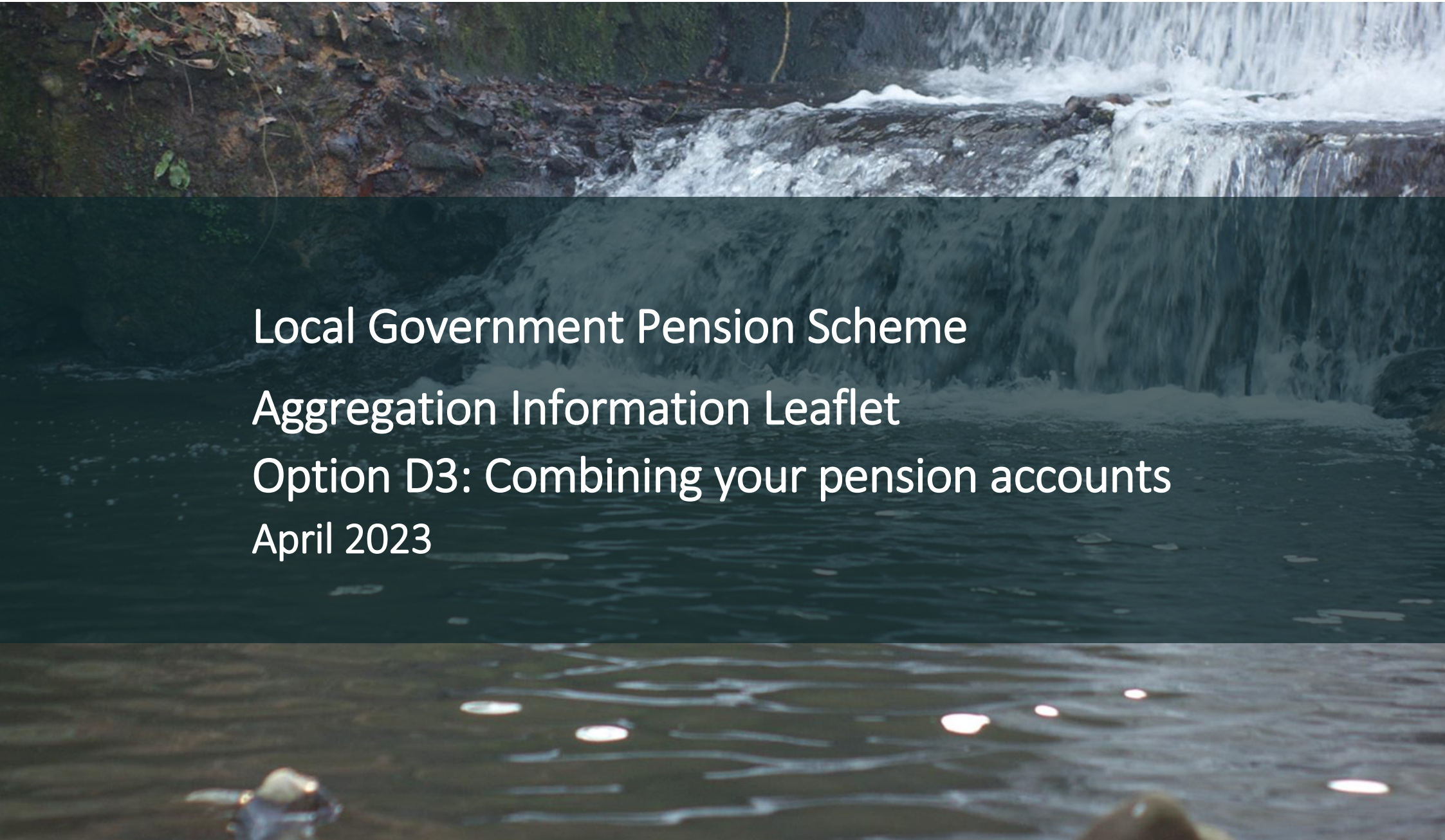
lgps | Local Government Pension Scheme

Cronfa Bensiynau CLWYD Pension Fund



Local Government Pension Scheme

Aggregation Information Leaflet

Option D3: Combining your pension accounts

April 2023

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Cronfa Bensiynau CLWYD Pension Fund

