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Pension
Fund

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A guide to how your pension is worked out

(Version 1.0)

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Introduction

The Local Government Pension Scheme (LGPS) is a defined benefit scheme. This means that your pension benefits are calculated using formulas which are set out in law and are not directly affected by the stock market.

The calculation is defined by the dates you have been an actively contributing member, and can be reduced or increased dependant on your retirement reason.

This document has been designed to explore and explain:

- the different blocks of pension benefits you can build up
- how those blocks are worked out
- examples of how your pension benefits are worked out using realistic scenarios
- how your retirement age affects any applicable reductions or increases

The Derbyshire Pension Fund is administered by Derbyshire County Council.

If you have any queries about the information in this guide, or LGPS in general, please contact us:

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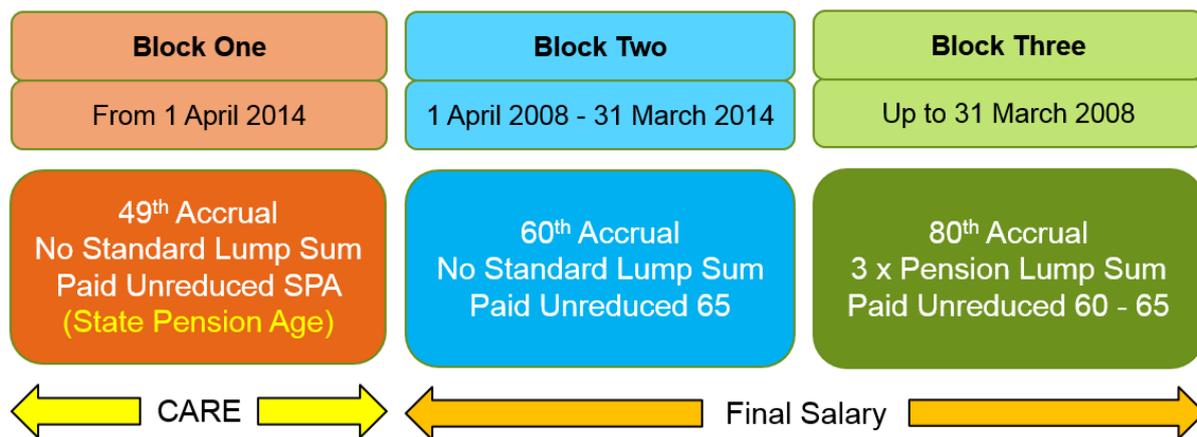
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Your blocks of LGPS membership

As the LGPS rules changed significantly from 1 April 2014 we need to look at your membership in different blocks.

The number of blocks or periods we need to build for your pension will depend on when you first joined the scheme. Normally, the most we will need to look at is 3 different blocks of membership:



- **Block 1: Membership from 1 April 2014:**

This block of benefits is known as “Career Average Revalued Earnings” (also known as ‘CARE’). If you joined LGPS on or after 1 April 2014, we only need to look at block one. If you joined before 1 April 2014, you will also have an element of Block 2.

- **Block 2: Membership between 1 April 2008 and 31 March 2014**

This block of benefits is known as 60th “Final Salary”. If you joined LGPS between 1 April 2008 and 31 March 2014 we need to look at Blocks 1 and 2. If you joined before 1 April 2008, we will need to look at Blocks 1, 2 and 3.

- **Block 3: Membership before 31 March 2008**

This block of benefits is also known as 80th “Final Salary”. If you joined LGPS on or before 31 March 2008, you can potentially have elements of all 3 blocks.

