

The Local Government Pension Scheme

A Guide to the Local Government Pension Scheme for Eligible Councillors in England and Wales

Introduction

The information in this booklet is based on the Local Government Pension Scheme Regulations 1997 and other relevant legislation. The booklet was up-to-date at the time of publication in June 2004. It is for general use and cannot cover every personal circumstance. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this booklet does not confer any contractual or statutory rights and is provided for information purposes only.

The booklet explains the benefits available to you when you join the Local Government Pension Scheme. It describes how the Scheme works, what it costs to join and the financial protection that it offers to you and your family.

Where pension terms are used, they appear in **bold** type. These terms are defined on pages 32 to 35 at the back of this booklet.

Personalised introduction to be inserted for each administering authority including the address of their Pension Section as this is cross referenced to in the guide and detailing any forms that need to be completed.

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The Choice

Your Pensions Choice

Your retirement is a goal to look forward to. However, if your retirement is to meet your expectations, you will need to plan and secure your retirement income.

Your retirement income and benefits, over and above the basic flat-rate State pension, will in general be provided by the State Second Pension Scheme (S2P), a personal pension plan, a stakeholder pension scheme or by an occupational pension scheme such as the Local Government Pension Scheme. The four alternatives are described briefly below.

State Second Pension (S2P)

The State Second Pension (S2P) is an element of State Pension payable in addition to the flat rate Old Age Pension. Benefits are paid by the Department for Work and Pensions (the old DSS) and cannot be paid before **State Retirement Age**. Initially, S2P will be an earnings related pension but it is proposed that, from some future date to be decided upon by the Government, it will be changed to begin accruing as a flat rate pension for people under age 45 at the date of the change.

Personal Pension Plans and Stakeholder Pension Schemes

Various institutions, such as banks, building societies and life assurance companies provide and administer personal pensions and stakeholder pension schemes. Your chosen organisation would invest your contributions and when you retire the investments are cashed in and the sum of money realised is used to buy retirement benefits from the insurance market. Your benefits are therefore based on investment returns and are not guaranteed or linked to your earnings. The age from which you may receive them will vary according to the plan, but you may not be able to receive that part which replaces the State Second Pension (S2P) before **State retirement age**.

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a statutory, funded pension scheme. As such it is very secure because its benefits are defined and set out in law. The LGPS is **contracted-out** of the State Second Pension (S2P) and must, in general, provide benefits at least as good as most members would have received had they been members of S2P.

Highlights of the benefits provided by the LGPS are:

- a tax-free lump sum when you retire
- a guaranteed pension based on your **career average pay**
- the ability to increase your pension by paying additional voluntary contributions
- voluntary retirement from age 65
- retirement from age 50 with your authority's consent
- an ill health pension from any age
- a death in service lump sum of two times **career average pay**
- a widow's or widower's pension
- children's pensions
- the index-linking of benefits to ensure that they keep pace with inflation.

In addition, as a member of the LGPS, your contributions will attract tax relief at the time they are deducted from your allowances and, up to **State retirement age**, you will also pay lower National Insurance contributions between the **Lower** and **Upper Earnings Limits** unless you have opted to pay the married woman's/widow's reduced rate of National Insurance.

The Guide

Joining the Local Government Pension Scheme (LGPS)

Who can join?

The LGPS is available to all councillors and elected mayors of an English county council, district council or London borough council or of a Welsh county council or county borough council who are offered membership of the Scheme under the council's scheme of allowances and who are under age 70. Those who are offered membership are termed **eligible councillors**. If you have been offered membership of the Scheme it will be for you to decide whether or not to opt to join the Scheme. If you make an election to do so you will become a member of the LGPS from the beginning of the first pay period following the receipt of your option (but see the special rules for previous optants out on page 25).

How do I ensure that I have become a member of the LGPS?

To secure your entitlement to the Scheme benefits it is important that you complete and return the joining form if you wish to opt into membership of the Scheme. On receipt of your form, relevant records will be set up and an official notification of your membership of the Scheme will be sent to you. In addition, you should check your allowance payments to ensure that pension contributions are being deducted.

Can I join the LGPS if I already have a personal pension or stakeholder pension scheme?

If you currently contribute to a personal pension plan or stakeholder pension scheme and decide to join the LGPS, then you should immediately inform the administrators of your personal plan or stakeholder pension scheme that you have joined the council's **contracted-out** occupational pension scheme. You will, if you wish, be able to continue to make your own contributions to a stakeholder pension scheme at the same time as being a member of the LGPS. However, you will only be able to do so if in at least one of the previous 5 tax years (excluding years prior to 2000/2001) your earnings did not exceed the **remuneration limit**, and you are not, and have not in any one of the previous 5 tax years (excluding years prior to 2000/2001), been a controlling director of a company. The amount you can continue to pay into the stakeholder pension scheme, if you join the LGPS on a 6th April, must not exceed the **earnings threshold** both in the tax year of joining the LGPS and in subsequent tax years. If you join the LGPS on the 7th April or later in a tax year then

- a) in the tax year of joining the LGPS you can continue to pay contributions to the stakeholder pension scheme up to the stakeholder pension scheme's maximum age related contribution rate or, if higher, up to the **earnings threshold**; and
- b) in subsequent tax years, up to the **earnings threshold**.

You may, subject to the rules set out above, be able to continue to pay contributions to a personal pension plan. You should check the position with your personal pension provider.

Contributions

What do I pay?

Your contribution is 6% of the **pay** you receive.

Your contributions are very secure. As the LGPS is set up by Statute, payment of benefits to its members is guaranteed by law.

What does the council pay?

The council pays the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much the council should contribute to the Scheme. The amount will vary, but generally the underlying assumption is that you contribute approximately one third of the Scheme's costs and the council contributes the remainder.

Do I receive tax relief on my contributions?

The Scheme is fully approved by the Inland Revenue, which means that you receive tax relief on your contributions. To achieve this, your contributions are deducted from your allowances before you pay tax. So, for example, if you pay tax at the rate of 22%, every £1 that you contribute to the Scheme only costs you 78p net.

What about my National Insurance contributions?

