



THE UNIVERSITY *of* EDINBURGH

# Flexible Retirement Guide

The University of Edinburgh Staff  
Benefits Scheme

August 2017



This guide aims to provide an overview of the Flexible Retirement option available to you as a member of the University of Edinburgh Staff Benefits Scheme (the "Scheme"). This information should be reviewed in conjunction with the Scheme guide, which outlines the range of options members have for taking their Scheme benefits at retirement.

# What is Flexible Retirement?

**Flexible Retirement provides you with flexibility over the age you retire, the length of time you take to retire and the nature and intensity of work you undertake in the lead up to final retirement.**

This means that you don't have to retire or stop working before taking your pension benefits and may help you ease into retirement.

## How does it work?

Flexible Retirement gives you the option to continue working with a reduced number of hours and, provided the University agrees, you can draw some or all of the Scheme benefits you have built up.

As part of Flexible Retirement, provided you meet certain criteria, you can take two phased retirements before final retirement. Each of these phases will be accompanied by a reduction to your working hours (and salary) and you can take a minimum of 20% of your Scheme benefits. On the third occasion you would have to retire and would begin to receive the remainder of your Scheme benefits.

## Who is eligible?

You can take advantage of Flexible Retirement as long as you:

- Are an active member of the Scheme;
- Are age 55 or over;
- Have at least 2 years' qualifying service;
- Reduce your working hours and salary by at least 20% (at each phase); and
- Have the University's consent.

Please note that it is necessary to give the University at least two months' notice before the date you intend to begin Flexible Retirement.

## How does Flexible Retirement affect my Scheme benefits?

**During Flexible Retirement you will continue to contribute to the Scheme (on your part time earnings) and build up pensionable benefits which will increase the amount of Scheme benefits you have yet to take. How your Scheme benefits are calculated depends on when they were built up (see the Scheme Guide for more information).**

It is also important to note that if you take some of your Scheme benefits before your normal retirement date (see the Scheme Guide for details of this), some or all of the benefits you receive will be subject to an Early Retirement Reduction.



## Calculating your Scheme Flexible Retirement benefits

**Your Scheme benefits at retirement are calculated using a formula. The formula has changed over the years so your pension may be calculated in different ways based on how long you have been a member of the Scheme. There are three periods that have different rules for calculating your pension and these are explained in the Scheme guide.**

In broad terms, the formula involves members' Scheme benefits being calculated based on:

- Final Salary benefits for service up to 31 December 2010;
- Career average revalued earnings (CARE) for service built up from 1 January 2011, meaning that benefits build up year on year based on a proportion of pensionable pay for each year, as increased in order to help keep pace with inflation; and
- CARE benefits for service built up from 1 January 2017 plus cash sum payable on retirement in addition to the pension.

# An example of how Flexible Retirement works

## First phase – at age 60

John's current Pensionable Salary is £18,000. He meets all the criteria for Flexible Retirement and decides to:

- Reduce his working hours and salary by 20%; and
- Take 50% of his existing Scheme benefits.

He has 21 years of Final Salary Benefits and 4.5 years of CARE benefits.

### Final Salary benefits calculation

#### Total accumulated Final Salary benefits:

Number of years' service (21) x accrual factor (1/60) x Pensionable Salary (£18,000) = £6,300

#### Early Retirement Reduction (ERR):

As John joined the Scheme before 1 April 1994 he is entitled to take his Final Salary benefits without an ERR.

#### Benefits from first phase:

Total accumulated Final Salary benefits (£6,300) x phase proportion (50%) = £3,150

### CARE benefits calculation

#### Total accumulated CARE benefits: £1,275

#### Early Retirement Reduction (ERR):

The ERR for taking benefits 5 years early is 20%. CARE benefits (£1,275) – ERR (20%) = £1,020

#### Benefits from first phase:

CARE benefits available after ERR (£1,020) x phase proportion (50%) = £510

## Second phase - at age 63

John continues to work for the University for a further three years but on a part-time basis of 80% of full-time hours. His full-time equivalent salary is now £20,000. His actual salary is £16,000 - based on his part-time service of 80%. He now wishes to:

- Take a second phase of 30% of his remaining benefits; and
- Reduce his part-time basis to 40% of full-time hours.