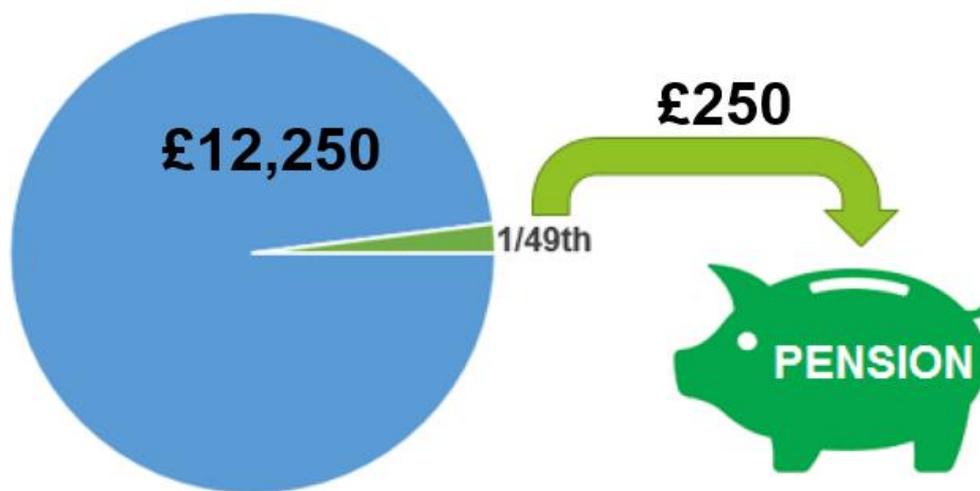
We will look at the blocks separately and work out your pension for each. If you don’t remember when you joined, the latest [annual pension statement](#) we sent you includes that information.

Block 1 - Membership from 1 April 2014

Your pension is building up in the career average arrangements, known as the "Career Average Revalued Earnings" (CARE) scheme and means that your pension is building based on what you earn each year.

For each year of your membership in the CARE scheme, 1/49th of your pay for that year goes into your pension account for example "Your total pay for the year" / 49 = "your pension". This can be seen in the below diagram:

Example



Your pension for the year is added to your pension account. For each year thereafter, 1/49th of your pay is added to your pension account. At 1 April each year the total in your pension account is adjusted for inflation:

Scheme Year	Opening Balance	Pension Build up in year	Total Account 31 March	Cost of living adjustment	Updated Total Account
1	£0.00	$£12,250 \div 49 = £250$	£250.00	3% = £7.50	£257.50
2	£257.50	$£12,740 \div 49 = £260$	£517.50	2% = £10.35	£527.85

Block 2 - Membership between 1 April 2008 and 31 March 2014

The LGPS was a “Final Salary” scheme during this period.

This means that your service in the LGPS during this period is protected in the final salary arrangements

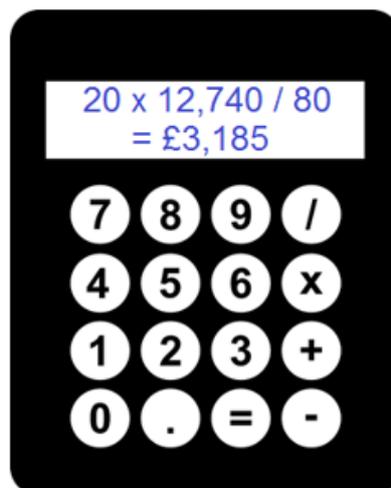
For each year of your membership (or a proportion of a year if you were part-time), you built up pension of 1/60th of your final pay. This 60th is known as your ‘Accrual Rate’.

A final salary pension is calculated as:

$$\text{Service} \times \text{Final Salary} \div \text{Accrual Rate} = \text{Annual Pension}$$

Example:

You have 20 years’ service and an annual pensionable salary of £12,740.00.



Your final pay is usually the pensionable pay you earn in the year up to when you retire or leave the scheme, but if one of the two previous years' pay is higher, we will use that instead.

If you had an earlier higher period of pay, and it was within the 10 years before you leave or retire, you may be able to apply to have your pension for your membership before 1 April 2014 worked out against your former higher pay, but you must apply more than one month before you leave.

There is no automatic lump sum for membership built up during this period, but you do have the option to exchange some of your pension for a tax-free lump sum.