As the Scheme is **contracted-out** of the State Second Pension (S2P) you will, up to **State retirement age**, pay reduced National Insurance contributions on your allowances between the **Lower** and **Upper Earnings Limits**, unless you have opted to pay the married woman's/widow's reduced rate of National Insurance.

What happens if I contribute for 40 years?

If you have contributed to the same LGPS Fund as a councilor or elected mayor for 40 years, the council may resolve that for a set period or until you retire, you will pay reduced or no basic contributions while retaining your full Scheme entitlements. This is a council **discretion**; you can ask your council what their policy is on this matter.

Can I make extra contributions to increase my benefits?

Most members are able to increase their benefits by making additional voluntary contributions (AVCs). Additionally, you may be able to pay contributions into a personal pension plan or a stakeholder pension scheme. These options are explained in more detail on pages 19 to 20.

Is there a limit to how much I can contribute?

The Inland Revenue limits the amount that you can contribute in AVCs to a maximum (including your basic scheme contributions) of 15% of your total taxable earnings (up to the **earnings cap**) in any one tax year. There is also a limit on the overall pension benefits you can receive at your normal retirement date (age 70) with a maximum of two thirds of your final taxable pay.

- Different contributions limits apply to contributions you may make to a personal pension plan or a stakeholder pension scheme at the same time as being a member of the LGPS – see page 4 for further details.

Can I transfer pension rights into my current LGPS Fund from a previous pension scheme?

The rules of the Scheme do not permit you to transfer pension rights into the LGPS from another pension scheme or, indeed, from another local authority pension fund.

Points to Note

- If you joined the Scheme on or after 1st June 1989 you can pay contributions only on your **pay** up to the **Earnings Cap**.
- If you have a deferred benefit from a previous period of councillor membership in the same LGPS Fund you may opt to aggregate the earlier membership with the current period of councillor membership but only if you opt to do so within 12 months of rejoining the Scheme or such longer period as your council allows. This is a council **discretion**; you can ask your council what their policy is on this matter.

Retirement Benefits

When can I retire?

You can retire and receive your LGPS benefits in full once you have attained age 70. The Scheme also makes provisions for the early payment of your LGPS benefits and these are detailed in the sections on Ill Health and Early Retirement on pages 11 to 14.

The **State retirement age** is 65 for men and 60 for women. However, from the year 2020, the Government will have equalised the **State retirement age** for both men and women at 65. The increase in the **State retirement age** for women will be phased in gradually from the year 2010 as shown on page 34.

What are my retirement benefits?

When you retire, you will receive a pension and a tax-free lump sum from the LGPS. At **State retirement age** you will also receive the basic flat-rate State pension if you have paid sufficient National Insurance contributions during your working life.

How much will my pension be?

Your pension is based on your **total membership** and your **career average pay**. The example below shows how your pension is calculated by dividing your **career average pay** into 80ths and multiplying this figure by your **total membership** to give you your annual pension.

How much will my lump sum be?

The lump sum is three times your annual pension and is tax-free. Like your pension, it is based on your **career average pay** and your **total membership**. The calculation for the lump sum is 3/80ths of your **career average pay** for every year of **total membership**.

Example pension and lump sum calculation

At retirement, a Scheme member has 30 years and 204 days **total membership** and has a **career average pay** of £16,200.

The annual pension is therefore:

$$1/80 \times £16,200 \times 30 \frac{204}{365} = £6,188.18$$

The tax-free lump sum is therefore:

$$3/80 \times £16,200 \times 30 \frac{204}{365} = £18,564.53$$

Can I give up some of my lump sum to increase my pension?

If you become entitled to immediate payment of your pension, you may elect to convert all or part of your lump sum to increase your pension and the potential widow or widower's and children's pensions.

Your election should be made in writing to your **administering authority** not more than three months before you become entitled to the payment of your pension and should detail, in round hundred pounds, the amount you would like to convert. The conversion is calculated in accordance with factors supplied by the Government Actuary and the additional pension is paid immediately.

On becoming entitled to the immediate payment of your pension, you will be given further details about this option.

Can I give up some of my pension to increase my lump sum?

If you have continuous membership of the LGPS since before 17th March 1987, you may elect to convert some of your pension to increase your lump sum. You may not, however, increase your lump sum to a level that will take it above the maximum allowed under Inland Revenue rules or reduce your pension to below a minimum level. Nor may you elect to convert pension into lump sum if you are making an election to convert some of your lump sum into additional pension.

Your election should be made in writing to your **administering authority** not more than three months before the date on which you retire. Your lump sum will be increased in accordance with your election and your **administering authority's** Actuary will be asked to advise on the period by which your **total membership** should be reduced. The reduced **total membership** is then used to calculate your pension and any other benefits payable to, or in respect of you, such as subsequent widow or widower's and children's pensions.

On becoming entitled to the immediate payment of your pension, you will be given further details about this option if it applies to you.

Can I exchange some of my pension for additional dependants' pensions?

You can apply to give up part of your pension to provide extra pensions for your wife, husband or dependants in the event of your predeceasing them. Your application must be made within the month before or after your retirement date, and, if accepted, will be effective from the date of your retirement. The amount of extra pension payable for each £1 you give up will depend upon the ages of you and your wife, husband or dependants at the time you make the election. Should a nominated beneficiary predecease you, the surrender will cease to have effect and your pension will be increased by the amount of the reduction made in respect of the surrender. Further details are available by contacting your **administering authority**.

The normal widow's, widower's and dependants' benefits provided by the LGPS are explained on pages 16 to 18.

How will my pension be paid?

Monthly pension payments will be made direct into your bank or building society account. Similar arrangements can also be made to pay your pension into your account should you move abroad. Further information regarding payment of pensions is provided on retirement.

Will my pension increase?

After age 55, members' pensions in payment will be increased each year in line with the **Retail Prices Index**. If you retire before age 55, the accumulated effect of inflation since you retired will be added to your pension when you reach age 55 (but see page 12 regarding the increasing of ill health pensions.)

Points to Note

- If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement (see pages 27 and 28 for further details).

