Pension choices following a reduction in pay

Introduction

On 1 April 2014, the local government pension scheme became what's known as a career average scheme. In schemes like this, you 'get what you pay for', since both your contributions and your benefits are tied in to your pay each year.

But if you were also a member before April 2014, then things are a little more complicated. That's because, when you leave, we will still work out your benefits before April 2014 on a final salary basis.

If you have had a reduction in pay - for example because you have chosen to move into a lower graded job, or because your employer has downgraded you - then this could have a knock on effect with the final salary part of your benefits. So we have created this booklet to tell you about some protection that may be open to you.

By the way, this protection is possible even if the pay cut happens on or after 1 April 2014.

Important: this booklet only covers the options for members whose pay was reduced from April 2008 onwards. (There were similar but different rules in place before then).

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Pension options

If you suffer a pay reduction, and were a member before April 2014, then there are three possible things that might help protect your pre 2014 final salary benefits from the impact of the pay cut.

1 Use actual final salary pay

This is where we use the best single year out of your final three years to work out your final salary benefits.

2 Look back in time

This is where close to retirement you choose an 'earlier & better' pay to work out your final salary benefits.

3 Benefits on hold

This is where at the point of the pay cut, your employer offers you the chance of splitting your benefits.

We'll look at each of the options over the next few pages and what they might mean to you.

Know your dates!

When you are weighing up the options, to decide which one might suit you best, one of the key factors is how far off leaving or retiring you are when the pay cut happens. If you know the date of your pay cut, why not make a note of it here:

Date of my pay cut:

Using actual final salary pay

When most people retire (or leave) we work out their final salary benefits using their actual final salary pay. So unless you ask us to do something different, this is what will happen in your case too.

But don't think using actual final salary pay simply means using your pay in your final year - in fact, it's the best of your last three years.

Your employer should automatically look at the pay over this three year period, to find the best figure.

They will then send this pay figure to us to work out your final salary benefits.

So if you are fairly close to leaving or retiring when your pay is reduced, this option could be enough to protect your final salary benefits.

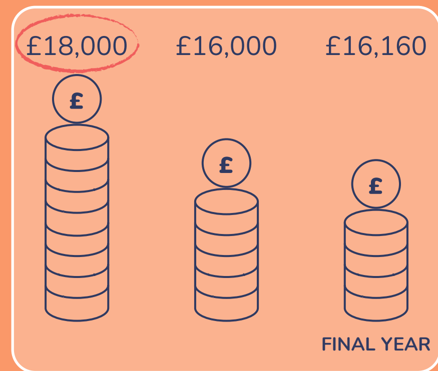
Bill's example

Bill is about to retire.

As you can see from the graph, three years ago he was on £18,000, then he had a pay cut, and his pay fell to £16,000, and finally his pay increased a little to £16,160 for his final year.

So out of his three final years, the best single year's pay is the £18,000 we have circled - so this is the figure we will use to work out his final salary benefits. And what's more, we will then add inflation proofing to the benefits.

If we assume an inflation rate of 2 per cent per year, this would have the same effect as using a pay figure of around £18,700 to work out his final salary benefits - clearly better than the £16,160 he actually finished on.



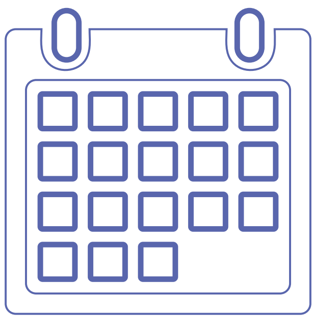
Want us to use actual final salary pay to work out your final salary benefits? Then you don't need to do anything, since this is what will happen anyway, unless you choose one of the other options.

Looking back in time

This is where close to retiring or leaving you choose an 'earlier & better' pay to work out your final salary benefits.

This is a really useful option but one which is only open to you if you leave within ten years of the reduction in pay. This time limit is spelled out in the pension scheme rules - so your employer can't extend the date. But if you are able to choose this option, this is how it works.

