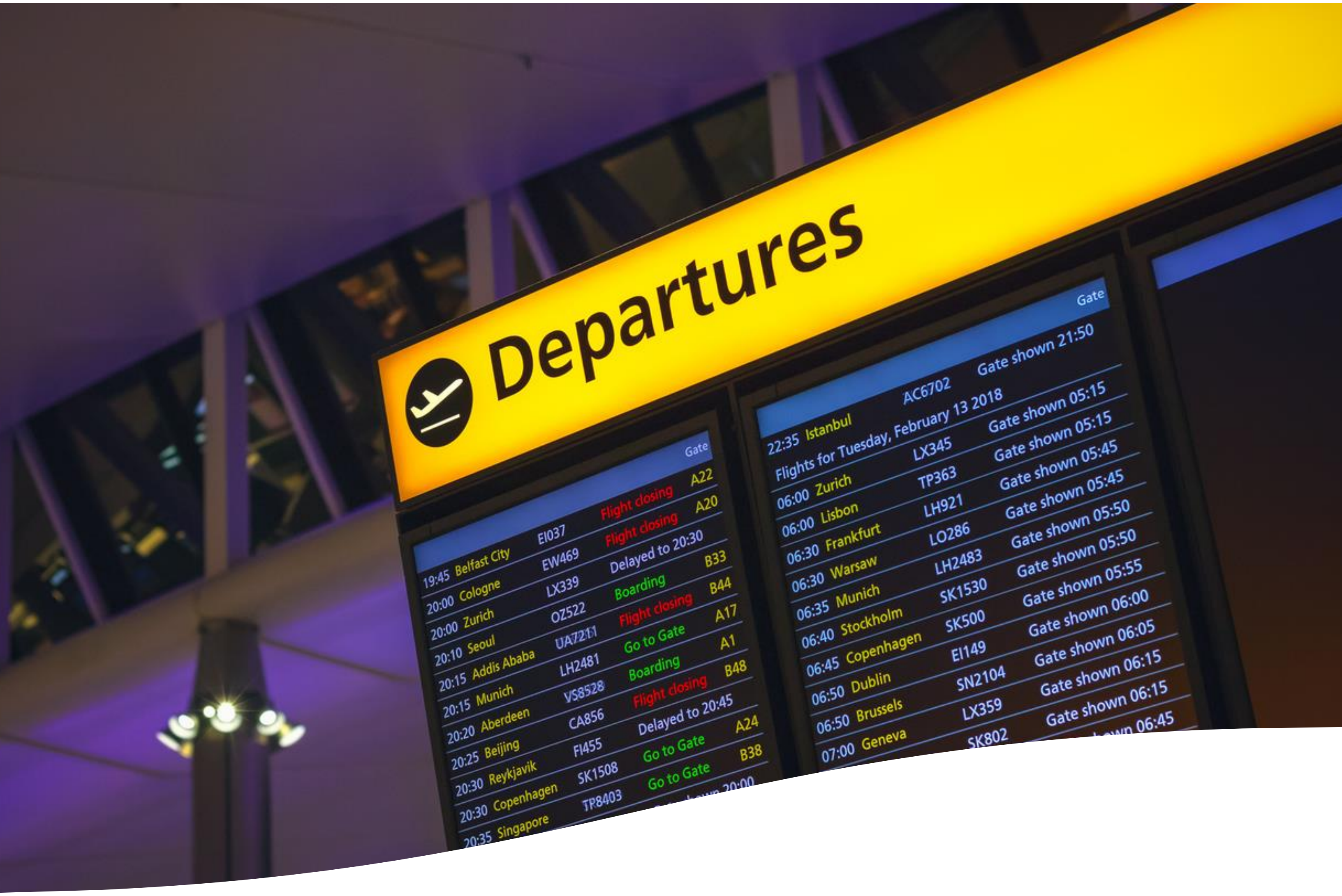

GUIDE TO

Leaving Before Retirement

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What happens if I leave the Local Government Pension Scheme (LGPS)?

If you leave your job or opt out of the pension scheme before your pension can be paid you will need to decide what to do with your benefits.

If you have been a member for less than 2 years and have no other LGPS benefits in Scotland, you can:

- Get a refund of your pension contributions (minus tax), or
- Transfer your pension to another pension provider
- You can elect to delay your decision until you either re-join the LGPS, transfer your benefits to a new pension provider or take a refund of your contributions. Where you delay your decision, you will have what is known as a deferred refund pension account. Please note, this account can only be held in your Pension Fund for a maximum of 5 years or until age 75, whichever is earlier. If you have not transferred your benefits to a new pension arrangement or re-joined the LGPS by that time a refund of contributions will automatically be paid to you.