- If your **pay** in any year since 5 April 1987 has exceeded £100,000 (or such other amount as may be prescribed by the Treasury) then, when determining the maximum benefits permitted by the Inland Revenue, the figure used in the calculations will be a sum equal to
 - the average taxable pay over 3 or more consecutive years in the last 10 years, or
 - if you so choose, the highest one of the last 5 years basic pay plus the average of any fluctuating emoluments received in that year and the previous two years subject to the maximum amount so calculated being limited to £100,000 (or such other amount as may be prescribed by the Treasury)

- If you joined the LGPS after 31st May 1989, the Inland Revenue places restrictions on both the **career average pay** and the **total membership** that can be used in calculating your pension benefits. The maximum **career average pay** allowed is limited by the **pay** upon which you have paid or have been deemed to have paid contributions which is subject to the **Earnings Cap**. The maximum number of years that you can count for **total membership** is limited to 40.

- If you have been a member of the LGPS as a councillor and / or elected mayor for more than 40 years, only the 40 consecutive years ending in the last 10 years of membership which produce the highest pension can be taken into account.

- If, after retiring, you return to employment or office within Local Government or employment with another organisation that participates in the LGPS, your pension may be reduced or suspended in accordance with the policy adopted by your **administering authority**. Under the LGPS, this is an **administering authority discretion** and their policy with regard to it must be included in a **policy statement**. Further details will be provided on request.

III Health Retirement

What happens if I have to retire early due to ill health?

If you have at least three months **total membership** and an **administering authority** approved independent registered medical practitioner certifies that you have become permanently unable (until your 70th birthday) to perform the duties of your office efficiently because of ill health or infirmity of mind or body, you will receive your pension and lump sum immediately. The medical practitioner must be qualified in occupational health medicine and must not have previously been involved in your case.

How is an ill health pension and lump sum calculated?

Ill health pensions and lump sums are calculated in the same way as detailed in the section on Retirement Benefits, except that the **total membership** used in the calculation will be increased if your **total membership** is five years or more. This is to reflect that you are having to retire early. The amount by which it will be increased is shown in the table below.

Total Membership

Total Membership after Increase Awarded

Less than 5 years

Actual **total membership** only

Between 5 and 10 years

Total membership doubled

Between 10 and 13 1/3 years

Total membership increased to 20 years

Between 13 1/3 and 33 1/3 years

Total membership increased by 6 2/3 years

Between 33 1/3 and 40 years

Total membership increased to 40 years

Over 40 years

Actual **total membership** only

Your increased membership, however, must not exceed the **total membership** you would have accrued had you continued in service until age 70.

What if I do not qualify for an ill health pension and lump sum?

If you have less than three months **total membership** you will receive a refund of your contributions.

Points to Note

- If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement (see pages 27 and 28 for further details).
- Your pension benefits will not be increased if you have previously been awarded an ill health pension under the Scheme.
- Ill health pensions are increased each year in line with the **Retail Prices Index** regardless of age.

Early Retirement

Can I retire early?

If you have at least three months **total membership** you can, upon retirement from office at any time on or after age 65, elect in writing to your council to receive your LGPS benefits.

Also, upon retirement from office between and including the ages of 50 and 64 you may elect to receive your LGPS benefits, but only if your council gives their consent. This is a council **discretion** and under the LGPS your council's policy with regard to this must be included on their **Policy Statement**.

Will my pension and lump sum be reduced if I retire early?

If you retire and elect to receive benefits before age 70 your pension and lump sum, initially calculated as detailed in the section on Retirement Benefits, may be reduced.

The reduction depends on your age at retirement and your **total membership**, both counted in whole years only, and is calculated in accordance with the '85 year rule'. The rule means that if these, when added together, equal at least 85, there is no reduction. If they equal less than 85, both your pension and lump sum will be reduced in proportion to the lesser of

- a) the number of years and days until you would satisfy the 85 year rule and
- b) the number of years and days until age 70.

The reduction is calculated in accordance with guidance issued by the Government Actuary from time to time. As a guide, the percentage reductions, issued in January 1998, for retirements up to five years early between and including the ages of 55 and 70 are shown in the table below. Where the number of years is not exact, the reduction percentages are adjusted accordingly.

Years Early	Pension Reduction %		Lump Sum Reduction % All Members
	Males	Females	
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11

Your council may, however, determine on compassionate grounds not to apply the reductions. This is a council **discretion**; you can ask your council what their policy is on this matter.

If you voluntarily retire before age 70 you do not have to receive immediate payment of your benefits and can preserve them within the LGPS for payment at a later date as detailed on page 22.

Points to Note

- If your council gives consent to immediate early retirement benefits on or after age 50 and before age 65 your pension will be increased each year in line with the **Retail Prices Index** except that if the benefits are paid before age 55 your pension will be paid at a flat rate until age 55. At that time it will be increased by the accumulated effect of inflation since you retired.
- If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement (see pages 27 and 28 for further details).

Late Retirement

What if I carry on working after age 70?

Unless you have reached your 75th birthday, you cannot receive your pension until you retire.

If you carry on in office beyond age 70 you will not pay any contributions or accrue any membership after age 70. Instead, the benefits that you had accrued at age 70 will be paid at an actuarially increased rate when you eventually retire. If you are paying additional voluntary contributions (AVCs) these payments will also cease at age 70, although you will not be able to purchase an annuity until you eventually retire or from any time thereafter up to, at the latest, age 75 (see page 19).

Should you die in service, the benefits detailed on pages 16 to 18 will apply, however:

- the lump sum death grant will be calculated as the greater of two times your **career average pay** as if you had been paying contributions to the date of death.
- short-term widows, widowers and children's benefits will be calculated using your **career average pay** as if you had been paying contributions to the date of death.
- long-term widows, widowers and children's benefits will be calculated using your **total membership** to age 70 and will be actuarially increased to the date of death.

In all circumstances, you will not have to make any further National Insurance contributions after you reach **State retirement age**.

If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement (see pages 27 and 28 for further details).

Protection for your Family

What benefits will be paid if I die in service?

If you die in service as a member of the LGPS, subject to the qualifying conditions detailed, the benefits shown below are payable. If you attain age 70 and carry on working please refer to page 15.

