

## Ill Health Retirement for members of the LGPS

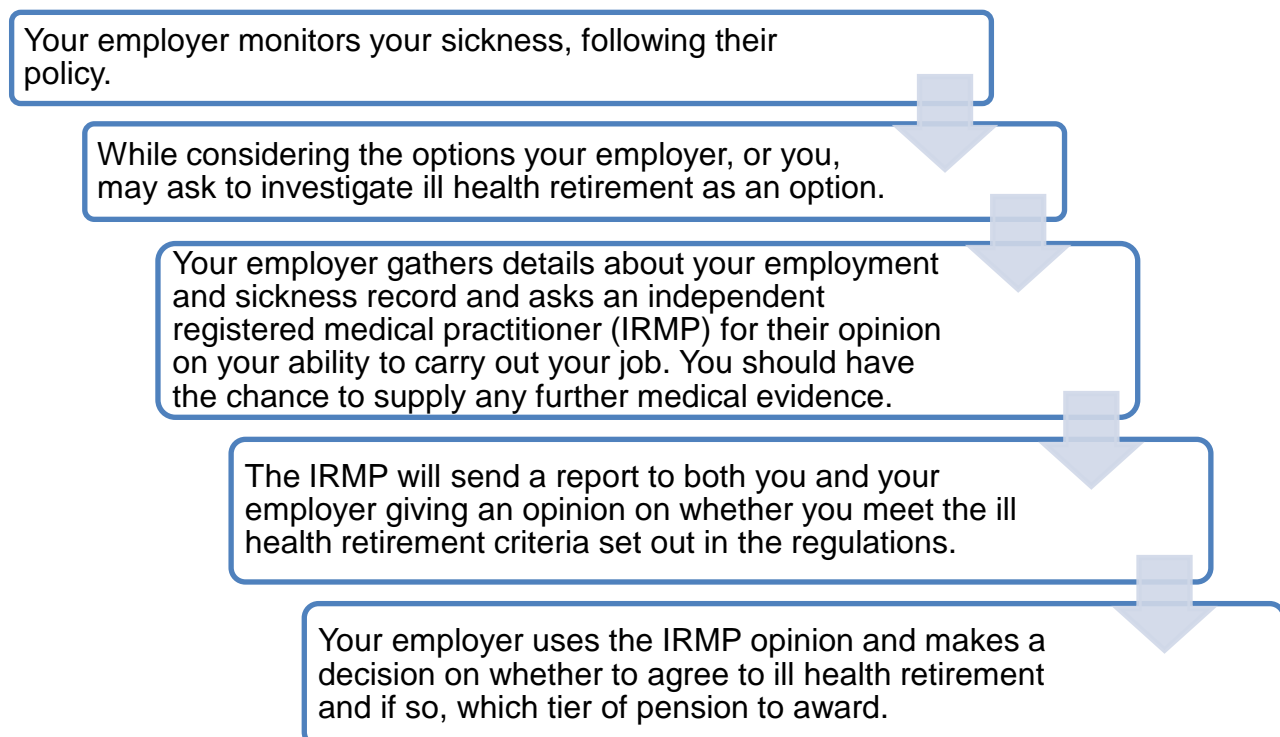
Ill health retirement means the pension fund pays your pension early because your employer decides that you must leave your employment, not only because you are permanently incapable of efficiently discharging the duties of your current employment, but also because you have a reduced likelihood of being capable of any other 'gainful employment'. The amount of pension payable is based on the likelihood of you being capable to carry out "gainful employment" in the future.

This leaflet covers:

- The procedure
- The employer's decisions
- How the benefits are calculated
- Tax on pension savings:
  - Annual Allowance
  - Lifetime Allowance
  - After retirement
- Your right of appeal

### Procedure to determine ill health retirement

This flow chart shows the usual ill health retirement procedure. There may be variations if there is a diagnosis of a terminal illness or following a severe accident.



**BE AWARE: Your employer cannot award you this type Ill health retirement if you resign from your employment.**

### Ill health retirement criteria

Your employer will make the decision whether to award ill health retirement and if so, which tier you should be awarded. Your employer will need to take account of evidence and the opinion of an IRMP. The criteria in the LGPS regulations that every employer must consider are whether:

- Your illness or infirmity of mind or body mean that you are **permanently incapable** of discharging efficiently the duties of your current employment and
- You have a reduced likelihood of being capable of undertaking any **gainful employment** before your 65<sup>th</sup> birthday.

