NORTH LANARKSHIRE COUNCIL

REPORT

To: SOCIAL WORK (OPERATIONS AND SERVICES) SUB COMMITTEE	Subject: DEFERRED RETIREMENT PENSION
From: DIRECTOR OF SOCIAL WORK	
Date: 29 JUNE 2005 Ref: GM/JD	

1. Purpose of Report/Introduction

The purpose of this report is to advise Committee of the new rules which apply in relation to Retirement Pensions where the recipient choose to defer their retirement.

2. Background

2.1. Prior to April 2005, people who opted to collect their state retirement pension could qualify for extra pension. Under the former rules when a pension was deferred, it increased in value by one percent for every seven weeks in which the pension was deferred. The maximum time allowed for deferment is five years which produced an increase of 37.5%. However, during the five years in question no pension would have been paid.

2.2. New rules have been introduced which increases the value of deferred pension. From April 2005 the one percent increase applies for every five weeks of deferment as opposed to the former period of seven weeks.

2.3. An example of the old rules would be: someone who was due retirement pension of say £82.05 per week decides to defer for a period of 42 weeks would gain a 6% increase bringing their pension up to £86.97 per week. However, to make up the pension which would have been lost over the 42 weeks, the person concerned would have to be certain their pension would remain in payment for a further 13.5 years.

2.4. The application of the one percent increase for every five weeks would produce an increased pension of £88.94 per week which is almost a £2 per week increased. The time taken to make up the loss would be 9.5 years.

2.5. Under the new rules, anyone who defers their pension can opt to take a lump sum instead of a weekly increase. This will be calculated on the amount of pension not claimed plus compound interest (based on 2% above the Bank of England base rate) as long as the deferment lasts for at least 52 weeks.

2.6. Should you defer for less than a year and choose the lump sum instead of an increase, all you get back is the unclaimed pension with no interest added.

2.7. Any lump sum which is paid will be taxable, but will not count as capital when calculating means tested benefits. It should be noted that anyone who is likely to be claiming means tested benefits would need expert advice before they decide to defer, as the higher the pension you eventually receive, the more it affects means tested benefits such as Pension Credit, Housing Benefit or Council Tax rebate.

2.8. A person who defers a pension of £100 per week for a period of five years will get a lump sum offer of £30,768 (assuming 6.75% interest rate) subject to tax or an extra £2,704 of taxable pension each year. The loss of the weekly pension would be recovered over an 11-year period.

3. **Financial/Personnel/Legal/Policy Implications**

3.1. There are no policy implications for the Council with the new rules for deferred pensions.

4. **Recommendation**

4.1. Committee is requested to: -

i) note the contents of the report.

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Director of Social Work
21 April 2005

For further information on this report please contact George McInally, Manager Social Work Strategy on telephone 01698 332555