If you have been a member for more than 2 years or less than 2 years but have other LGPS benefits in Scotland, you can:

- Transfer your pension to another pension provider, or
- Leave your pension in the North East Scotland Pension Fund until it can be paid to you. This is known as deferred benefits.

When leaving, we will write to you and tell you your options.

Refund of Pension Contributions

A refund of contributions will include:

- any pension contributions you have paid, and
- any Additional Pension Contributions (APCs) or Additional Voluntary Contributions (AVCs) you have paid (excluding AVCs paid for additional life cover), and
- any contributions you paid which were included in a transfer payment which the LGPS received from another pension arrangement.

Refunds will have a deduction for tax. If a refund is not paid within 1 year of you leaving the scheme, then interest is payable. The rate of interest is 1% above base rate on a day to day basis from the date you left the scheme to the day the refund is paid (compounded with three monthly rests).

Your refund must be paid within 5 years of your leaving the scheme (or age 75 if earlier). At that point a refund of contributions is automatically paid to you.

No refund can be made if you:

- Re-join the scheme in Scotland within a month and a day of leaving,
- Re-join before the refund has been paid,
- Continue to hold another job in which you are a member of the scheme and which you held at the same time as the job you have left.

What happens to my benefits if I choose to defer them?

If you decide to defer your pension, you will have what is called "deferred pension benefits." Your deferred pension benefits will remain within the Fund until you:

- decide to transfer to another pension scheme, or
- they are due to be paid.

Your personal deferred benefits package consists of an annual pension, payable throughout your retirement, with an option on retirement to exchange some pension for a one-off tax-free lump sum. It also includes life cover and financial protection for your family.

How are deferred benefits worked out?

Your deferred benefits will be calculated as follows:

- **Benefits built up after 31 March 2015:** This is simply the value of the pension you have built up in your active pension account at the point of leaving (pay ÷ 49). That amount of pension is transferred from your active pension account to your deferred pension account.

  When you draw your deferred benefits, you will be given the option to exchange some of your annual pension for a one-off tax-free lump sum. You receive £12 lump sum for each £1 of annual pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum, subject to tax controls.

- **Benefits built up between 1 April 2009 and 31 March 2015**: These are calculated by dividing any period of membership you have falling between these dates by 60 and multiplying the resulting figure by your final pay on leaving.

  When you draw your deferred benefits, you will be given the option to exchange some of your annual pension for a one-off tax-free lump sum. You receive £12 lump sum for each £1 of annual pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum, subject to tax controls.

- **Benefits built up before 1 April 2009:** These are calculated by dividing any period of membership you have falling before that date by 80 and multiplying the resulting figure by your final pay on leaving.

  In addition, you are entitled to an automatic tax-free lump sum of three times your pension for membership before 1 April 2009. You can also swap part of the pre-April 2009 pension for extra lump sum as described above.

All your benefits are calculated at the date you leave. They are then adjusted each year in line with the cost of living.

What if I pay extra contributions?

If you have been paying extra contributions, your contributions will stop when you leave the pension scheme.

If you have been paying:

- **Additional Pension Contributions (APCs),**
- **Additional Regular Contributions (ARCs), or**
- **Added Years,**

you will be credited with the extra pension you have paid for at the time of leaving. In the case of Added Years, you will be credited with the extra period of membership you have paid for at the time of leaving.

If you move to a new employer in the LGPS in Scotland within 12 months of leaving, you can carry on paying the additional contributions provided you also pay them to cover the period between leaving and starting your new job and you join your pension rights together. You should contact your new LGPS administrator within 3 months of rejoining to arrange this.

If you pay Additional Voluntary Contributions (AVCs) arranged through the LGPS (in-house AVCs)

The value of your AVC fund will continue to be invested until it is paid out. Your AVC plan is similar to your main LGPS benefits in that it can be:

- transferred to another pension arrangement (including a scheme that offers flexible benefits), or
- drawn at the same time as your LGPS benefits.

As you cannot pay in-house AVCs after leaving, any extra life cover paid for through AVCs will cease.

If you re-join the LGPS in Scotland and choose to transfer your main LGPS benefits so that they are combined with your new period of membership in the LGPS, your AVCs must be transferred to the AVC arrangement offered by your new Pension Fund administrator.

If you are paying additional contributions to buy extra cohabiting partner’s survivor pension

The period of your pre-6 April 1988 membership that you have paid extra for at the time of leaving will be included in the calculation of any survivor’s pension payable to an eligible cohabiting partner on your death.