The LGPS regulations explain the meaning of these terms.

**‘Permanently incapable’** means that the person will, more likely than not, be incapable of discharging efficiently the duties of their employment with the employer because of ill health or infirmity of mind or body until, at the earliest, their ‘normal retirement age’. This is why your employer needs to supply details about your job to the IRMP and why you will be asked to release authorisation for the IRMP to get details of the treatment you are undergoing or access to the consultants’ reports.

**‘Gainful employment’** means paid employment for not less than 30 hours in each week for a period of not less than 12 months. This means any job, not just one that has similar pay and conditions to your current employment.

Working fewer than 30 hours per week will not prevent anyone from being considered for ill health retirement criteria. Also, there is not a lower age limit to ill health retirement. If you satisfy the ill health criteria, you will receive your pension.

Once your employer decides you meet the criteria for ill health retirement, they consider the level of the benefit to award you. There are three tiers providing different benefits:



#### Tier 1

If you cannot do your job and there is no reasonable prospect of you being capable of undertaking any gainful employment before your 65th birthday.



#### Tier 2

If you cannot do your job and although you are not capable of undertaking gainful employment within three years of leaving your employment, it is likely that you will be capable of undertaking any gainful employment before your 65th birthday.



#### Tier 3

If you cannot do your current job, but evidence suggests it is likely that you will be capable of undertaking gainful employment within three years of leaving your employment, or your 65th birthday if earlier.

## The benefits payable



### Tier 1

If your employer has decided you satisfy tier 1 ill health retirement, the Oxfordshire County Council Pension Fund will:

- Pay your benefits immediately
- Not apply an early retirement reduction to your benefits
- Increase your membership as if you continued in employment until your 65<sup>th</sup> birthday and
- Pay your pension for life.



### Tier 2

If your employer has decided you satisfy tier 2 ill health retirement, the Oxfordshire County Council Pension Fund will:

- Pay your benefits immediately
- Not apply an early retirement reduction to your benefits
- Increase your membership by 25% of the membership you would have had you continued in employment until your 65<sup>th</sup> birthday and
- Pay your pension for life.



### Tier 3

If your employer has decided you satisfy tier 3 ill health retirement the Oxfordshire County Council Pension Fund will:

- Pay your benefits immediately
- Not apply an early retirement reduction to your benefits and
- Pay a reviewable pension for a maximum period of 3 years.

However, your tier 3 pension will be reviewed after 18 months. Your former employer will contact you to arrange the review and the result of the review will mean your pension will either:

- Continue to be paid
- Stop or
- Increase as if you were awarded a tier 2 pension.

## Common features in calculating your pension

There are three elements used to calculate your LGPS benefits, which are:

- Your accrual rate
- Your membership in the scheme and
- Your final pay.

Your benefit calculation looks like this:

$$\text{Membership} \times \text{Final Pay} \times \text{Accrual Rate} = \text{Benefits}$$

## Accrual Rate

If you joined the LGPS on or after 1 April 2008, for each year of membership you receive a pension based on an accrual rate of 1/60<sup>th</sup> of your final pay – so if you have 40 years membership you get 40/60ths or two thirds of your final year's pay as an annual pension.

If you joined the LGPS before 1 April 2008, we will calculate your benefits, for membership before 1 April 2008, differently. You can find out how from the leaflet “**If You Joined the LGPS Before 1 April 2008**”.

## Membership

Membership normally includes:

- How long you have been a member of the LGPS worked out in years and days, but excluding:
  - membership for which you already receive a LGPS pension or hold an LGPS deferred pension
  - membership from any concurrent job you may have, and
  - Any LGPS membership in respect of which you have received a refund or have transferred the pension rights to another scheme.
- Membership purchased by a transfer from another scheme.
- Any extra membership you have bought with additional contributions or by converting in-house additional voluntary contributions (AVCs) into membership.
- Any extra membership awarded by your employer
- Any extra membership awarded by the scheme if you are retired because of permanent ill health.

This could be different to your actual calendar length membership of the LGPS.