Introduction

This leaflet is relevant to you because you have LGPS pension accounts that are made up of:

- a deferred pension account which is only made up of pre April 2014 membership
- you have a new active pension account that you have started paying pension contributions into on or after 1 April 2014
- there has been a break of 5 years or more between your deferred and active pension accounts

What do I need to consider before making my decision?

At the moment you have a separate deferred benefit for your previous employment in the LGPS.

If you take no action then your deferred benefit will remain separate from your new active pension account.

You need to think about the following things when considering your options:

- How will the benefits from my previous employment be worked out?
- When will my benefits be payable?
- Are there other key areas to consider?

Option 1

You can elect to combine your deferred benefit with your new pension account to buy an amount of earned pension in the career average scheme, which will be added into your new active pension account.

How will my benefits be worked out?

If you choose this option your previous deferred benefit will be combined with your new active pension account and the membership you built up before 1 April 2014 in the final salary scheme will no longer count as final salary membership. Instead, the value of benefits built up before 1 April 2014 in the final salary scheme will buy an amount of earned pension in the career average scheme which will be added into your new active pension account.

When will my benefits be payable?

If you choose this option, then your combined benefits will be payable at your Normal Pension Age under the career average scheme which will be the same as your State Pension Age (minimum age 65).

Rule of 85

If you choose option 1, any rule of 85 protection you previously had will be reflected in the amount of earned pension bought. Therefore, to reflect the fact that those earlier benefits would now be payable unreduced at your Normal Pension Age under the career average scheme (i.e. the same as your State Pension Age, with a minimum age of 65) the amount of earned pension bought by the transferred benefits would be higher because you previously had rule of 85 protection.

In addition, if your previous benefits are combined with your new employment under option 1, there are further protections for rule of 85 if you are close to retirement including:

- **If you will be age 60 or over by 31 March 2016 and re-join the scheme before 1 April 2016** then the rule of 85 will continue to apply to the membership you build up between re-joining the scheme and 31 March 2016 (although the date you meet the rule of 85 may move closer to your Normal Pension Age because the break in service between your previous period of membership and your new period of membership will not count towards the rule of 85). However, the rule of 85 will not continue to apply to the amount of earned pension bought when you combined your deferred pension (but the amount of earned pension bought will include an amount to compensate for the loss of rule of 85 protection on that pension)
- **If you will be age 60 between 1 April 2016 and 31 March 2020 and re-join the scheme before 1 April 2020** then the rule of 85 will continue to apply to the membership you build up between re-joining the scheme and 31 March 2020 (although the date you meet the rule of 85 may move closer to your Normal Pension Age because the break in service between your previous period of membership and your new period of membership will not count towards the rule of 85). However, the rule of 85 will not continue to apply to the amount of earned pension bought when you combined your deferred pension (but the amount of earned pension bought will include an amount to compensate for the loss of rule of 85 protection on that pension)

Option 2

You can elect to keep your deferred benefits separate from your new active pension account.

If you decide not to combine your deferred benefits, then your deferred benefits will remain separate.

How will my benefits be worked out?

If you choose option 2 your deferred benefit will remain as previously calculated and held with your previous Pension Fund (where applicable). The deferred benefit will increase each year in line with inflation, as currently measured by the rise in the Consumer Prices Index.

When will my deferred benefits be payable?

The date your deferred benefits are payable would remain the same, with your Normal Pension Age being age 65 if the deferred benefits relate to a period of membership that ended after 30 September 2006, or a date somewhere between 60 and 65 if the deferred benefits relate to a period of membership that ended before 1 October 2006.

