A Guide to the Re-employment Rules for Local Government Scheme Pensioners

HOW TAKING UP A NEW JOB CAN AFFECT YOUR PENSION

Your pension may be reduced or stopped whilst you are working for an employer who takes part in the Local Government Pension Scheme (LGPS). If your pension includes compensation based on added years, you may also lose some or all of that part of your pension permanently when your new job ends. These rules can apply even if you don’t re-join the scheme.

This guide gives a general explanation of the rules and tells you what you have to do. If you have taken, or are thinking of taking, a new job with any employer who takes part in the LGPS you should read this guide carefully. The provisions apply equally to men and women. Please read he as he/she and him as him/her etc.

1. Telling the Pensions Section about your new job

If you take a job with an employer who takes part in the LGPS you are obliged by law to tell the Pensions Section that you have done so. You must do this in writing. We will write to let you know exactly how the new job will affect your pension as soon as we receive confirmation of your earnings from your new employer.

You should tell us about the new job as soon as you take it. If you don't do that, your pension could be overpaid and you would have to pay the money back to us.

2. Some types of new employment that may not affect your pension

Employers outside the LGPS

A job with any employer who does not take part in the LGPS will not affect your pension in any way. There are however thousands of employers in this scheme and many of them have nothing to do with local government. So to be sure, unless you know that your employer is not in the scheme, you should always check with us.

Employers who have admission agreements

An admission agreement allows for some, or all employees of an employer who are not in the scheme by law, to join the scheme.

A job with an employer who takes part in the scheme because he had an admission agreement will only affect your pension if you, or your job are covered by this agreement. If it is not, your job will have no effect on your pension.

Many employers have to take part in this scheme by law. There are too many to list in this guide but they include all the local authorities, schools and colleges throughout England and Wales. Those employers do not have admission agreements. So, a job with one of them, whether you re-join the scheme or not, can affect your pension.
A new job as a uniformed police officer, fire fighter or as a teacher

Education, police and fire authorities all take part in the LGPS by law. However, police officers, fire fighters and most teachers have their own pension schemes and cannot join the LGPS. If you cannot join the LGPS because you do one of those jobs then the new employment rules do not apply.

3. Reduction of pension whilst you are working in the new job

If the new employment rules apply to your new job we must work out the effect, if any, on your pension. The calculation is based on your income. We will only reduce your pension if your pay in your new job, plus your pension, is more than the pensionable pay you were on before you retired. For this purpose your pension includes any annual compensation you get based on added years (there is an explanation of what “annual compensation” means near the bottom of this page). To do the comparison we will increase both the pay you were on before you retired and your pension to take account of inflation.

If your new pay plus your pension is more than your old pay, we must reduce your pension by the amount of the difference. If the difference is bigger than your pension then we must stop your pension. If we reduce or stop your pension it will remain so for as long as you stay in your new job. We will ignore any cost of living increases or increments you get whilst you are doing the same job.

What you must do if your hours change or you change jobs

If your contractual hours in your new job change or if you change jobs we must do a new calculation based on your pay on the new hours in the new job. You must therefore let us know if either of those things happens.

It is also important to be aware that, if you have been awarded extra years, they can sometimes be clawed back if you start a new job with an employer who operates the Local Government Scheme.

4. How we work out the effect on your extra years (only extra years awarded under the discretionary payment regulations [DCR] are affected)

It is important to note that there are two sorts of extra years; (1) your pension will not be affected if your membership was “augmented” and you were awarded extra years under the Local Government Pension Scheme Regulations, however, (2) if you were awarded extra years under the Local Government (Early Termination of Employment) (Discretionary Payments) Regulations (“DCR” for short) they might be reduced.
**How a new job can permanently reduce your DCR annual compensation**

You get annual compensation if you retire because of redundancy or early retirement on efficiency grounds, and your employer gives you added years. Annual compensation is the part of your pension that is based on those compensatory added years.

A person who retires early loses the chance to build up the full level of pension benefits he would have if he had remained in the job for as long as he had expected to. Added years compensate employees both for having to retire early and for losing the chance to build up further benefits.

For example Harry, a 50 year old man with 20 years service, could reasonably expect to have 35 years service by the time he would normally retire at 65. If he is made redundant he will lose the chance to build up the extra 15 years. But, if he is given 10 added years, they will effectively replace 10 of the 15 years he could have built up himself. He would therefore only really have lost the chance to build up the further 5 years.

If he then takes another LGPS job, he gets the chance to build up more service in the LGPS again. But, the rules that cover added years will only allow him to make up his 5 year shortfall. If he stays in the new job for more than 5 years, the extra service he can build up will cause both a temporary withdrawal of, and then a permanent reduction in, his annual compensation. This happens at the time benefits would have been paid if he had joined.

These rules prevent a person who has been given added years from ending up with benefits based on more service than he could have built up himself if he had stayed in his first job until he was 65.

The general rule is that pension will be reduced if the period of time in the new job is greater than the period from first retirement to age 65, less the period of added years. For part-timers the period is reduced to its whole time equivalent length.

Going back to our example, what if Harry stays in his new job for 8 years? The period from retirement to age 65 (15 years) less the period of added years (10 years) leaves 5 years. As 8 years is greater than 5 years, this rule will apply to him. He has (8-5) = 3 years more than he would have if he had stayed in his first job to age 65. We call that the “excess period”.

When your new job ends we will check to see if this rule applies to you. If it does, your annual compensation will stop for a period of time and when it is paid again it will be at a permanently reduced rate. You may even lose your annual compensation altogether. If you do not join the LGPS in your new job you will not have any further benefits to replace it with. If you are a member of the LGPS over the whole of the
excess period, your benefits from your new job will normally be at least as much as the amount we reduce your annual compensation by.
How we work out the amount of the reduction and the period of non-payment

We work out the amount of pension and lump sum that would otherwise be double counted and deduct them from your annual compensation.

We do this by firstly, picking the shorter of your excess period (explained above) and your period of compensatory added years. Secondly, we pick the lower of your pensionable pay in your new job (reduced to take account of inflation since your first retirement so that we can make a proper comparison) and the pay your annual compensation was based on.

We then work out a pension and a lump sum based on the period and pay we have picked. The pension is worked out by dividing the pay figure by eighty and then multiplying it by the period. The lump sum is 3 times the pension.

We will then reduce our annual compensation by the amount of the pension we have worked out. The reduced level of compensation is then withheld until we have recovered an amount equal to the lump sum.

5. Further information

We hope that you find this guide helpful and informative. Every effort has been made to ensure that the information in it is accurate. Please remember that it is only a guide. In the event of any misunderstanding or disagreement, the scheme regulations or the compensation regulations will be used to reach a decision.

If you would like any further information, or if you take a new job with an LGPS employer, you should write to:

LPFA,
Hertfordshire County Council,
Post Point CHO 033,
County Hall,
Pegs Lane,
Hertford,
Herts
SG13 8DQ