**If you work part-time**, although the calendar length of your membership is used to decide if you are eligible for a benefit, your membership is reduced to its whole-time equivalent length to calculate the amount of your retirement benefits. For example, if you work half-time for 10 years, your benefits would be calculated on 5 years membership.

If your employer awards you tier 1 or 2 ill health retirement, your membership is increased in the calculation.

## Final Pay

The final part used in working out your benefits is your final pay.

This is usually the pay in respect of the final year<sup>1</sup> of scheme membership on which you paid contributions, or one of the previous 2 years if this is higher, and includes your:

- normal pay
- contractual shift allowance
- bonus
- contractual overtime
- Maternity Pay, Paternity Pay, Adoption Pay, and
- Any other taxable benefit specified in your contract as being pensionable.

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<sup>1</sup> Grossed up to a full year's pay if you did not receive pay for a full year.

This may not include all your pay. We don't include non-contractual overtime, travelling or subsistence allowances, pay in lieu of notice or pay in lieu of loss of holidays, any payment as an inducement not to leave before the payment is made, any award of compensation (other than payment representing arrears of pay) made for the purpose of achieving equal pay, nor (apart from some historical cases) the monetary value of a car or pay received in lieu of a car.

**If you are working part-time** when you leave the LGPS, or worked part-time at some point during your last year of membership, your final pay is the whole-time pay that you would have received, if you had worked whole-time.

**If your pay is reduced** in this period because of sickness, your final pay will be the pay that you would have received if you had not been off sick.

## What Happens Next

If your employer decides you should be awarded ill health retirement, they will confirm:

- You have been dismissed from your employment due to ill health retirement and
- Your last day of employment.

Your employer will send this information to you and the Oxfordshire County Council Pension Fund. Once the Oxfordshire County Council Pension Fund has this information, they will:

- Decide whether you satisfy the HM Revenues and Customs (HMRC) definition of "severe ill health", see the section Tax on Pension Savings below
- Calculate your provisional pension benefits and
- Send you details of your benefits and details of benefit options.

Once you receive this letter, you will need to:

- Confirm your personal details and provide supporting documents
- Confirm the bank details where you want your pension to be paid
- Decide if you want more cash lump sum by giving up pension and
- Confirm what other pensions are already in payment.

Once you have returned all this information to the Oxfordshire County Council Pension Fund, they will look to make payment of your benefits as soon as possible.

## Tax on Pension Savings

There are tax controls in place so that if your pension savings exceed set limits, you will be taxed an additional amount. This tax payment is in addition to any tax due under the PAYE system on pension payments.

There are two controls – the annual allowance and the lifetime allowance.

### Annual allowance

This is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. Years run from 1 April to 31 March.

The annual allowance for 2012/2013 is £50,000. The assessment covers any pension benefits you may have in all tax-registered pension arrangements where you have been an

active member of the scheme during the tax year i.e. you have paid contributions during the tax year (or your employer has paid contributions on your behalf).

You would only be subject to an annual allowance tax charge if the value of your pension savings in a tax year increases by more than £50,000.

Most people are not affected but if you retire due to ill health and are awarded tier 1 or tier 2, your pension will increase and can breach the £50,000 annual allowance. However, if the Oxfordshire County Council Pension Fund decides you satisfy the HMRC definition of severe ill health, your LGPS pension will be exempt from the annual allowance assessment.

If the Oxfordshire County Council Pension Fund decides you do not satisfy the HMRC definition of severe ill health, we will send you an Annual Allowance Statement confirming the amount your pension has been increased in your final year in the LGPS.

For more information about Annual Allowance and the tax charges, you can read the leaflet Tax Controls and your LGPS Benefits.

### Lifetime Allowance

The lifetime allowance is the total value of all pension benefits you can have without triggering an excess benefits tax charge. If the value of your pension benefits when you draw them (not including any state retirement pension, state pension credit or any partner's pension you may be entitled to) is more than the lifetime allowance, you will have to pay tax on the excess benefits. **The lifetime allowance covers any pension benefits you may have in all tax-registered pension arrangements – not just the LGPS.**

The lifetime allowance for 2012/13 is £1.5million.

For pensions that start to be drawn on or after 6 April 2006, the capital value of those pension benefits is calculated by multiplying your pension by 20 and adding any lump sum you draw from the pension scheme.