Rule of 85

If you choose option 2 (i.e. decide not to combine your previous benefits with your new active pension account) and you have rule of 85 protections, then these continue to apply to your deferred benefits only.

Are there other key areas to consider?

Death in Service lump sum

As a member of the LGPS if you die in service a lump sum of three times your annual pensionable pay would normally be payable. If you have a deferred pension and die before it is paid, a lump sum equal to 5 times the deferred pension is paid if the deferred benefits relate to a period of membership that ended after 31 March 2008, or a lump sum equal to 3 times the deferred pension is paid if the deferred benefits relate to a period of membership that ended before 1 April 2008. However, only one amount for lump sum life cover is payable from the LGPS so, even

if you keep your deferred benefits separate from your active pension account, only the greater of the lump sum life cover for your deferred benefit or for your active pension account would be payable.

Annual Allowance Potential Tax Implications

You are advised to be aware of any potential tax implications around combining your deferred benefits with your new active pension account. In the unlikely event that a tax charge would apply, your Pension Fund would make you aware of the implications.

Paying extra contributions

Have you paid extra contributions towards buying additional pension or membership? These would include Additional Voluntary Contributions (AVCs), Added Years, Additional Regular Contributions (ARCs) or Additional Pension Contributions (APCs). Please read paying extra contributions in the glossary to find out what your choices in respect of these are.

Transferring the value of your deferred benefit to another pension scheme

Please note that even if you choose not to combine your benefits, you will not be able to transfer the value of your deferred benefits to another pension scheme whilst you are contributing to the LGPS or if you have less than one year to go before reaching your Normal Pension Age.

What key differences are there if I elected to keep my deferred benefit separate?

	Combined Benefits	Separate Benefits
Redundancy/ Business Efficiency	Benefits paid early because of redundancy or efficiency **would include the** value of earlier deferred benefits that have been transferred. If you are made redundant or lose your job for business efficiency reasons when aged 55 or over, then your benefits would be payable immediately and **would include** the value of the pension that transferred from your deferred benefit.	Benefits paid early because of redundancy or efficiency in your new employment **would not include** the value of earlier deferred benefits. If you are made redundant or lose your job for business efficiency reasons when aged 55 or over, then your benefits would be payable immediately but **would not include** the value of your deferred benefit (because you had elected to retain that as a separate deferred benefit). Subject to the information in the boxes below, the separate deferred benefits would be payable at your Normal Pension Age.
Cost of living increases	The combined benefits will be subject to revaluation each year in accordance with HM Treasury Orders. The revaluation is currently in line with the rise in the Consumer Prices Index. However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative.	The benefits in the active pension account for your new employment will be subject to revaluation each year in accordance with HM Treasury Orders. The revaluation is currently in line with the rise in the Consumer Prices Index. However, in times of negative inflation, the revaluation under a HM Treasury Order could be negative. The benefits in the deferred pension account will be subject to revaluation each year under the Pensions (Increase) Act 1971. Future revaluation is currently in line with the rise in the Consumer Prices Index. In times of negative inflation, the revaluation under the Pensions (Increase) Act 1971 would be 0% (i.e. it cannot be a negative amount).

Ill- health	Any benefits paid early because of ill-health **would include** value of earlier deferred benefits that have transferred. Your benefits will become payable immediately if your employer decides, based on the opinion of an independent doctor that you are permanently unable to perform the duties of your employment due to ill-health and you are not capable of undertaking other gainful employment. Your pension would be paid at an increased level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving. The payment **would include** the value of your pension that transferred from your deferred benefit.	Benefits paid early because of ill-health **would not include** the value of earlier deferred benefits. Your benefits from your new employment will become payable immediately if your employer decides, based on the opinion of an independent doctor, that you are permanently unable to perform the duties of your employment due to ill-health and you are not capable of undertaking other gainful employment. Your pension would be paid at an increased level if you are unlikely to be capable of undertaking other gainful employment within 3 years of leaving. The payment **would not include** the value of your deferred benefit (because you elected to retain that as a separate deferred benefit). Your separate deferred benefit may become payable but that would only be if your former employer decided in light of the view from an independent doctor that you are permanently incapable of the job you were working in when you left the employment in respect of which the deferred benefit was awarded and, if the deferred benefits arose as a result of ceasing membership of the scheme after 31 March 2008, that you are not likely to be capable of undertaking other gainful employment before your Normal Pension Age or for at least 3 years, whichever is the sooner.