### Final Salary benefits calculation

#### Remaining Final Salary benefits:

Number of years' service (21) x accrual factor (1/60) x full-time Pensionable Salary (£20,000) x 1st phase (50%) = £3,500

#### Early Retirement Reduction (ERR):

John's Final Salary benefits are not subject to an ERR.

#### Benefits from second phase:

Remaining Final Salary Benefits (£3,500) x phase proportion (30%) = £1,050

### CARE benefits calculation

#### Remaining CARE benefits:

- CARE benefits up until 1st phase (£1,275) – 1st phase (50%) + annual inflation increases (10%) = £701
- CARE benefits built up between 1st and 2nd phase (£750)

#### Early Retirement Reduction (ERR):

The ERR for taking benefits 2 years early is 8%.

Remaining CARE benefits (£701 + £750) – ERR (8%) = £1,335

#### Benefits from second phase:

Remaining CARE benefits available after ERR (£1,335) x phase proportion (30%) = £400

## Final phase – retirement age 65

John works on for a further two years and decides to finally retire on his 65th birthday and receive the balance of his benefits. His full-time equivalent salary is now £22,000. His actual salary is £8,800 based on his part-time service of 40%.

### Final Salary benefits calculation

#### Remaining Final Salary benefits:

Number of years' service (21) x accrual factor (1/60) x full-time Pensionable Salary (£22,000) - 1st phase (50%) and 2nd phase (30%) = £2,695

#### Early Retirement Reduction (ERR):

As John is now 65 there is no ERR.

### CARE benefits calculation

#### Remaining CARE benefits:

- CARE benefits up until 1st phase (£1,275) – 1st phase (50%) and 2nd phase (30%) + annual inflation increases (16 = £518)
- CARE benefits between 1st and 2nd phase (£750) – 2nd phase (30%) + annual inflation increases (6%) = £557
- CARE benefits between 2nd and final phase = £275

#### Early Retirement Factor (ERR):

As John is now 65 there is no ERR.

**Total CARE benefits at retirement = £1,350**

The pension and cash benefit built up from 1 January 2017 can also be included in Flexible Retirement.

# Further information

## Additional Voluntary Contributions

You may have also purchased Defined Contribution Additional Voluntary Contributions (AVCs) through the Scheme. These are not eligible for Flexible Retirement and you would need to draw the entire value of your AVC account during one phase of Flexible Retirement.

For more information about any Defined Benefit AVCs you have purchased contact the Scheme Administrator using the details on this page.

## Tax

The Scheme provides you with a tax efficient way to save for your future. However, it is important you are aware that the Government imposes limits on how much you can save with a pension scheme without paying an additional tax charge.

There are two limits:

- The Annual Allowance restricts how much you can save each year without incurring an additional tax charge.
- The Lifetime Allowance restricts how much you can save over your entire life without incurring an additional tax charge.

Both limits apply to savings you may have across all UK pension schemes. Defined Benefit (“DB”) pension schemes, like the Scheme, are included, as are Defined Contribution (“DC”) pension schemes, such as the Scheme’s AVC arrangement with Standard Life. If you think that you may have exceeded either of the allowances, please contact the Scheme Administrator.

## Tax-free cash lump sums

When you retire, you will be able to take some of your pension as a one off tax-free cash lump sum payment. There are two periods that have separate rules for how much of your pension you can take as a cash lump sum – please refer to the Scheme guide for more information.

Where your pension from the Scheme is very small, it may be possible in some circumstances to ‘fully commute’ this benefit. In other words, you could receive a one-off lump sum payment rather than the small pension income. You will be advised if this is an option for you.

# What next?

There may be other ways of taking your pension benefits which suit you and your personal circumstances better than Flexible Retirement. Neither the Trustee nor the University can provide you with advice or pay for any advice you receive, and nothing in this guide should be construed as financial advice.

If you would like advice about your retirement savings we recommend that you speak to an FCA regulated financial adviser. You will need to pay for this advice and should check the charges before appointing an adviser. You can find an adviser in your local area at [www.unbiased.co.uk](http://www.unbiased.co.uk).

For free help and guidance for members and beneficiaries of occupational and personal pension schemes, visit the Pensions Advisory Service at [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk).

For general information about the Scheme, or if you have a query about anything contained in this booklet, you can contact the Scheme Administrator at:

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