- **A lump sum death grant**

A lump sum death grant of two times your **career average pay** is payable no matter how long you have been a member of the LGPS.

- **A widow's or widower's pension**

A short-term pension, at an annual rate equal to your **career average pay**, is paid to your widow or widower for three months immediately following your death, no matter how long you have been a member of the LGPS. If there are eligible children (any of whom are in the care of your widow or widower) this pension is paid for six months.

If you should die in service having accrued three months **total membership** then the LGPS will also pay a long-term pension to your widow or widower, commencing when the short-term pension ends. The long-term pension is generally half the pension you would have received if you had retired early due to ill health on the date of death.

- **Pensions for eligible children**

Children's pensions are payable for so long as eligible children remain following your death, no matter how long you have been a member of the LGPS. Eligible children include the deceased member's legitimate, adopted or dependent children who are under age 17, or who, since before age 17, have been in full-time education or in training for a trade, profession or vocation, or dependent by reason of incapacity (but does not include children born 12 months or more after the member's death). The **administering authority** may, if they wish, ignore a break in training or education. This is an **administering authority discretion**; you can ask your **administering authority** what their policy is on this matter.

A long term pension is payable at the rate of one quarter of your notional pension entitlement if there is one child or at the rate of one-half if there are two or more children. If no widow's or widower's long-term pension is payable, the pension is payable at the rate of one-third where there is one eligible child and at the rate of two-thirds where there is more than one eligible child. The pension may be reduced if a child is receiving pay over and above a set level while in full-time training for a trade, profession or vocation.

Your notional pension entitlement is calculated by reference to the lesser of the **total membership** you would otherwise have accrued by age 70, or 10 years. If at the date of death you have already accrued five or more years **total membership**, and you had not previously retired from the LGPS on health grounds, the notional amount will, if higher, be calculated by reference to the **total membership** you would have had if you had retired due to ill health.

Normally, payment of the children's long-term pension will commence when the widow's or widower's short-term pension ceases. If no widow's or widower's short-term pension is payable, however, a children's short-term pension, equal to the amount that would have been paid to a widow or widower, is paid for six months. If the children are not in the care of the surviving spouse, a children's short term pension is paid for three months. In both cases, commencement of the children's long-term pension is normally deferred until the short-term pension ceases.

What benefits will be paid if I die after retiring on pension?

If you die after retiring on pension, your benefits will no longer be payable. Your widow, widower, next-of-kin or person dealing with your Estate must immediately inform the Pension Section of the **administering authority** whose address is given on the inside front cover of this booklet of your date of death as otherwise an overpayment could occur.

The following benefits may then be payable:

- **A lump sum death grant**
A lump sum death grant will be payable if the death occurs in the first five years on pension and is the amount by which your annual pension multiplied by five exceeds the pension paid to you up to the date of death.
- **A widow's or widower's pension**
A widow or widower will receive a short-term pension for the three months following your death, or six months if one or more eligible dependent children are in the widow's or widower's care. This will be equal to the pension you were receiving or would have received but for a reduction as a result of early retirement or had it not been paid as a lump sum due to exceptional ill health. After that the widow or widower will receive a long-term pension generally equal to half the pension you were receiving or would have received but for a reduction as a result of early retirement or had it not been paid as a lump sum due to exceptional ill health. If you married after retirement and you had retired on the grounds of permanent ill health, the widow's or widower's pension will only be based on half of your basic pension i.e. excluding any enhancement to your pension on account of ill health retirement (see page 11).

- **Pensions for eligible children**

Children's pensions are payable for so long as eligible children remain following your death, as detailed on page 16. The pension is not calculated, however, against a notional entitlement. It is calculated instead against the pension you were receiving at the date of your death or would have received but for a reduction as a result of early retirement or had it not been paid as a lump sum due to exceptional ill health. If your pension was originally calculated on a **total membership** of less than the shorter of ten years or the amount you could have accrued had you continued working to age 70, this amount is used to increase your pension for the purpose of calculating the children's pension only.

Points to Note

- Your **administering authority** has the **discretion** to pay the lump sum death grant to your nominee or personal representatives or to any person who appears, at any time, to have been your relative or dependant. If any part of the death grant has not been paid by the second anniversary of your death, it must be paid to your personal representatives, i.e. to your Estate. If you have not already made your wishes known, or you wish to change a previous nomination, an expression of wish form is available from your **administering authority**.
- Widows', widowers' and children's pensions are increased each year in line with the **Retail Prices Index** regardless of age.
- Widow's and widower's pensions are payable for life even if your widow or widower remarries or cohabits.
- Under the LGPS you may elect to give up some of your pension in order to provide extra dependants' benefits. Please see page 9 for details.
- If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage, or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement. If you remarry, any spouse's pension payable following your death will also be reduced (see pages 27 and 28 for further details). Benefits payable to eligible children will not, however, be reduced because of a pension share.

Increasing your Benefits

How can I increase my benefits?

To increase the value of the benefits that you and your dependants receive, you may:

- **make an additional voluntary contributions (AVC) arrangement.**
If you choose to make an AVC arrangement, the contributions you make to it are invested separately, in funds managed by an insurance company or building society. You have your own personal account that, over time, builds up with your contributions and the returns on your investment.

Payments commence from the next available pay day after your election has been accepted and you may cease payment at any time whilst you are contributing to the LGPS.

At retirement the accumulated fund in your account is used to buy you an annuity from an insurance company, bank or building society (but you can defer purchasing an annuity until age 75 at the latest). If you remain in office beyond age 70 you will not be able to purchase an annuity until you retire. An annuity is a fixed amount of additional pension benefit, although you may be able to choose to include guaranteed annual increases and dependants' benefits. Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your AVC fund, and therefore can provide a higher pension. Conversely a fall in interest rates reduces the pension which can be purchased.

You can also pay AVCs to increase your death in service lump sum cover over and above the two times **career average pay** provided by the LGPS to a maximum of four times pay, or to provide additional dependants' benefits.