Block 3 – Membership up to 31 March 2008

The LGPS was also a “Final Salary” scheme during this period, therefore the same calculation applies as Block 2:

Service x Final Salary ÷ Accrual Rate = Annual Pension

For each year of your membership (or a proportion of a year if you were part-time) you built up pension of 1/80th (Accrual Rate) of your Final Salary pensionable pay, plus an automatic tax free cash lump sum of 3 times your pension for membership in this period.

You also have the option to exchange some of your pension for a higher tax-free lump sum should you wish.

Worked examples

This section shows some examples of how we work out your pension that we show on your Annual Pension Statement and how you can forecast your pension at retirement. Your annual benefit statement is calculated using your latest pay figure, and shows you an estimate of your pension benefits built up in your pension account up until the last 31 March and is based on information given to us by your employer.

The examples we will show you are for the following people:

- **Martin** (*CARE only*) Page 8
- **Emily** (*CARE and Final Salary (1/60th)*) Pages 9 - 10
- **Winston** (*CARE, Final Salary 1/60th and 1/80th*) Page 11 - 12

Martin:
A member who joined on or after 1 April 2014

Martin is 35 years of age and joined the LGPS when he started his full-time job as a Waste Disposal Administrator at East Derbyshire Area Council on **21st August 2015**, so all of his time in the LGPS has been in the CARE scheme (Block 1).

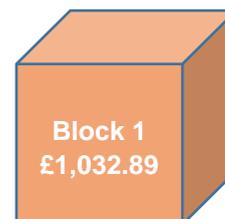
His pension account has built as follows:

Scheme Year	Opening Balance	Martin's Pay	Martin's Pension (Pay x 1/49 th)	Total before cost of living adjustment	Cost of living adjustment at 1 st April	Updated Total Account
21/08/15	£0.00	£11,292.40	£230.46	£230.46	3% = £6.91	£237.37
01/04/16	£237.37	£18,625.00	£380.10	£617.47	2% = £12.35	£629.82
01/04/17	£629.82	£18,904.00	£385.80	£1,015.62	1.7% = £17.27	£1,032.89
01/04/18	£1,032.89	→	→	→	→	→

Martin's pension will keep building year on year, based on his earnings each year.

Annual Pension Statement

When we sent Martin his Annual Pension Statement for his membership to 31 March 2018, we were able to tell him that he had built up his LGPS pension to **£1,032.89** per annum.



Using the Pension Calculator

He wants to work out how much his pension will be at retirement when he is 68 if he stays in the same job, so uses the pensions calculator to find out:

Pension as at 01/04/18:	£1,032.89
Pension based on latest pay (£385.80) x 33 years:	£12,731.40
Pension per annum forecast	£13,764.29

Martin can also put different possible retirement dates into the pension calculator to see what his pension would be, on current rates. The calculator will apply any early payment reductions if he wants to look at his pension if he retired early.

<p style="text-align: center;">Emily:</p> <p>A member who joined between 01/04/08 & 31/04/14</p> <p>Emily is 49 and joined the LGPS on 1 September 2011 when she started her job as a Catering Supervisor at Chatsworth High School. She has LGPS membership in the CARE scheme for membership from 1 April 2014 (Block 1) and the Final Salary Scheme for membership between 1 April 2008 and 31 March 2014 (Block 2).</p>	
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Emily works part-time and her working hours are half of full-time.

Her pay in the year to 31 March 2018 was £9,025.50, based on a full-time equivalent salary of £18,051.00, so her 1/49th amount into her pension account for the year was £184.19.

Block 1 (CARE membership from 1 April 2014)

Emily’s pension account has built up in the same way as Martin’s since 1 April 2014.

