SEP 2016

gmpf

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.

Please note: 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).

Contents

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

Deferred benefits...

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%** 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 **10 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 **3 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 10 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% 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.

Deferred **benefits**

Deferred benefits 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 deferred benefits.

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 **deferred benefits**. 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 deferred benefits following a pay cut?

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

What happens once I have deferred benefits?

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

We will adjust your deferred benefits 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 deferred benefits?

Alternatively, at the point of the pay cut, you can choose to opt out of the Scheme, but then immediately re-join. This automatically provides you with deferred benefits at the point you opt-out. If you choose to opt-out and then re-join the scheme your deferred benefits must remain separate from the new benefits you are building-up. You will not need to choose to keep your deferred benefits separate and you will not have the option to re-link the two sets of benefits whilst in the same employment. Nor will you be able to draw the deferred benefits earlier than the second set of benefits, when that employment ceases.

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.

Deferred benefits

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 helpline for free, friendly help...

0161 301 7000

Or you can call at our offices in Droylsden...

Greater Manchester Pension Fund
Guardsman Tony Downes House
5, Manchester Road
Droylsden
M43 6SF

If you contact us, please have your National Insurance number handy.

Remember to let us know your new address if you move house.

Produced by Tameside MBC, Administering Authority for Greater Manchester Pension Fund.
It may be possible to produce this booklet in other formats -
please contact us for more information.

Sep 2016