For pensions already in payment before 6 April 2006, the capital value of these is calculated by multiplying the current annual rate, including any pensions increase, by 25. Any lump sum already paid is ignored in the valuation.

When any LGPS benefit, or any other pension arrangement you may have, is put into payment you use up some of your lifetime allowance – so even if your pensions are small and will not be more than the lifetime allowance you should keep a record of any pensions you receive. If you have a pension in payment before 6 April 2006, this will be treated as having used up part of your lifetime allowance.

If your LGPS benefits are more than your lifetime allowance you will have to pay tax on the excess. If excess benefits are paid as a pension the charge will be 25%, with income tax deducted on the on-going pension payments; if the excess benefits are taken as a lump sum they will be taxed once only at 55%.

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

If you are in any doubt about the award of ill health retirement or your entitlement to your LGPS benefits, you should contact your employer.

If you have a problem or question about your LGPS pension benefits or how they are calculated, please contact Pension Services. We 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 reviewed under the scheme's Internal Disputes Resolution Procedure. There are also a number of other regulatory bodies that may be able to assist you.

**Here are the various ways you can ask for help with a pension problem.**

- **Internal Disputes Resolution Procedure**

In the first instance you should write to the person nominated by the body who 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 or the act or omission about which you are complaining (or such longer period as the nominated person considers reasonable). This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The nominated person will consider your complaint and notify you of his or her decision.

If you are dissatisfied with that person's decision, (or their failure to make a decision) you may apply to the Pension Services Manager to have it reconsidered.

The Pension Services Manager can tell you who your employer's / the Fund's administering authority's nominated person is and supply you with a more detailed leaflet on the Internal Disputes Resolution Procedure and relevant time limits together with a form to fill in or you can ask your employer. Contact details can be found at the end of this leaflet.

- **The Pensions Advisory Service (TPAS)**

TPAS is available at any time to assist members and beneficiaries of the scheme in connection with any pension queries they may have or any difficulty which they cannot resolve with the scheme administrator. TPAS can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB

Telephone 0845 601 2923

- **Pensions Ombudsman**

In cases where a complaint or dispute has not been satisfactorily resolved through the Internal Disputes Resolution Procedure or with the help of TPAS, an application can be made to the Pensions Ombudsman within three years of the event that gave rise to the complaint or dispute. 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 (unless the case is taken to the appropriate court on a point of law). Matters where legal proceedings have already started cannot be investigated by the Pensions Ombudsman. The Pensions Ombudsman can be contacted at:

11 Belgrave Road  
London  
SW1V 1RB Telephone 0207 630 2200

- **The Pensions Regulator**

This is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme. You can contact the Pensions Regulator at:

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW Telephone 0870 6063636

## More information

For more information or if you have a problem or question about your LGPS membership or benefits, please contact:

Oxfordshire County Council is the Administering Authority for the Oxfordshire County Council Pension Fund. For more information about your pension with the LGPS contact

<b>Pension Services</b> Oxfordshire County Council Unipart House Garsington Road Oxford OX4 2GQ	<b>General Enquiries</b> <b>Telephone:</b> When your surname starts: A to K = 01865 797 125 L to Z = 01865 797 133 We will pass on your call to the administration team for more detailed enquiries
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**Fax** 01865 783108

We welcome personal visits, but you must make an appointment first.

**E-mail:** [pension.services@oxfordshire.gov.uk](mailto:pension.services@oxfordshire.gov.uk)

**Website:** [www.oxfordshire.gov.uk/pensions](http://www.oxfordshire.gov.uk/pensions)

The national web site for members of the LGPS can be found at [www.lgps.org.uk](http://www.lgps.org.uk)



## Disclaimer

The information in this leaflet applies to individuals who were contributing members of the Local Government Pension Scheme on 1 April 2008 or who have since joined. The leaflet is for employees in England and Wales and was up-to-date at the time of publication in June 2012 and reflects the current provisions of the LGPS. Changes to the scheme may be made by the Government in the future after consultation with interested parties. This leaflet is for general use and cannot cover every personal circumstance nor does it cover specific protected rights that apply to a very limited number of employees. In the event of any dispute over your pension benefits, the appropriate legislation will prevail as this leaflet does not confer any contractual or statutory rights and is provided for information purposes only.