Early payment of benefits	You can voluntarily choose to draw the combined benefits from as early as age 55 (at, normally, a reduced rate to account for the early payment). However, the combined benefits would be payable at the same time (i.e. cannot be paid at different times) and cannot be paid until you have ceased your new employment.	You can voluntarily choose to draw: a) your deferred benefit from as early as age 60 or, with your former employer's consent, from as early as age 50 if the deferred benefits arose as a result of ceasing membership of the scheme after 31 March 1998 and before 1 April 2008, or age 55 if the deferred benefits arose as a result of ceasing membership of the scheme after 31 March 2008 (at, normally, a reduced rate to account for the early payment) and b) the pension you build up in your account in your new employment from as early as age 55 (at, normally, a reduced rate to account for the early payment) The deferred benefits do not have to be drawn at the same time as the benefits from your new employment. The deferred benefits can be drawn later than, at the same time as or, subject to being the minimum age shown in (a) above and, where necessary, obtaining your former employer's permission, earlier than the benefits from your new employment (even if you are still in your new employment at the time you wish to draw the deferred benefits, provided the deferred benefits relate to a period of membership that ended after 31 March 1998). However, if the deferred benefits relate to a period of membership that ended before 1 April 1998, the earliest you can voluntarily draw the deferred benefits is: • age 60, if you are not then in an employment that offers LGPS membership, or • if, at age 60, you are in an employment that offers LGPS membership, the earlier of: 1. the date you cease such employment, or 2. your Normal Pension Age in relation to those deferred benefits

Glossary of terms

Combining previous benefits in the LGPS with your new (or ongoing) active pension account requires you to consider your options and make a decision. The information set out in the leaflet above is specific to your circumstances.

This glossary is provided to help further explain some of the terms used in the leaflet and give more detail about how your benefits are calculated in the LGPS, when they become payable and other important information about protections and paying extra contributions in the LGPS.

Working out your benefits in the LGPS

Working out your LGPS benefits depends on when you built up your service in the scheme.

From 1 April 2014	Career Average Revalued Earnings Scheme
Up to 31 March 2014	Final Salary Scheme (2 different calculations) • from 1 April 2008 to 31 March 2014, and • up to 31 March 2008

Career Average Scheme

For membership built up from 1 April 2014: every year you will build up a pension at a rate of 1/49th of the amount of pensionable pay you received in that scheme year if you are in the main section of the scheme (or half this rate of build up for any period you have elected to be in the 50/50 section of the scheme). This pension 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.

Pensionable Pay: For benefits built up from 1 April 2014 your pensionable pay is the amount of pay on which you pay your normal pension contributions. However, if during the scheme year you had been on leave on reduced contractual pay or no pay due to sickness or injury, or had been on relevant child related leave or reserve forces service leave then, for the period of that leave, your pension is worked out based on your assumed pensionable pay.

Final Salary Scheme

For membership built up from 1 April 2008 to 31 March 2014, you receive a pension of 1/60th of your final pay. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

For membership built up to 31 March 2008, you receive a pension of 1/80th of your final pay plus an automatic tax-free lump sum of 3 times your pension.

Annual Allowance

The annual allowance is the amount your pension savings can increase by in any one year without paying extra tax.