- **contribute to a concurrent personal pension plan or stakeholder pension scheme**
You may, if you wish, make your own arrangements to pay contributions to a personal pension plan or stakeholder pension scheme at the same time as being a member of the LGPS. However, you can only do so if in at least one of the previous 5 tax years (excluding years prior to 2000/2001) your pay did not exceed the **remuneration limit**, and you are not, and have not in any one of the previous 5 tax years (excluding years prior to 2000/2001), been a controlling director of a company.

If you join the LGPS on a 6th April, the amount you can concurrently pay into a personal pension plan or stakeholder pension scheme must not, in the tax year of joining the LGPS and in subsequent tax years, exceed the **earnings threshold**. If you join the LGPS on the 7th April or later in a tax year then

- a) in the tax year of joining the LGPS you can concurrently pay contributions to the personal pension plan or stakeholder pension scheme up to the maximum age related contribution rate allowed under that plan or scheme or, if higher, up to the **earnings threshold**; and
- b) in subsequent tax years, up to the **earnings threshold**.

If you choose to make such an arrangement, the contributions you make to it are invested in funds managed by an insurance company. You have your own personal account that, over time, builds up with your contributions and the returns on your investment. When the benefits become payable, up to 25% of the accumulated fund in your account can be taken as a tax free lump sum. The balance is used to buy you an annuity from an insurance company, bank or building society (but you can defer purchasing an annuity until age 75 at the latest). An annuity is a fixed amount of additional pension benefit, although you may be able to choose to include guaranteed annual increases and dependants' benefits. Annuities are subject to annuity rates which in turn are affected by interest rates. When interest rates rise, the organisation selling annuities is able to obtain a greater income from each pound in your personal pension or stakeholder fund, and therefore can provide a higher pension. Conversely a fall in interest rates reduces the pension which can be purchased.

Points to Note

- If you elect to pay AVCs for additional death benefits, you may be required to satisfy certain medical conditions. You may be asked to complete a medical questionnaire and may be asked to undergo a medical examination at your own expense before your election is accepted.
- Under current legislation you are able to contribute 15% of your total taxable earnings (up to the **earnings cap**) into your pension arrangements in any one year in the form of basic contributions and AVCs. As your normal LGPS contributions are 6% this leaves up to 9% that you can invest in AVCs. The 15% limit does not apply, however, to contributions you make to a concurrent personal pension plan or stakeholder pension scheme. Contributions to these arrangements must not exceed the limits detailed above.
- Providing the contribution limits above are not exceeded, your contributions will qualify for full tax relief.
- Further information on increasing your Scheme benefits is available by contacting your **administering authority**.

Ceasing to be a Councillor before Retirement

What happens to my benefits if I cease to be a councillor participating in the LGPS?

In these circumstances you may choose, from a number of options, what happens to the benefits you have accrued in the LGPS. The options available to you are described in the table below.

If you have: Less than three months total membership

Either

To take a refund of your contributions less any deductions for tax and the cost of buying you back into the State Second Pension Scheme (S2P).

Or

To transfer an amount equal to the cash equivalent of your pension benefits into your new employer's scheme provided they are willing and able to accept it, into a personal pension plan, into a stakeholder pension scheme, or into a 'buy-out' insurance policy (but not to the LGPS unless you again participate in the same LGPS fund as a councillor member).

Or

To defer making a decision until you either re-join the same LGPS fund as a councillor member, or join a new pension scheme, or want to take a refund of contributions.

At least three months total membership

Either

To leave your accrued benefits in the LGPS. Your pension and lump sum will be calculated as described in the section on Retirement Benefits using the length of your **total membership** up to the date that you left the Scheme. This is known as having preserved benefits

Or

To transfer an amount equal to the cash equivalent of your pension benefits into your new employer's scheme provided they are willing and able to accept it, into a personal pension plan, into a 'buy-out' insurance policy or into a stakeholder pension scheme (but not the LGPS unless you again participate in the same LGPS fund as a councillor member).

Note: it may be possible to make a transfer payment to an overseas pension scheme or arrangement.

What will happen to my benefits if I choose to preserve them?

Your benefits will remain preserved within the LGPS until they become payable or until you decide to transfer them as detailed in the table on page 21.

Preserved benefits become payable at age 70, but may be put into payment early in the event of ill health at any age, without reduction. You can also elect to receive your benefits early, on or after age 50 and before age 65 with your council's consent as detailed on page 13, or at or after age 65, without your council's consent. Your pension will be subject to reductions as detailed on page 13 if paid before you satisfy the 85 year rule, although your former council will have discretion to waive any reduction on compassionate grounds. The percentages will differ from those shown where benefits are paid with the former council's consent before age 55. Please contact your **administering authority** for details of the percentage reductions that apply when preserved benefits are put into payment before age 55 for reasons other than ill health.

What will happen if I die before receiving payment of my preserved benefits?

Should you die while your benefits are preserved your retirement lump sum will be paid as a death grant. Payment will be made as detailed on page 18.

A widow's or widower's long-term pension will also become payable. The widow's or widower's pension is payable at the rate of one-half of your preserved pension.

Long-term children's pensions will be payable for so long as eligible children remain following your death, as detailed on page 16. The pension is not calculated, however, against a notional entitlement. It is calculated instead against the pension you would have received had your preserved benefits been put into payment on the date of your death. If your pension would have been calculated on a **total membership** of less than the shorter of ten years or the amount you could have accrued had you continued in office to age 70, that amount is used to increase your pension for the purpose of calculating the children's pension only.

What will happen if I wish to transfer my accrued pension benefits to another (non LGPS) scheme?

If you are interested in transferring the value of your accrued pension rights to another occupational pension scheme (outside of Local Government), to a personal pension plan, to a stakeholder pension scheme or to a buy-out insurance policy you can ask for a transfer value quotation to be provided (known as the 'cash equivalent' transfer value). Under provisions introduced by the Pensions Act 1995, a quotation must be guaranteed for a period of three months from the date on which it was calculated (the 'Guarantee Date'). A written option to proceed with the guaranteed transfer value must be received within the three month guaranteed period. If you opt to proceed, the normal time limit for the Scheme to pay the guaranteed transfer value will be six months from the 'Guarantee Date'. If the Scheme does not make payment within this period it will need to recalculate the value as at the actual date of payment and pay the recalculated value or, if it is greater, the original value plus interest.