Her pension that she had built up to 1 April 2018 was **£744.91**

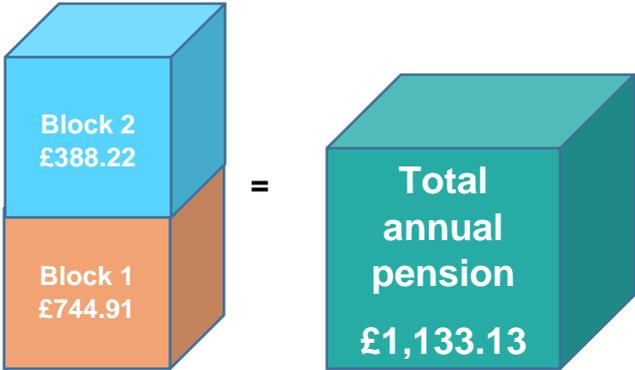
Block 2 (Membership between 1 April 2008 and 31 March 2014)

For her latest Annual Pension Statement to 31 March 2018 when we provided Emily with her latest pension figure, we worked out her pension for her Block 2 membership as follows:

Service x Final Salary ÷ Accrual Rate = Annual Pension

1 year 106 days (Part time Service) x £18,051.00 (Full-Time Equivalent Salary)
 ÷ 60 (Accrual rate) = **£388.22 pension per annum**

Total pension blocks:



Annual Pension Statement

When we sent Emily her Annual Pension Statement for her membership to 31 March 2018, we were able to tell her that, combining the two blocks, she had built up her LGPS pension to £1,133.13 per year by that date.

Because Emily's normal pension age (67) is after the normal pension age for her final salary scheme period (65), her pension will be increased if she draws her pension after 65. This isn't reflected on the Annual Pension Statement but when Emily uses the pension calculator to get a pension forecast, it will include any reductions for early retirements or increases for late retirements.

Using the pension calculator

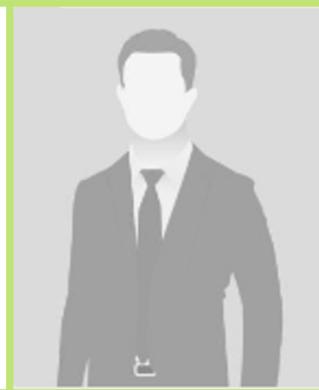
Emily wants to work out how much her pension will be at retirement when she is 67 if she stays in the same job, so uses the pensions calculator to find out.

Pension as at 01/04/2018:	£1,133.13
<u>Pension based on latest pay (£184.19) x 18 years:</u>	<u>£3,315.42</u>
Pension per annum forecast:	£4,448.55

Winston:

A member who joined on or before 31 March 2008

Winston is 60 and joined the LGPS on 1 April 1978 when he started his full-time job as a Junior Payroll Clerk at South Derwent Valley District Council. He has worked his way up to be a Senior Payroll Manager, but is starting to plan his retirement. His pay is £27,685 per annum.



Winston has LGPS membership in

- the CARE scheme for membership from 1 April 2014 (Block 1)
- the Final Salary Scheme for membership between 1 April 2008 and 31 March 2014 (Block 2)
- the Final Salary Scheme for membership before 31 March 2008 (Block 3)

Block 1 - CARE membership from 1 April 2014

Winston's pension account has built up in the same way as Martin's and Emily's since 1 April 2014.

His pension that he had built up to 1 April 2018 was **£2,382.39**

Block 2 - Membership between 1 April 2008 and 31 March 2014

For his latest Annual Pension Statement to 31 March 2018 when we provided Winston with his latest pension figure, we worked out his pension for his Block 2 membership as follows:

Service x Final Salary ÷ Accrual Rate = Annual Pension

6 years x £27,685.00 (Full-Time Equivalent Salary)
÷ 60 (Accrual rate) = **£2,768.50 pension per annum**