You would only be subject to an annual allowance tax charge if the value of your pension savings for a tax year increases by more than £60,000. Combining your previous deferred benefits where your final salary benefits are now linked to your new ongoing final pay would increase your pension savings in the year you transfer. However, a three year carry forward rule allows you to carry forward unused annual allowance from the last three tax years. This means that even if the value of your pension savings increase by more than £60,000 in a year you may not be liable to the annual allowance tax charge.

Most people will not be affected by the annual allowance tax charge because the value of their pension savings will not increase in a tax year by more than £60,000 or, if it does, they are likely to have unused allowance from previous tax years that can be carried forward.

Consumer Prices Index (CPI) (i.e. the Cost of Living Adjustment)

The Consumer Price Index (CPI) is the official measure of inflation of consumer prices in the United Kingdom. This is currently the measure used to adjust your pension account at the end of every scheme year when you are an active member of the scheme and, after you have ceased to be an active member, it is used to increase (each April) the value of your deferred pension in the scheme and any pension in payment from the scheme. The adjustment ensures your pension keeps up with the cost of living.

Final Pay

The definition of final salary pay for benefits built up before 1 April 2014 remains the same as before the scheme changed from a final salary to a career average scheme on 1 April 2014.

Final salary pay is usually the pay in respect of (i.e. due for) the final year of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher. The main differences to the pay used for career average benefits include:

- If you are working part-time when you leave the LGPS, or worked part-time at some point during your last year of membership, your final salary pay is the whole-time pay that you would have received if you had worked whole-time
- It does not include non-contractual overtime

There are further protections for final salary pay if your pay is reduced due to a period of sickness, if you are on maternity, paternity or adoption leave, or if your pay is reduced, or increases to your pay are restricted. Remember, if your benefits are combined with your new active pension account and they buy an amount of earned pension in the career average scheme, any final salary benefits you had built up will no longer be worked out using the final salary calculations. Instead they will be treated as career average benefits.

Normal Pension Age

The Normal Pension Age for deferred benefits that relate to a period of membership that ended after 30 September 2006 and before 1 April 2014 (i.e. in the final salary scheme) is age 65.

The Normal Pension Age for deferred benefits that relate to a period of membership that ended before 1 October 2006 (i.e. in the final salary scheme) is:

- Age 60, if by that age, you would have had 25 or more years membership of the scheme if you had remained in the scheme until then, or
- The date you would have achieved 25 years membership, if that date would fall after age 60 and before age 65, or
- Age 65 if, by that age, you would not have had 25 years membership of the scheme if you had remained in the scheme until then

The Normal Pension Age for benefits built up from 1 April 2014 (i.e. the career average scheme) is linked to your State Pension Age (but with a minimum of age 65). If your deferred benefits are combined with your new active pension account and any final salary benefits you have previously built up continue to be counted as final salary benefits, then they will continue to have a Normal Pension Age of 65.

If your benefits are combined with your new active pension account and any final salary benefits you have previously built up are now counted as career average benefits then they will have a new Normal Pension Age which is linked to your State Pension Age (but with a minimum of age 65). If your benefits are combined with your new active pension account, any existing career average benefits will continue to have a Normal Pension Age linked to your State Pension Age (but with a minimum of age 65).

If you choose to take your pension before your Normal Pension Age, the pension you have built up in the scheme will normally be reduced, as it's being paid earlier. If you take it later than your Normal Pension Age it will be increased because it's being paid later. The amount of any reduction or increase will be based on how many years earlier or later than your Normal Pension Age you draw the pension you have built up in the scheme. If your Normal Pension Age for benefits in the final salary scheme is different from your Normal Pension Age in the career average scheme, then the level of the reductions or increases applied to each set of benefits will be different. Please note that you cannot take your benefits built up in the final salary scheme separately from the benefits you build up in the career average scheme if they have been combined. All of your pension would have to be drawn at the same time (except in the case of Flexible Retirement). If you have rule of 85 protections these will still apply. For more information see the explanation of rule of 85 below.