Transfer values are calculated in accordance with the terms and conditions of the Local Government Pension Scheme Regulations 1997 (as amended) which comply with requirements of the Pensions Schemes Act 1993.

Points to Note

- A refund of contributions cannot be paid if you re-enter the LGPS with any employer within one month and one day of leaving, or if it has not been paid at the time you re-enter the LGPS in the future, or if you have an entitlement to a deferred pension or pension in payment from an earlier period of membership of the LGPS.
- A member with three months or more but less than 2 years **total membership** can opt for a refund of contributions rather than a preserved benefit if, and only if, the member was contributing to the Scheme on 1st April 2004.
- Only Scheme members who leave more than one year before age 70 can transfer their pension rights. The latest an option to transfer can be made is one year before age 70 or six months after leaving the Scheme, if this is later.
- You may wish to obtain independent financial advice before you make a decision to transfer your preserved benefits to a personal pension plan, stakeholder pension scheme or buy-out insurance policy, as you will be bearing all of the investment risk, which could significantly affect your future pension benefits.

- Preserved benefits (including the lump sum benefits) are increased annually in line with the **Retail Prices Index**. However, should your preserved benefits be brought into payment before age 55 on the grounds of permanent ill health, pensions increase is only payable before your 55th birthday if you are certified as being incapable of engaging in any regular full-time work; if you are not so certified, or your preserved benefits are brought into payment with your former authority's consent before age 55, the benefits will be paid at a flat rate until age 55. Then, at age 55, the benefits will be increased by the accumulated effect of inflation since they were brought into payment.
- Widow's and widower's pensions are payable for life even if your widow or widower remarries or cohabits.
- Widows', widowers' and children's pensions are increased each year in line with the **Retail Prices Index** regardless of age.
- If your pension benefits are subject to a Pension Sharing Order issued by the Court following a divorce or annulment of marriage, or are subject to a qualifying agreement in Scotland, your benefits will be reduced in accordance with the Court Order or agreement. If you have preserved benefits and you remarry, any spouse's pension payable following your death will also be reduced (see pages 27 and 28 for further details) but benefits payable to eligible children will not be reduced because of a pension share.
- Further information on the options available on leaving the LGPS will be sent to you on leaving.

Opting-out of the LGPS

Can I opt-out of the LGPS?

You can leave the LGPS at any time by giving your council notice in writing. An election to opt-out becomes effective from the end of the payment period during which you gave notification, unless your notification specifies a later date. You are recommended to obtain advice before opting-out of the LGPS.

If you opt-out within three months of joining you will be treated as not having been a member of the LGPS during that period, but will be treated as having opted-out of the LGPS. The contributions that you have paid will be repaid to you.

If you opt-out after three months the same options are available to you as detailed in the section on Ceasing to be a Councillor before Retirement.

Can I re-join the LGPS at a later date?

If you opt-out once, you can re-join the LGPS at any time whilst you remain an **eligible councillor**.

If you opt-out of the LGPS more than once, unless you elect to re-join the Scheme within three months of commencing as an **eligible councillor** with a new council, you will only be allowed to re-join at the **discretion** of your council. You can ask your council what their policy is on this matter.

Points to Note

- You may wish to obtain independent financial advice before you make a decision to opt-out of the LGPS.

Some other LGPS Provisions

The LGPS requires your **administering authority** to:

- pay interest on lump sum benefits that are paid more than one month after they should have been paid.
- pay interest on pensions that are paid more than a year after they should have been paid.
- pay interest on refunds of contributions that are paid more than a year after the date you left the LGPS.
- issue annual benefit statements to Scheme members (other than to pensioners).

The LGPS allows your **administering authority** to:

- commute small pensions into single lump sum payments.

The LGPS allows your authority to:

- reduce pension benefits if a LGPS member leaves as a result of a criminal, negligent or fraudulent act, or omission.
- forfeit a LGPS member's pension rights if the Secretary of State for the Office of the Deputy Prime Minister agrees and the member has been convicted of a serious offence connected with their office.

The LGPS does not allow you to:

- assign your benefits. Your LGPS benefits are strictly personal and cannot be assigned to anyone else or used as security for a loan.

Pensions and Divorce

Under the LGPS, if you get divorced, you may wish to note that:

- your ex-wife or ex-husband will cease to be entitled to a widow's or widower's pension should you predecease them.
- any children's pension payable in the event of your death will not be affected by your divorce.
- if you nominated your ex-wife or ex-husband to receive any death grant payable, your nomination will remain in force until you change it. The Court may, however, issue an Earmarking Order stating that all or part of any lump sum death grant is payable to your ex-spouse.

You should also note that in proceedings for divorce, judicial separation or nullity of marriage, you will be required to obtain the cash equivalent value of your pension rights from the **administering authority** which the Court will take into account in the divorce settlement. In Scottish divorces, only the pension rights built up during the period of the marriage are taken into account.

The Court may offset the value of your pension rights against your other assets in the divorce settlement or it may issue a Pension Sharing Order or an Earmarking Order against your pension.

If the Court issues an Earmarking Order, the Order may require that when your benefits come into payment your ex-spouse should receive one, or a combination, of the following benefits:

- all, or part, of your pension (this does not apply in Scotland)
- all, or part, of your lump sum retirement grant
- all, or part, of any lump sum paid in the event of your death.

An Earmarking Order against pension payments, but not lump sums (unless the Order directs otherwise), will automatically lapse on the remarriage of your former spouse and the full pension would be restored to you. Pension payments to your former spouse would cease on your death.