Pension Sharing Orders

Your deferred benefits will be reduced in line with the Pension Sharing Order issued by the Court or the qualifying agreement made as part of your divorce settlement.

When are deferred benefits paid?

You can take your deferred benefits anytime between age 55 and 75.

If you take your pension before your Normal Pension Age (NPA), your pension may be reduced as it is being paid early. Similarly, if you take your pension after your NPA it will increase, as it is being paid late. Your Normal Pension Age is the same as your State Pension Age (or age 65 for those with a SPA less than 65).

The only exceptions to taking your pension before your Normal Pension Age without a reduction for early payment is;

- Ill health retirement, and
- Members who qualify for full Rule of 85 protection

Ill Health Retirement

If at any age you are too ill to continue working, you can apply for ill health retirement. If accepted, your deferred benefits would be paid immediately and without reduction. To apply for early payment of your deferred benefits on ill health grounds you must be permanently incapable of doing the job you were in when you left the LGPS and unlikely to be capable of gainful employment before NPA. More information on ill health is available in our Ill Health Retirement guide.

How do deferred benefits keep their value?

Before Your Pension is in Payment

Every year while your benefits are deferred, your pension will be revalued in line with the cost of living. Typically this means that your pension will either increase (if the cost of living rises) or will remain the same (if the cost of living is 0 or negative).

However in the first year after you leave the LGPS, your pension for membership after 1 April 2015 is revalued slightly differently. This means that if the cost of living has gone down in the scheme year, it is possible that the value of your deferred pension could be reduced. Note this reduction would only apply to benefits built up from 1 April 2015. Benefits built up before this date would not be reduced in such a scenario.

After this, future revaluations for all your deferred benefits (both pre and post 1 April 2015) will then be completed in line with the Pensions Increase. This can only result in your pension increasing or staying the same. Your deferred benefits cannot go down.

After your Pension is in Payment

Once your pension is being paid, it will continue to be adjusted in line with the cost of living each year.

If you are receiving your pension benefits and:

- you are aged 55 or over, or
- you retired before age 55 due to ill health and you are permanently unable to engage in regular full-time employment,

your benefits will be adjusted each year in line with the cost of living.

Otherwise if you draw your benefits before age 55 you will normally have to wait until your 55th birthday for your first cost of living adjustment. At this time, your pension will be increased to the level it would have been, had it been increased every year.

Do tax rules on savings affect deferred benefits?

There are HM Revenue and Customs controls on your pension savings:

- The "**lifetime allowance**" is the total value of all your pension arrangements which you can build up without paying extra tax. The lifetime allowance was abolished, and no longer applies to pension taken after 6 April 2023. The Lump Sum Allowance (LSA) and Lump Sum Death Benefit Allowance (LSDBA) replaced Lifetime Allowance to restrict the payment of tax-free cash. At retirement, the restrictions apply to your Pension Commencement Lum Sum (PCLS). Your PCLS is made up of any LGPS lump sum and any Additional Voluntary Contribution (AVC) funds you are taking as tax-free cash.
- The LSA is a personal lifetime limit of £268,275 for the payment of tax-free cash at retirement. Once this is exceeded, any lump sum allowance over this limit will be taxed at the member's marginal rate of income tax.
- The LSDBA limits the amount of tax-free cash that can be paid when a member dies. The LSDBA limit is £1,073,100 million (it is also reduced by any LSA used). Once this is exceeded, any lump sum allowance over this limit will be taxed at the member's marginal rate of income tax.
- The "**annual allowance**" is the amount your pension savings can increase by in any one year without paying extra tax. The annual allowance is currently £60,000. Higher earners (those with an 'adjusted income' of over £260,000 for a tax year) will have a reduced annual allowance limit.

We will let you know the value of your LGPS benefits when they are paid and ask you about any other pensions you may have in payment, so that we can work out whether or not to deduct a recovery tax charge. Most Scheme members' pension savings will be less than the above allowances.

What if I die before receiving my benefits?

If you leave with deferred benefits and die before receiving them, the following benefits may be payable:

- A lump sum death grant
- A survivors, civil partners', eligible cohabiting partner, dependants' pension

For more information see our guide to Survivor's and Dependant's Pensions.

Transferring Benefits to Another (non-LGPS) Scheme

If you are joining another pension arrangement, you may wish to consider transferring your LGPS benefits to it.

Who can transfer?

