



North East Scotland Pension Fund  
**nespf**



**GUIDE TO**

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# **III Health Retirement**

## Contents

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Who can retire early due to ill health?	3
What benefits will I receive?	4
What if I am paying extra?	5
Previously Retired on Ill Health	5
More information	6

# Who can retire early due to ill health?

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You can retire on ill health at any age, provided you have been a member of the LGPS for at least 2 years and your employer, based on the opinion of an independent occupational health physician, is satisfied that you are permanently incapable of doing your job until your Normal Pension Age. Normal Pension Age (NPA) is the same as your state pension age (or age 65, if your state pension age is lower than 65).

You will need to be examined by an independent practitioner qualified in occupational health medicine, appointed by your employer and approved by the Pension Fund. Your employer must arrange this for you.

If you do not have 2 years qualifying service, you will receive a refund of your pension contributions. You will not be entitled to any further pension benefits.

Ill health benefits can be paid at any age and are not reduced on account of early payment – in fact your benefits will be increased to make up for your early retirement.

## Ill Health Benefits

There are different levels of ill health benefits, based on how likely you are to work again after you leave.

- **Tier 1:** You are permanently incapable of doing your job and you are unlikely to be capable of gainful employment\* before your Normal Pension Age. Your ill benefits are based on:
  - the pension you have already built up in your pension account at your date of leaving the scheme *plus*
  - the pension you would have built up had you been in the scheme until you reached your Normal Pension Age. This is calculated on your assumed pensionable pay – simply the pay you would have received had you been working as normal.
- **Tier 2:** You are permanently incapable of doing your job but you are likely to be capable of gainful employment\* before your Normal Pension Age. Your ill benefits are based on:
  - the pension you have already built up in your pension account at your date of leaving the scheme *plus*
  - 25% of the pension you would have built up if you been in the main section of the scheme until you reached your Normal Pension Age. This is calculated on your assumed pensionable pay – simply the pay you would have received had you been working as normal.

**\*Gainful employment** is paid employment for no less than 30 hours per week for a period no less than 12 months.

Where an enhancement is payable, the additional pension is added to your pension account.

## What benefits will I receive?

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**Your LGPS benefits are made up of:**

- An annual pension that, after leaving, is adjusted every year in line with the cost of living 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

Your annual pension is worked out as follows:

Every year, you build up a pension worth  $1/49^{\text{th}}$  of your pensionable pay (and any assumed pensionable pay). If you are in 50/50, you will build up a pension at  $1/98^{\text{th}}$  of your pay. The amount of pension built up 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.

If during the scheme year you have been on leave and were on reduced contractual pay or no pay due to sickness or injury, then for the period of that leave, your pension is based on your assumed pensionable pay. This is the pay you would have received had you not been absent or working reduced contractual hours as a consequence of your ill health and ensures that the pension you built up during this period is not affected by your reduction in pay.

You can take a tax free lump sum by exchanging some of your annual pension (HMRC limits apply). For every £1 of annual pension that you give up, you will receive a £12 lump sum. So if you were to exchange £100 of annual pension, you would get £1,200 lump sum.

## What if I am paying extra?

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If you are paying:

- Additional Pension Contributions or Shared Cost Additional Pension Contributions,
- Additional Regular Contributions, or
- For Added Years

You will be credited for all the extra pension you set out to buy, even if you have not completed full payment. With Added Years you will normally be credited with the whole extra period of membership you set out to buy.

**If you are paying Additional Voluntary Contributions (AVCs) arranged through the LGPS (in-house AVCs)** your contributions will cease when you cease to contribute to the LGPS. There are different ways you can use your in-house AVC fund:

- Buy an annuity
- Buy a top-up LGPS pension
- Take your AVCs as cash (only if you draw it at the same time as your main LGPS benefits and 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).
- Buy extra membership in the LGPS (only if election to start paying the AVCs was made before 30 June 2005)
- Transfer your AVC fund to another pension scheme or arrangement offering pension flexibilities

## Previously Retired on Ill Health

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If you have previously received a Tier 1 ill health pension from the LGPS, or were awarded an LGPS ill health pension before 1 April 2009, then no enhancement can be added to your pension account if you are retired again for reasons of ill health.

If you have previously received a Tier 2 ill health pension from the LGPS, any enhancement due to further ill health retirement is adjusted and capped. If, in respect of the subsequent ill health retirement you are awarded a Tier 1 or Tier 2 pension, there are limits on the enhancement.

## 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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### 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 2020. 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.