

Factsheet 10 re-employment



This fact sheet explains how your pension benefits could be reduced if you take up 'further employment'. By further employment we mean that you have:

Left work, begun receiving Local Government Pension Scheme (LGPS) retirement benefits; and been re-employed by a scheme employer and are eligible to take part in the LGPS

Your pension benefits are not affected if you are re-employed by, for example, a private company or if you are granted "flexible retirement" by your employer.

What benefits may be reduced?

There are two main benefits you may receive when you retire, these being:

Statutory retirement benefits – based on your actual membership in the pension scheme.

Discretionary retirement benefits – These may include compensatory added years that your employer has awarded to you. This is only relevant if you retired before April 2007.

Statutory retirement benefits

Your administering authority has the choice on whether to operate the earnings rule for statutory retirement benefits.

What is the earnings rule?

The earnings rule says that if you take up further employment, we must reduce or

suspend your benefits in certain circumstances where you receive more in salary than your allowable earnings.

Your allowable earnings are:

a-(b+c), where:

- (a) Actual pay when you first left employment
- (b) Total statutory retirement pension
- (c) Total compensatory retirement pension

Discretionary retirement benefits

The earnings rule applies to any compensatory added years benefits and there is no discretion in this area.

Example

- (a) Actual pay when you first left employment (index-linked if applicable) £20,000
- (b) Total statutory retirement pension £6,000 a year
- (c) Total compensatory retirement pension of £3,000 a year

In this example
 $£20,000 - (£6,000 + £3,000) = £11,000$

What if my pay is greater than my allowable earnings?

If your earnings in your new employment are in excess of the allowable earnings any compensation pension will be reduced on a pound for pound basis.

Once all the compensation pension has been used, then your statutory pension may also be reduced on the the same basis until the earnings rule is satisfied.

The earnings rule applies to further employment with any scheme employer so please check with your future employer whether LGPS membership is available. Also the rule applies whether or not you join the LGPS in your further employment, unless that employment is with an admission body. Admission bodies are generally employers fulfilling local authority contracts or who have secured admission for their employees on the basis of fulfilling a role allied to local authority functions.

What happens at the end of my re-employment?

If your pension benefits have been suspended or reduced as a result of the earnings rule during employment, any LGPS benefits will be restored (plus accrued pension increases) when that employment ends.

Permanent reductions in relation to Compensatory Added Years (CAY) benefits

In addition to the earnings rule, further reductions may be applied for members who have been awarded compensatory added years benefits. When your re-employment ends, a calculation is done to check whether you have exceeded the benefits that would have accrued if you had continued working to age 65 in your first employment. If this is the case, your compensatory benefits will be permanently reduced.

The reason for this permanent reduction is because you cannot potentially build pension rights in further LGPS employment if you have already been compensated for further pension membership that you might have earned.

Augmentation

Some employers have opted to award augmented membership under the scheme regulations since 1 April 1998. Unlike CAY, which ended on 30 September 2006, augmented membership cannot be permanently reduced.

What to do if you take further employment

If you take up further employment with a LGPS employer, you must write to tell us. Please also do this if you are not sure whether your new employer is an LGPS scheme employer.

Please note: this fact sheet is intended as a broad guide to your benefits in the Local Government Pension Scheme. It does not seek to cater for every different circumstance and no decisions should be taken based on its contents. You are strongly advised to consult our website and/or contact us for more detailed and individual information before taking any action in relation to your pension. Nothing in this fact sheet overrides the regulations which govern the LGPS and which are subject to amendment from time to time.