If the Court issues a Pension Sharing Order, or you are subject to a qualifying agreement in Scotland, a percentage of your rights will be allocated to your ex-spouse at the point of divorce. Your pension, your lump sum and the contingent spouse's pension, but not the contingent children's pensions, will be reduced accordingly, and your ex-spouse will hold benefits in his / her own right which can be left in the Scheme to be payable from, normally, age 65 or transferred to another qualifying pension scheme. The reduction to your benefits is known as a Pension Debit. The amount of the Pension Debit will be increased in line with the rise in the **Retail Prices Index** between the date the Debit was first calculated and the date your benefits become payable. When your benefits become payable, the revalued amount of the Pension Debit will be deducted from your retirement benefits. You may be able to pay Additional Voluntary Contributions, or contribute to a concurrent personal pension plan or stakeholder pension scheme in order to make up for the benefits 'lost' following a Pension Share.

A separate leaflet providing more information is available from the **administering authority** upon request.

All correspondence received by the **administering authority** in connection with divorce proceedings will be acknowledged in writing. If no acknowledgement is received, you should contact the **administering authority** to ensure that your correspondence has been received.

The cost of supplying information and complying with any court order imposing obligations on the LGPS will be recovered from you and/or your ex-spouse in accordance with a schedule of charges published by the **administering authority**.

Scheme Administration

Who runs the LGPS?

The LGPS is run by administering authorities, for example County Councils, in accordance with regulations approved by Parliament. Each administers their own Fund, into which all contributions are paid. Every three years, independent actuaries carry out a valuation of each Fund and set the rate at which the participating employers must contribute to fully fund the payment of Scheme benefits for that Fund's membership.

How is the Scheme amended?

The Scheme regulations are made under the Superannuation Act 1972. Changes to the rules are discussed at national level by employee and employer representatives but can only be amended with the approval of Parliament. Your **administering authority** must keep you informed of any changes that are made.

Are the Scheme benefits protected?

As the Scheme is set up by statute, payment of the Scheme benefits is guaranteed by law.

What other legislation applies to the Scheme?

The Scheme is treated as 'exempt approved' by the Inland Revenue under Chapter 1, Part XIV of the Income and Corporation Taxes Act 1988. This means, for example, that you receive tax relief on your contributions. It complies with the relevant provisions of the Pension Schemes Act 1993 and the Pensions Act 1995.

How can I check the accuracy of my pension records?

To maintain the security of any information about you, your **administering authority** is registered under the current Data Protection Acts. You can check that your computerised personal record is accurate, although we may charge a small fee.

What other information am I entitled to?

You are entitled to obtain a copy of the Local Government Pension Scheme Regulations 1997 (Statutory Instrument Number 1997 No.1612) and subsequent amendments. The Regulations are available from The Stationery Office. A current version, including all amendments, is available on the Employers' Organisation for Local Government website at <http://www.lg-employers.gov.uk/pensions/index.html>. A copy of the Regulations may be inspected at the offices of your **administering authority**. In addition, you are entitled to view, and take copies of, your **administering authority's** Annual Report and Accounts.

Help with Pension Problems

Who can help me if I have a query or complaint?

If you are in any doubt about your benefit entitlements, or have a problem or question about your LGPS membership or benefits, please contact the Pension Section of your **administering authority**. They will seek to clarify or put right any misunderstandings or inaccuracies as quickly and efficiently as possible.

If you are still dissatisfied with any decision made in relation to the Scheme you have the right to have your complaint independently reviewed under the Internal Disputes Resolution Procedure and, as the Scheme is well regulated, there are also a number of other regulatory bodies that may be able to assist you. The various procedures and bodies are detailed below.

- **Internal Disputes Resolution Procedure**

In the first instance, you should write to the person nominated by the council that made the decision about which you wish to appeal. You must do this within six months of the date of the notification of the decision about which you are complaining. The nominated person will consider your complaint and notify you of his/her decision. If you are still dissatisfied with that person's decision, you may, within six months of the date of the decision apply to the **administering authority** to have the decision reconsidered.

A leaflet explaining the Internal Disputes Resolution Procedure in detail is available on request from your **administering authority's** Pension Section.

To avoid any unnecessary effort on your behalf we would welcome the opportunity to attempt to resolve with you the matter with which you are dissatisfied before you resort to a formal complaint.

- **The Occupational Pensions Advisory Service (OPAS)**

OPAS is available at any time to assist members and beneficiaries of the Scheme in connection with any pensions query they may have or any difficulty which they cannot resolve with their scheme administrators. OPAS can be contacted at:

11 Belgrave Road, London, SW1V 1RB Telephone 0845 601 2923

- **Pensions Ombudsman**

In cases where a complaint or dispute cannot be resolved after the intervention of OPAS, an application can be made, within three years of the event, to the Pensions Ombudsman for an adjudication. The Ombudsman can investigate and determine any complaint or dispute involving maladministration of the Scheme or matters of fact or law and his or her decision is final and binding. Matters where legal proceedings have already started cannot be investigated. The Pensions Ombudsman can be contacted at:

11 Belgrave Road, London, SW1V 1RB Telephone 0207 834 9144

- **Occupational Pensions Regulatory Authority (OPRA)**

OPRA's task is to ensure that occupational pension schemes operate within the law. Their role is to investigate and take action where there is carelessness, negligence or dishonesty that could damage the security of occupational pension schemes. OPRA can be contacted at:

Invicta House, Trafalgar Place, Brighton, East Sussex, BN1 4DW
Telephone 01273 627 600

How can I trace my pension rights?

The Pensions Scheme Registry holds details of pension schemes, including the LGPS, together with relevant contact addresses. The purpose is to provide a tracing service for ex-members of schemes with pension entitlements (and their dependants), who have lost touch with previous employers. All occupational and personal pension schemes have to register if the pension scheme has current members contributing into their scheme or people expecting benefits from the scheme. If you need to use this tracing service please write to the Registrar of Pensions Schemes at:

PO Box 1NN, Newcastle upon Tyne, NE99 1NN Telephone 0191 225 6393

Also, don't forget to keep your pension providers up to date with any change in your home address.

Pension Terms Defined

Administering authority

Please see the section entitled Who runs the LGPS? on page 29.

Career average pay

Career average pay is the **pay** for each year or part year ending 31 March increased (other than the final years pay) by the rise in the **Retail Prices Index** between the end of the relevant year and the last day of the month in which the councillor member's active membership of the Scheme ends. The aggregate of each years revalued pay is then divided by the total number of years and part years to arrive at the career average pay. This is the figure used to calculate your pension benefits.