You can only transfer your benefits if:

- You leave more than one year before your Normal Pension Age. An option to transfer (other than in respect of AVCs) must be made at least 12 months before your Normal Pension Age.
- You have not already drawn benefits from the LGPS, either in your current employment of any earlier employment.
- You transfer all LGPS benefits. If you have more than one deferred benefit in the LGPS Scotland, you must transfer them all. You cannot transfer one deferred benefit and keep another within the LGPS.

Transfer Process

You should first contact your new provider to see if they will accept LGPS benefits.

If they do, your new pension provider will need a transfer value quotation, which the Pension Fund will guarantee for a period of three months from the date of calculation (other than in respect of AVCs). Your new pension provider can then advise you of the additional benefits the transfer will buy in their scheme. A written option to proceed with the guaranteed transfer value must be received within the 3 month guarantee period, otherwise the final transfer payment made may be recalculated.

If you are considering whether to transfer benefits, make sure you have full information about the two pension arrangements i.e. details of what your benefits are worth in the LGPS and details of what your benefits would be worth in the new pension scheme, if transferred. When you compare your options, don't forget that your LGPS benefits are guaranteed cost of living adjustments.

If you are transferring from the LGPS to an arrangement which is termed as offering 'flexible benefits' and the cash equivalent transfer value of your LGPS benefits is £30,000 or more then you are legally required to obtain appropriate independent financial advice from an authorised independent advisor before transferring.

If the cash equivalent transfer value of your LGPS benefits is less than £30,000 you are not legally required to take advice. However, transferring your pension rights is not always an easy decision to make and seeking the help of an independent financial adviser before you make a decision to transfer your deferred benefits could help you in making an appropriate decision.

What will happen if I change jobs but remain in the LGPS?

If you are changing your job but still

- work in local government or for another employer who offers the LGPS, or
- if you re-join the LGPS before your deferred benefits are paid

your deferred benefits are automatically joined with your new active pension account when you re-join the scheme, unless you elect to keep them separate.

If you wish to keep your deferred benefits separate you must elect to do so within 12 months of re-joining the LGPS, unless your employer allows you longer. You can ask your employer what their policy is on this matter.

If you wish to transfer your LGPS rights you should contact your current or former LGPS administrator as soon as possible. However, if you have changed jobs as a result of a compulsory transfer of your employment from one organisation to another and remain in the LGPS, your LGPS benefits will automatically be joined together and you will not be able to elect to keep these separate.

What if I have more than one job in the LGPS?

If you have two or more jobs in which you pay into the LGPS at the same time and you leave one (or more) but not all of them, you are entitled to deferred benefits from the job you have left. Your deferred benefits from the job that has ended will be automatically transferred to the active pension account for the job you are continuing in, unless you choose to keep them separate.

If you are not entitled to deferred benefits from the job you have left, you must transfer your benefits to the pension account for the job you are continuing in. You cannot have a refund of your contributions in this circumstance.

Additionally, if you have membership built up before 1 April 2015 which you combine with the membership in the job you are continuing in, then this membership is adjusted to reflect the difference in the full-time rates of pay between the jobs as follows:

$$\text{Membership in the job you have left} \times \frac{\text{full-time rate of pay in the job that has ceased}}{\text{full-time rate of pay in the job that is continuing}}$$

What happens if my job is transferred to a private contractor?

If your job is transferred to a private contractor, the contractor will normally be required to provide you with continued access to the LGPS. The contractor may allow you to stay in the LGPS so long as you continue working on the delivery of the contracted-out service. If the contractor becomes an admission body in the scheme, your LGPS benefits prior to the transfer would be automatically aggregated with your post transfer LGPS benefits.

Alternatively, the contractor may be able to offer you a broadly comparable scheme. This does not mean that the new scheme must mirror the benefits of the LGPS, but the value of the package offered by the new scheme must be broadly equivalent to the LGPS. If you are offered a broadly comparable scheme you would have the same options available to you regarding your accrued LGPS benefits as anyone else leaving the LGPS before retirement.

More Information

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

North East Scotland Pension Fund	Helpdesk:	(01224) 045 045
Level 1, 2MSq	Email:	pensions@nespf.org.uk
Marischal Square	Website:	www.nespf.org.uk
Broad Street		
Aberdeen		
AB10 1LP		

DISCLAIMER

The information in this guide is based on the Local Government Pension Scheme (Scotland) Regulations 2018 and other relevant legislation. It applies to people who were contributing members of the Local Government Pension Scheme on 1 April 2015 or who have since joined the scheme. This guide was up-to-date at the time of publication in March 2024. It is for general use and cannot cover every personal circumstance, nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this guide does not confer any contractual or statutory rights and is provided for information purposes only.