Re-employment

This leaflet looks at the possible effects to your pension should you take up Local Government employment when you have retired and are drawing your pension.

Please note - If you have only built up benefits in the LGPS from 1 April 2014, draw your pension and are then re- employed in local government or by an employer who offers membership of the LGPS you do not need to inform the LGPS fund that pays your pension as there is no effect on your pension in payment.

This leaflet explains how your pension benefits could be reduced if you take up further employment.

Further employment means that you have:

- left work
- begun receiving Local Government Pension Scheme (LGPS) retirement benefits; and
- been re-employed in an employment where you may rejoin the LGPS in England or Wales (regardless of whether you actually rejoin). This would not include employment where you would be eligible for membership of the LGPS in Scotland.

Your pension benefits are not affected if you are re-employed by, for example, a private company or if you are granted “flexible retirement” by your employer.

There are two main types of benefit you may have received when you retired.

1. **Statutory retirement benefits -**

Based on your actual contributing service in the pension scheme.

2. **Discretionary retirement benefits -**

Based on compensatory added years that your employer has awarded to you. (Following amendments to the compensation rules in October 2006 compensatory added years can no longer be awarded.

The earnings rule

The earnings rule says that if you take up further employment, we must reduce or suspend your benefits in certain circumstances where you receive more than your allowable earnings. This is explained in more detail below with examples of different pension and earnings situations.

Statutory retirement benefits

Your administering authority has the choice on whether to operate the earnings rule for statutory retirement benefits. *

*You should check your administering authority’s policy on their discretion in this area

Discretionary retirement benefits

The earnings rule applies to any compensatory added years benefits and there is no discretion in this area.

Examples of how the earnings rule applies

(a) Pensionable salary when you first left employment (index-linked if necessary)	£20,000
(b) less total statutory retirement pension	- £6,000 a year
(c) less total compensatory retirement pension	- £3,000 a year
(d) Allowable annual earnings in further employment	£11,000

We work out the annual amount you can earn without it affecting your retirement pension. (Based on the above example, the allowance would be £11,000.)

We then split the annual figure for the period starting on the first date of your further employment up to 31 March. For example, if you started work on 1 October, your annual allowance would reflect the fact that you could work for only 6 months until 31 March. Using the example above, your allowable earnings for the first period to the end of March would be £5,500 (i.e. 6/12ths of £11,000.00).

After assessing your likely earnings up to 31 March, we will decide whether your compensatory pension will be suspended from the start or at any point during the year. If this happens but, at the end of the assessment period, you have stayed below the annual earnings level, you will be paid any arrears of pension due.

In the example above, if your actual earnings were £16,000 within a 12 month review period, you would have exceeded your allowable earnings figure by £5,000. We would have temporarily stopped your compensatory benefits, but any statutory benefits not relating to ill health retirement would not have been affected.

Using the same example, if statutory benefits only, were being paid (therefore no compensatory benefits were being paid), your allowable earnings would be £14,000 (a pensionable salary of £20,000 less the statutory pension of £6,000). As the actual earnings in the example are £16,000, your statutory benefits would be reduced by the excess of £2,000 over the year.

During your re-employment we would then carry out further reviews around each April to assess your earnings to 31 March. This helps us to work out whether you have been underpaid or overpaid during the previous year. Any overpayment is recovered, or if applicable any underpayments are paid to you. We will also issue you with your new allowable earnings figure for the following year (1 April to 31 March).

The earnings rule generally applies to further employment with a local authority in England or Wales. However, the LGPS covers other similar employers such as further education colleges, some parish and town councils and some housing associations. This is not a complete list, so please check with your future employer whether LGPS (England or Wales) membership is available.

Remember – the earnings rule applies whether you join the LGPS in your further employment. It is also worth remembering that by rejoining you will accrue further pension benefits.

What happens at the end of my re-employment?

If your pension benefits have been suspended as a result of the earnings rule during further employment, they will be restored (plus any further pension increases due) when that employment ends.

Further reductions in relation to Compensatory Added Years benefits

In addition to the earnings rule further reductions may be applied for members who have been awarded compensatory added years benefits. When your re-employment ends, a calculation is done to check whether you have exceeded the membership that would have built up if you had continued working to age 65 in your first employment. If this is the case, your compensatory benefits will be permanently reduced.

The reason for this further possible reduction is because you cannot potentially build up pension rights in further LGPS employment if you have already been compensated for future pensionable service that you might have earned.

Example

You retire at age 53 after receiving 10 compensatory added years. You have, in effect, been given the service you would have achieved if you had worked until 63. The regulations state that your compensatory added years and the period of service you have gained (or may gain) in your further employment must not add up to more than the service you would have had in the LGPS from your original retirement date (in this case, age 53) up to age 65 (12 years).

If you were part time in your original employment, the 12 years would be scaled down proportionately by the hours you were working when you ceased your original employment.

Therefore, you could be in further employment for two more years without any reduction to your pension. If you worked longer than that, your award of compensatory benefits including any lump sum paid would be permanently reduced when your further employment ended. To make sure that benefits are adjusted fairly, this calculation takes account of the relative levels of your salary in your original employment and in further employment.

Again, this rule also applies whether you join the pension scheme in your further employment.

What to do if you take up further employment

If you take up further employment with a LGPS employer, you must write and tell us. Please also do this if you are not sure whether your new employer takes part in the LGPS.