Example

Assume that a councillor has been in the Scheme for 3 years, from 1 May 2003 to 30 April 2006. The average pay calculation would be calculated as follows:

Pay from 1 May 2003 to 31 March 2004:

£8,250 plus inflation from 1 April 2004 to 30 April 2006 = £8,664

Pay from 1 April 2004 to 31 March 2005:

£9,300 plus inflation from 1 April 2005 to 30 April 2006 = £9,550

Pay from 1 April 2005 to 31 March 2006:

£9,500 plus inflation from 1 April 2006 to 30 April 2006 = £9,570

Pay from 1 April 2006 to 30 April 2006:

£800 = £ 800

Career average pay = £8,664 + £9,550 + £9,570 + £800 divided by 3 = £9,528

Should you reach age 70 and continue in employment please refer to page 15.

Contracted-out

The LGPS is **contracted-out** of the State Second Pension Scheme (S2P). This means that, up to **State retirement age**, you pay reduced National Insurance contributions between the **Lower** and **Upper Earnings Limits**, unless you have opted to pay the married woman's/widow's reduced rate of National Insurance, and that you do not earn a pension under S2P. Instead, the LGPS must guarantee to pay you a pension that in general is as high as you would have earned had you been in the S2P. The LGPS guarantees that the benefits it provides will, in general, be no less favorable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Discretion

This is the power given by the LGPS to enable your council or your **administering authority** to choose how they will apply the Scheme in respect of certain of its provisions. Under the LGPS your council or your **administering authority** are obliged to consider certain of these discretionary provisions and to pass resolutions to form a policy of how they will apply the provision. In respect of the remaining discretionary provisions they are advised to do so. They have a responsibility to act with 'prudence and propriety' in formulating their policies and must keep them under review. You may ask your council or your **administering authority** what their policy is in relation to a **discretion**. See also '**Policy Statement**' on page 34.

Earnings Cap

If you joined the Scheme on or after 1st June 1989, the earnings cap is the maximum **pay** you can pay contributions on and upon which your benefits can be calculated. The figure is reviewed annually by the Government and should increase in line with the **Retail Prices Index**. The Earnings Cap for 2004/2005 is £102,000.

Earnings threshold

This is £3,600 including basic rate tax relief, a figure first set in the tax year 2001/2002. This figure may be amended by Treasury Order.

Eligible councillor

This is a councillor or an elected mayor (other than the Mayor of London) who is eligible for membership of the LGPS in accordance with the scheme of allowances published by an English county council, district council or London borough council or by a Welsh county council or county borough council.

Lower Earnings Limit

This is the amount of pay that you can receive before you pay any National Insurance contributions. The **Lower Earnings Limit** for 2004/2005 is £79 per week or £343 per month. It is usually increased annually by Parliament.

Pay

In England, this is your basic allowance or special responsibility allowance, or both, which is specified as being pensionable in your council's scheme of allowances. In Wales it is your basic and special responsibility allowance. It does not include any dependants' carers allowance, travelling and subsistence allowance, or co-optees allowance. **Pay** is limited to the **earnings cap** if you joined the LGPS on or after 1st June 1989.

Policy Statement

This is a statement that your council and your **administering authority** must produce, setting out the policies that they have resolved to follow in exercising certain **discretions** under the LGPS. Other **discretions** may also be included. You should be notified of the policies contained on the Statement and, where changes are made, you should be notified within one month of the change occurring. You may ask your council and your **administering authority** for the latest copy of their **Policy Statements**.

Remuneration limit

This is £30,000, a figure first set in the tax year 2001/2002. The figure may be amended by Treasury Order. The figure relates to the amount of taxable pay shown on your P60 but does not include the value of any P11D benefits.

Retail Prices Index

This shows the changes in the cost of living. It reflects the movement of prices covering a range of goods and services over time. The amount by which pensions are increased annually is based on movement in the **Retail Prices Index** during the 12 months to September.

State retirement age

This is currently age 65 for men and 60 for women, but from 2010 will change for women as shown in the table below, so that by 2020 **State retirement age** will have been equalised at age 65.

Date of Birth

Before 6th April 1950
6th April 1950 - 5th April 1951
6th April 1951 - 5th April 1952
6th April 1952 - 5th April 1953
6th April 1953 - 5th April 1954
6th April 1954 - 5th April 1955
After 5th April 1955

State Retirement Age

60
Between 60 & 61
Between 61 & 62
Between 62 & 63
Between 63 & 64
Between 64 & 65
65

Total membership

This is the amount of membership that counts, as detailed below, for:

- **working out whether you are entitled to a benefit**
 - ~ the number of years and days that you have been a LGPS member as a councillor or elected mayor.

- **working out the amount of your personal benefits**
 - ~ the number of years and days that you have been a LGPS member as a councillor or elected mayor but excluding any membership in respect of which you are already in receipt of a Local Government pension, or in respect of which you hold a Local Government preserved pension which relates to an earlier period of membership of the Scheme as a councillor or elected mayor, or in respect of any other earlier period of membership of the Scheme as a councillor or elected mayor which has not been aggregated with your current period of membership.

 - ~ any membership granted by way of ill health enhancement (see page 11).

- **working out the 85 year rule**
 - ~ the number of years that you have been a LGPS member as a councillor or elected mayor plus, for preserved benefits, the period between the date of leaving and the date benefits are to be bought into payment, but excluding any membership in respect of which you are already in receipt of a Local Government pension, or in respect of which you hold an earlier Local Government preserved pension which relates to an earlier period of membership of the Scheme as a councillor or elected mayor, or in respect of any other earlier period of membership of the Scheme as a councillor or elected mayor which has not been aggregated with your current period of membership.

Upper Earnings Limit

This is the amount of pay beyond which you cease to pay the full, **contracted-out**, rate of National Insurance contributions. The **Upper Earnings Limit** for 2004/2005 is £610 per week or £2,644 per month. It is usually increased annually by Parliament. On earnings above the **Upper Earnings Limit** you only pay a 1% National Insurance contribution.

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