1. Looking back over your final 13 years, you choose any three year block ending with a 31 March.
2. We then work out the average yearly pay from your chosen three year block and use this to work out your final salary benefits.
3. Finally we add inflation proofing to these final salary benefits as well, so assuming there has been some inflation, this will mean even higher benefits



Only open to you if you leave within ten years of the reduction in pay.

Interested in this option? Don't do anything at the point of the pay cut - simply inform your employer's Pensions Team you are choosing this option at least ONE MONTH before you retire or leave.

Brenda's example

Brenda is about to retire - her actual final salary pay is £18,000. Five years ago, she had a pay cut, so rather than using her actual final salary pay, she decides to use the 'looking back in time' option. So let's see how this works in practice.

1. Let's say Brenda chooses the 3 year block highlighted in red - just before the reduction in pay.
2. This period gives us an average pay figure of £18,250. So that is the figure we will use to work out her final salary benefits.
3. We add inflation proofing to the benefits to make them better still.

To keep things simple, let's assume inflation has been 2 per cent a year over her last five years. This would have the same effect as using a pay figure of more than £20,000 to work out her final salary benefits - clearly better than the £18,000 she actually finished on.

Benefits on hold

Benefits on hold are normally associated with choices for members leaving the scheme. But as long as your employer agrees, they can also be used to offer some protection following a pay cut, and may be worth considering if you have a pay cut but won't get any protection from the other two options already discussed. By the way, you need to have been a member for at least two years to choose benefits on hold.

How does it work?

You effectively split your benefits before and after the pay cut. So benefits before the pay cut are worked out on your pay at the time, then held as benefits on hold. You then start building up a new separate set of benefits, which will be worked out on your pay going forward.

How do I get benefits on hold following a pay cut?

If you have a pay cut, your employer may offer you the option of benefits on hold. If they don't do this, you can ask them for benefits on hold, but they can refuse.

What happens once I have benefits on hold?

You will rejoin the scheme, and start building up a fresh set of benefits. Once you rejoin the scheme you have 12 months to choose to keep your benefits on hold separate from the new benefits you are building up. If you do not choose to do this by making a positive decision, your benefits on hold will be linked to your new pension build up and your protection will be lost.

We will adjust your benefits on hold each year in line with inflation - in other words, they will go up in times of inflation. Or if there is no inflation, or negative inflation, they will just stay level.

What if I am refused benefits on hold?

Alternatively, at the point of the pay cut, you can choose to opt out of the Scheme, but then immediately rejoin. This automatically provides you with benefits on hold at the point you opt out. If you choose to opt out and then re join the scheme your benefits on hold must remain separate from the new benefits you are building up. You will not need to choose to keep your benefits on hold separate and you will not have the option to link those benefits to ANY future period of membership.

Nor will you be able to draw the benefits on hold whilst still in the same employment.

What to do next

You now need to decide which of the options you think are best suited to you.

Actual final salary pay

If you want this option, you need do nothing further. In this case we will use the actual final salary pay described to work out the final salary part of your benefits.

Look back in time

If you want this option, you need do nothing at the point of the pay cut. But you do need to specify this option in the run up to your retirement. So please remember to do this via your employer's Pensions Team at least one month before you retire or leave.

Benefits on hold

If you want this option, you need to take action at the point of the pay cut (or soon afterwards) by asking for this option via your employer's Pensions Team.

FAQs - frequently asked questions

I only joined after 1 April 2014. What are my options?

In a career average scheme there is no need for pay protection. That's because your pension is worked out each year, using your pay for that year. So future reductions in pay can't 'harm' the career average benefits you have already built up.

If I have a reduction in pay, can I do anything to protect my career average benefits too?

As explained above, there is no need for pay protection in a career average scheme, so the options in this booklet only cover final salary benefits which members built up before April 2014.

Your notes

Can we help?

Visit our website to find out more or to contact us by email.

www.gmpf.org.uk

You are very welcome to ring our Customer Service team for free, friendly help.

0161 301 7000

Or you can call at our offices in Droylsden.

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If you contact us, please have your National Insurance number handy.
Remember to let us know your new address if you move house.

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