Paying extra contributions?

In the LGPS there are a number of ways members can pay more contributions to increase their benefits. You may have one of the following arrangements. If so, you need to understand what happens to any payments you have already made and whether you can continue to pay these extra contributions in your new employment.

Buying Added Years (extra membership)

These are existing contracts to purchase extra membership and the contract must have commenced before 1 April 2008.

If you combine your deferred benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 benefits then your existing contract can continue only if:

- The break between leaving your old employment and starting your new employment is less than 12 months, and
- Within 3 months of re-joining the LGPS in your new employment you make an election to continue paying your extra contributions to buy added years, and
- In those 3 months you pay any extra contributions towards your added years contract that would have been due during the break (if any) between employments

These added years count towards your benefits in the final salary scheme.

If you combine your deferred benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) then your existing contract cannot continue. Any extra membership you have already bought and that has been credited is used to work out the extra earned pension to be added to your new active pension account, i.e. it would count as career average pension. You cannot make a new election to buy extra membership; you can however consider buying extra pension (known as Additional Pension Contributions). You can contact your Pension Fund for more information.

If you choose not to combine your deferred benefits, any existing added years contract cannot continue and any extra membership you have already bought will be included in your deferred benefits. You cannot continue to pay for your added years' contract if you elect to keep separate deferred benefits.

Paying Additional Regular Contributions (ARCs)

These are contracts to purchase extra pension taken out between 1 April 2008 and 31 March 2014.

Whether or not you elect to combine your benefits with your new active pension account, there are no circumstances where an existing ARC contract can continue.

If you do combine your benefits with your new active pension account and your final salary benefits continue to be treated as pre 1 April 2014 benefits, then the amount of ARCs which you have already bought will be added to the value of your final salary pension.

If you combine your benefits with your new active pension account and your final salary benefits are treated as career average pension (i.e. they have bought an amount of earned pension in the career average scheme) any extra pension you have already bought and been credited with is taken account of when calculating the extra earned pension to be added to your new active pension account.

If you do wish to pay more contributions in your new employment you can consider buying extra pension (known as Additional Pension Contributions). You can contact your Pension Fund for more information.

If you choose not to combine your benefits, any extra pension you have already bought will be included in your deferred benefits. You cannot continue to pay for your ARCs contract if you elect to keep separate deferred benefits.

Paying Additional Pension Contributions (APCs)

These are contracts to purchase extra pension taken out on or after 1 April 2014.

Any existing APC arrangements which you have entered into, to buy lost or extra pension, cease once you leave the employment they are linked to.

Any extra pension built up via an APC will be added to your new active pension account if your benefits are combined.

If you choose not to combine your benefits any existing extra pension you have already bought will be payable with your deferred benefits. You cannot continue to pay towards your previous APC arrangement if you elect to keep separate deferred benefits.

You can elect to take out another APC arrangement in your new employment. You can contact your Fund for more information.

Additional Voluntary Contributions (AVCs)

If you have paid AVCs, the accrued value of your AVCs must be transferred to an AVC arrangement offered by your new administrative authority if you transfer your main scheme benefits.

However, there is an exception to this rule. If you were previously a member of the LGPS on 31 March 2014 and 1 April 2014 (or you were not a member on those dates but elect within 12 months of returning to the LGPS to be treated as if you had been a member on those dates) and you do not have a continuous break in active membership of a public service pension scheme of more than 5 years, you can choose not to transfer the accrued value of your AVCs to an AVC arrangement offered by your new administrative authority. If you do transfer your accrued AVC value then once it's transferred to the new arrangement it is considered a contract under the scheme rules in force at the time of the transfer.

Public service pension scheme

A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, or teachers, or health service workers, or fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

Rule of 85

What is the Rule of 85?

