

Redundancy: Maximising your pensionable service

*One of a series of Factsheets and Quicknotes in the Module:
Redundancy*

**Information
Education
Communication**

Active Members

Quicknote– possible changes caused by redundancy

Changing from an Active Member to a Preserved Member in a defined benefit scheme

Pensionable service can be defined as the time period you are credited with as being an active member of your **pension scheme**. Your Scheme Rules will define what period of *your* employment is classed as your pensionable service. It is not necessarily the full period of your employment that you served with your employer, as you may have started working for your employer before you were eligible to join the pension scheme.

In some situations, it could be *more* than your actual term of employment if you have transferred-in benefits from an earlier scheme with previous employer. Equally, your pensionable service may have excluded extended periods of leave, for example.

But your pensionable service is important because it is a key element in calculating your pension: you get a proportion (the accrual rate) of your pensionable salary for each year (or part year?) of pensionable service completed (check with your scheme for their actual formula).

Pensionable service can be counted in a wide range of ways, such as the number of fully completed years, or years and completed months, and some can allow for exact number of days (such as Public Sector schemes). The method varies from scheme to scheme and will affect the amount of benefit credited to you.



Knowing how your pensionable service works is important

How would you like to give your pension scheme up to 11 months worth of contributions for nothing? The scheme gets your money and you get nothing in return. Seems fair? Of course not – but it can happen in certain circumstances. Knowing how pensionable service is ‘earned’ is important to you - especially if your pension scheme counts service in the number of *completed* years you have served.

Check when your scheme’s ‘pensionable service year’ starts: it can be any date it chooses; the date you start employment; the anniversary of your employment start date; a specific calendar day e.g. 1st January, 6th April, 1st September etc.

If you are almost all of the way through a pensionable service year, you may be able to negotiate as part of your redundancy package, an extension to your employment in order that you can gain a full year’s pensionable service.

Failing to investigate this means you could lose all of the contributions you paid in for that last period that you failed to complete:

Example:

Let's look at life long friends, Terry and Jim, who work for two different employers and are both being made redundant. Both are active members in different defined benefit schemes, and will leave their respective schemes on the same day. Each has the same pensionable salary, £39,000, and both have worked exactly the same length of time. They each have 32 years, 361 days pensionable service in their respective schemes.

The Rules of Terry's pension scheme state that pensionable service is 'years and days completed' so every day completed counts towards his pension benefit.

The Rules of Jim's pension scheme state that pensionable service is 'whole years completed'.

On leaving service, their respective pensions will be:

Terry,

Pensionable Service,	32 years 361 days
Final Pensionable Salary,	£39,000
'Accrual rate',	1/60 th

Pension:	$\frac{32.99 \text{ years}}{60} \times £39,000$
	= £21,443 p.a.

Jim,


Pensionable Service,	32 years
Final Pensionable Salary,	£39,000
'Accrual rate',	1/60 th

Pension:	$\frac{32 \text{ years}}{60} \times £39,000$
	= £20,800 p.a.

You can see from this example that if Jim negotiates to work **just another 4 days** he will get **one year's extra pension** (an extra £643 each year). If he doesn't (or can't), then the whole of his contributions for those last 361 days go to the pension scheme – and he gets NOTHING in return.

Note:

The example works the same no matter what amount of service Jim has in his last year (e.g. 10 days, 6 months, 11 months).

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- If your pensionable service is counted in years and days (as most public sector schemes are) this is not an issue that should affect you.
 - If your pensionable service is counted in 'whole years completed' and you're only a few months into the period, it is unlikely you will be able to negotiate a full rounding up of that year's service. It is more likely that the more months you have completed, the better the chance you have of getting your pensionable service 'bumped-up'! How about asking for the amount you have paid in (which will be absorbed) to be returned to you as an addition to your redundancy? If you don't ask you don't get...
 - If your pensionable service is counted in years and months completed then you may be able to negotiate rounding up your pension service to the 'completed month' – every little helps!

Summary

It is important knowing HOW your pension scheme works – and it doesn't have to be difficult to understand.

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This Quicknote forms part of our Module about [Redundancy](#) and should be read alongside the other Factsheets and Quicknotes in the series.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

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