

FALKIRK COUNCIL PENSION FUND LOCAL GOVERNMENT PENSION SCHEME (LGPS)

CERTIFICATE OF PROTECTION OF PENSION BENEFITS - FACTSHEET

The LGPS is a final salary pension scheme with benefits based on a member's level of pay and the length of time they have been in the scheme. These elements are usually referred to as "final pay" and "membership".

This factsheet gives a brief description of "final pay" or, as it is sometimes called, "annual pensionable pay" or "final salary". The factsheet also shows how final pay may be calculated where a member has been granted a Certificate of Protection of Pension Benefits.

Final Pay

Final pay is normally the pay on which a member has paid contributions during their last year of employment. However, the actual Scheme rules allow pension benefits to be calculated on the best year's pay in the final three years of service. (Where a member is part time, then it is the full time equivalent pay that is taken into account).

More complicated rules apply if a Certificate of Protection of Pension Benefits has been granted. For a full description of these, please refer to the attached Guidance Note.

Examples

The following examples show the different ways in which final pay may be calculated.

Example 1 – Final Pay based on best of final 3 years – final year is best

Emma leaves the Scheme on 30 November 2013 and her pay in her final three years is as follows:

01/12/2012	to	30/11/2013	=	£20,000
01/12/2011	to	30/11/2012	=	£19,000
01/12/2010	to	30/11/2011	=	£18,000

As Emma's pay in her final year of employment is the highest of the final three years, her final pay is the £20,000 she earned in the year to 30 November, 2013.

Example 2 – Final Pay based on best of final 3 years – final year is not best

Joe leaves the Scheme on 30 November 2013 and his pay in his final three years is as follows

01/12/2012	to	30/11/2013	=	£19,000
01/12/2011	to	30/11/2012	=	£18,000
01/12/2010	to	30/11/2011	=	£20,500

Applying the best of the final three years' rule, Joe's final pay is the year to 30 November, 2011.

Example 3 – Final Pay based on best of final 5 years – Certificate Granted

Trevor suffers a reduction to his pensionable pay from 1 July, 2013 and is granted a Certificate.

Certificates are only valid for 10 years, so the latest Trevor can retire (or otherwise leave the scheme) and still take advantage of the Certificate is 30 June 2023. Trevor actually retires on 30 June 2015. His pay history is as follows:

01/07/2014	to	30/06/2015	=	£33,500	x	1.00*	=	£33,500
01/07/2013	to	30/06/2014	=	£33,000	x	1.00*	=	£33,000
01/07/2012	to	30/06/2013	=	£34,000	x	1.03*	=	£35,020
01/07/2011	to	30/06/2012	=	£33,500	x	1.06*	=	£35,510
01/07/2010	to	30/06/2011	=	£31,500	x	1.09*	=	£34,335

*Estimate of Inflation for illustration purposes only

Because a Certificate has been granted, Trevor can elect to have his benefits based on the best of his final 5 years earnings. In this case, final pay is based on the year to 30/06/2012 since this produces the highest value after taking inflation into account.

Example 4 – Final Pay based on best annual average of 3 years – Certificate Granted

Fiona suffers a reduction to her pensionable pay from 1 July, 2013 and is granted a Certificate. She decides to retire on 30 June, 2020.

Because she has a Certificate and is retiring within the 10 year lifespan of the Certificate, she can elect to have her benefits based on the best of her final 5 years or the best annual average of any three consecutive years in her final 13 years (always bearing mind that you cannot consider any periods that fall more than three years prior to the date of reduction or restriction in pay). As more than 5 years have passed since Fiona's reduction in pay, it is more likely that the annual average of 3 successive years will produce the best final pay for her as shown in the following example.

Her pay history is as follows:

				<u>Pensionable</u> <u>Earnings</u>	<u>Three</u> <u>Year Average</u>				
01/07/2019	to	30/06/2020	=	£39,000	£38,500	x	1.00*	=	£38,000
01/07/2018	to	30/06/2019	=	£38,500	£38,000	x	1.01*	=	£38,380
01/07/2017	to	30/06/2018	=	£38,000	£37,500	x	1.03*	=	£38,625
01/07/2016	to	30/06/2017	=	£37,500	£37,000	x	1.05*	=	£38,850
01/07/2015	to	30/06/2016	=	£37,000	£36,500	x	1.06*	=	£38,690
01/07/2014	to	30/06/2015	=	£36,500	£36,833	x	1.08*	=	£39,779
01/07/2013	to	30/06/2014	=	£36,000	£37,166	x	1.10*	=	£40,882
01/07/2012	to	30/06/2013	=	£38,000	£37,200	x	1.12*	=	£41,664
01/07/2011	to	30/06/2012	=	£37,500	N/A				
01/07/2010	to	30/06/2011	=	£36,100	N/A				

*Estimate of Inflation for illustration purposes only

In this case, the three year period ending on 30/06/2013 is the one giving the best result. Aggregate earnings for the three years to 30/06/2013 are £111,600 (£36,100 + £37,500 + £38,000) and dividing by three gives an annual average is £37,200. Once inflation is added, this gives a Final Pay of £41,664.

Although the terms of a Certificate allow earnings from 13 years to be considered, the years prior to 01/07/2010 cannot be considered here, as they would fall more than 3 years prior to the date of reduction.

IMPORTANT

This factsheet has been written based on our current understanding of the scheme rules. Nothing in the factsheet can override the scheme rules themselves.

The Pensions Section cannot provide financial advice. If you need advice before making a decision regarding your pension benefits, you may wish to contact an Independent Financial Adviser.

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