The rule of 85 is satisfied if your age at the date you draw your benefits and your scheme membership (each in whole years) add up to 85 or more.

If you work part-time, your membership counts towards the rule of 85 at its full calendar length.

Not all membership may count towards working out whether you meet the 85 year rule.

Who does it apply to?

If you were a member of the LGPS on 30 September 2006, some or all of your benefits paid early could be protected from an early payment reduction. Working out how you are affected by the 85 year rule can be quite complex, but this should help you work out your general position.

- **If you would not satisfy the 85 year rule by the time you are 65,** then all your benefits are reduced if you choose to draw your pension before your Normal Pension Age. The reduction will be based on how many years before your Normal Pension Age (protected Normal Pension Age of, usually, age 65 for pension built up before 1 April 2014 and new Normal Pension Age (linked to State Pension Age) for pension built up from 1 April 2014) you draw your benefits
- **If you will be age 60 or over by 31 March 2016** and choose to draw your pension before your Normal Pension Age, then, provided you satisfy the 85 year rule when you start to draw your pension, the benefits you build up to 31 March 2016 will not be reduced
- **If you will be under age 60 by 31 March 2016** and choose to draw your pension before your protected Normal Pension Age of, usually, age 65, then, provided you satisfy the 85 year rule when you start to draw your pension, the benefits you've built up to 31 March 2008

will not be reduced. Also, if you will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85 year rule by 31 March 2020, some or all of the benefits you build up between 1 April 2008 and 31 March 2020 will not have a full reduction

The only occasion where rule of 85 protection does not automatically apply is if you became entitled to the deferred benefits after 31 March 2014 and:

- Elect to keep those benefits separate from your new or ongoing employment and choose to voluntarily draw those deferred benefits on or after age 55 and before age 60, or
- Do not elect to keep those benefits separate from your new or ongoing employment, subsequently leave the scheme before age 60 and choose to voluntarily draw your combined benefits on or after age 55 and before age 60

If I decide to aggregate my benefits, will that impact on the rule of 85 protections that I have?

If you are deciding whether or not to aggregate your benefits in the LGPS you need to be aware of the potential impact on any rule of 85 protections.

Please note that if the rule of 85 applies to part or all of your previous benefits in the LGPS and there is a long gap between the day you previously left the scheme and the day you re-joined the scheme, then combining your benefits could impact on your rule of 85 protection as it could make your rule of 85 date later. If this is the case, keeping your deferred benefits separate could protect your earlier rule of 85 date on that deferred benefit but you would not have rule of 85 protection on your benefits accruing in your new employment. The reason the earlier rule of 85 date on that deferred benefit would be protected is because, when working out your rule of 85 date the period after you left the LGPS is also included (known as notional service) in the calculation even though you were not a member of the LGPS. If you re-join and combine your previous benefits, then the notional service would no longer be used and any gap in LGPS membership would not be used when calculating when you would meet the rule of 85 in the new employment.

Contacting the Clwyd Pension Fund

This factsheet gives general guidance only, if you need further information, please contact the Pension Fund:

Tel: 01352 702940

Email: pensions@flintshire.gov.uk

Disclaimer

The Pension Fund is unable to provide any financial advice. After reading this factsheet, you may want to seek independent financial advice to make an informed decision.

These bodies may be able to help you:

Unbiased:

https://unbiased.co.uk

MoneyHelper:

https://www.moneyhelper.org.uk/en/getting-help-and-advice/financial-advisers/choosing-a-financial-adviser?source=mas

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CLWYD
Pension Fund

mss.clwydpensionfund.org.uk

Clwyd Pension Fund, County Hall, Mold, Flintshire, CH7 6NA

Please note that Flintshire County Council is the administrative authority of the Clwyd Pension Fund and we use your personal data in accordance with Data Protection legislation to provide you with a pension administration service. For more information about how we use your data, who we share it with and what rights you have in relation to your data, please visit the Privacy Notice on our website.