If you are going to be affected adversely by the pay & grading exercise, it’s important to think about the impact on your pension too. This article looks at some of the issues involved...

Background to pay & membership
Greater Manchester Pension Fund is part of the nationwide Local Government Pension Scheme – the LGPS. This is a final salary scheme, which means we use two basic things to work out your benefits when you leave: membership and pay.

You are building up membership every day you pay into the Fund, and you may also have some other types of membership, for example a transfer in from another fund.

In terms of your pay, we normally use your pay close to leaving to work out your benefits – and this normally means your pay over the last 12 months. For most members, this is their best ever pay (because traditionally, pay goes up year by year because of annual pay awards).

What if your pay is cut?
But if you have a pay cut - for example because of the pay & grading exercise - you might lose out. So you might be interested to know that there are various choices open to you, either now, or in future when you leave, and these are...

Choosing to have your benefits based on the best year’s pay in the last three years
Every member is entitled to choose the pay in the last 12 months, or either of the 2 years before that if higher.

So if you are very close to retirement when your pay is cut, this could protect your benefits.

Choosing to have your benefits based on a 3 year average in the last 10 years
If you have had a pay cut in your final 10 years, you can choose to have your benefits based on a three year period in that 10 years. The three years you choose must fall within your final 10 years and end with a 31 March.

We will then base your benefits on the average yearly pay from this period, and add inflation proofing to them as well.

In the past you needed a certificate from your employer to authorise this, but this is no longer needed. But to be on the safe side be sure to keep any paperwork relating to the pay cut, so you can produce details if required in future.

Choosing deferred benefits (only if offered by employer)
This is where your employer offers to effectively split your benefits before and after the pay cut. If you choose this, your deferred benefits will be worked out on your ‘old’ pay and membership, and increased each year in line with prices to maintain their value. In the meantime, you then start building up a second set of benefits based on your new pay and the membership you build up from that point.

There are quite a few pros & cons with deferred benefits - see over the page for more.

Doing nothing
If you don’t choose deferred benefits now, and the 10 year protection has passed by the time you leave, you may find that over time, future pay awards or perhaps a promotion puts your actual final pay back on track anyway.

Continued...
Frequently asked questions about using an earlier year’s pay

If you use an earlier pay figure - such as the three year average out of 10 years - won’t I still lose out because of inflation?

Not only do we use an earlier higher pay from before the pay cut, we also add inflation proofing to your benefits before we pay them to you to bring them up to ‘today’s value’.

If my pay falls simply because my hours are reduced, can I use the protections described?

No, it’s only in the event of an actual cut in your rate of pay (because of a lower grade or less responsibility). And in any case, we always use full time pay to work out your retirement benefits, even if you are part time.

I’m years off retirement - could the 10 year protection still help me?

It might. We tend to think of the protections only applying to people retiring normally. But the protection could also help if any of the following happen within 10 years:

- You retire early, for example through ill health or redundancy
- You leave the scheme and become entitled to deferred benefits. As these are based on pay, using a higher pay will benefit you
- You leave the scheme, and ask for a transfer out. As this is based on pay, using a higher pay will benefit you
- Of course you can’t know in advance if any of these will happen, but they are a possibility.

More about deferred benefits

Choosing deferred benefits following a pay cut is only possible if offered by your employer. We have spoken to the 10 local authorities, and many would be prepared to do this in the event of a pay cut.

But even if offered, there are pros & cons with deferred benefits, so you should think carefully before choosing them...

- You could have a later retirement date with your new benefits, meaning them being reduced if you want to draw them at the same time as your deferred benefits
- If you choose deferred benefits, but your pay then ‘catches up in real terms, you would want to link your deferred and your new benefits back together again. But this is only possible within 12 months of first choosing deferred benefits (unless your employer allows longer)
- Deferred benefits only protect the benefits you’ve built up so far, not what you build up in future

Deferred benefits are normally based on a single year’s pay - for example the last year’s pay before the pay cut. Whereas taking the “3 year average in the last 10 years” option, might not give as good a pay figure.

- If you have to retire early, say through ill health or redundancy, you wouldn’t necessarily be paid your deferred benefits early too
- On the plus side, if you were to die in service, the lump sum life cover would be better, as you would have three times pay from your ‘new membership’ as well as a further lump sum from your deferred benefits.

What if my employer won’t offer me deferred benefits?

Don’t fall into the trap of thinking you could opt out of the scheme (choosing deferred benefits) then opt back in. If you did this, your benefits would automatically be linked back together, cancelling the effect you were aiming for.
Will a pay cut affect any other aspects of my pension?

It’s not much consolation, but one bit of good news is that a pay cut will mean you paying less into your pension. And because the LGPS now has a range of pay bands, you could find your percentage contribution falling too...

Example

Mary’s pay is £20,000, so she pays 6.5% into the Fund, which works out at just over £108 a month before tax savings etc. In the regrade, her pay is cut to £18,000. This means she falls into a lower pay band for pensions, so her percentage will fall to 5.9%, reducing her contribution to just over £88.

What to do next

If you think you will be able to benefit from the ‘best of the last 3 years’ or the ‘3 year average from last 10’ rules, then there are no forms to fill in at this time.

But you may well want to keep in a safe place any letters from your employer, or other paperwork, giving details such as dates or figures relating to the pay cut. This could be useful later on, if you ask us to use an earlier pay figure.

Also, we suggest you ask your employer to keep your pay records for at least 10 years. This is important, since you might need them to look back 10 years to use the “3 year average in the last 10 years” option. Unless you ask, your employer will normally destroy your payroll records after 7 years.

If you prefer to choose deferred benefits (perhaps because you think you are too young to benefit from using an earlier pay), then you do have to fill in some paperwork now.

Your employer will give you a Leavers Option Form, which you should fill in as soon as possible and return to them.

The issues in this article are far too simple to cover each and every case, but we hope they help you think about some of the issues involved. To find out how you might be affected personally, you should speak to your employer’s Pensions Officer, who will be closer to your local circumstances.

If you would like more general information, you are welcome to ring our helpline as shown below.