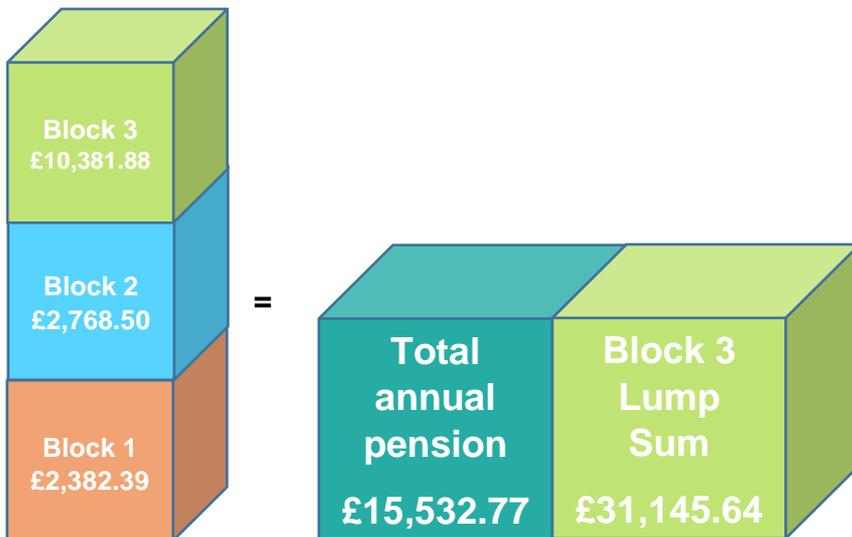
Block 3 - Membership up to 31 March 2008

As Block 3 is also Final Salary, it is worked out in the same way as Block 2, however, the accrual rate is 1/80th:

Service x Final Salary ÷ Accrual Rate = Annual Pension

30 years x £27,685.00 (Full-Time Equivalent Salary)
÷ 80 (Accrual rate) = **£10,381.88 pension per annum**
+ £31,145.64 automatic lump sum

Total pension blocks:



Annual Pension Statement

When we sent Winston his Annual Pension Statement for his membership to 31 March 2018, we were able to tell him that, combining the three blocks, he had built up his LGPS pension to **£15,532.77** per year by that date.

As Winston’s normal pension age (67) is after the normal pension age for his final salary scheme period (65), his block 2 and 3 pension benefits will be increased if he draws his pension after 65. This isn’t reflected on the Annual Pension Statement but when Winston uses the pension calculator to get a pension forecast, it will include any reductions for early retirements or increases for late retirements.

Using the pension calculator

Winston wants to work out how much his pension will be at retirement when he is 67 if he stays in the same job, so uses the pensions calculator to find out:

Pension as at 01/04/2018:	£15,532.77
<u>Pension based on latest pay (£565.00) x 7 years:</u>	<u>£3955.00</u>
Pension per annum forecast:	£19,487.77

Winston can also put different possible retirement dates into the pension calculator to see what his pension would be, on current rates. The calculator will apply any early payment reductions if he wants to look at her pension if she retired early.

Your age at retirement

Your normal pension age (NPA) for each block of membership may be different.

Normal pension age is the date when we can usually pay your pension benefits without any reductions for early payment.

When we have worked out your pension benefits from each block of membership, we need to look at your age and decide if you'll be receiving any blocks early.

If you are, we then need to work out how much reduction for that block must be applied for early payment.

You can use our [pension calculator](#) when you are planning your retirement to see if the pension from any of your blocks of membership will need to be reduced.

In most cases, the normal pension ages for an unreduced pension which apply for each block are:

- Block 1 – Membership from 1 April 2014 - Your state pension age
- Block 2 – Membership between 1 April 2008 and 31 March 2014 - Age 65
- Block 3 – Membership to 31 March 2008 - Age 65 or earlier - Your membership to 31 March 2008 may be payable unreduced from an earlier age as low as 60 if you have met the [rule of 85](#).

State pension age is the earliest date when you can receive the basic state pension. You can find your state pension age via the Government's State Pension Age calculator.

You can find your state pension age via the [Government's state pension age calculator](#).

Important note

You can't draw your pension benefits separately from each block of membership. All of your pension benefits must be drawn at the same time.