

# Proposed changes to late retirement factors

1<sup>st</sup> March 2019

The revised LRF guidance includes: a new format of updated factors; and a new method for calculating uplifts. The impact of these changes is set out below.

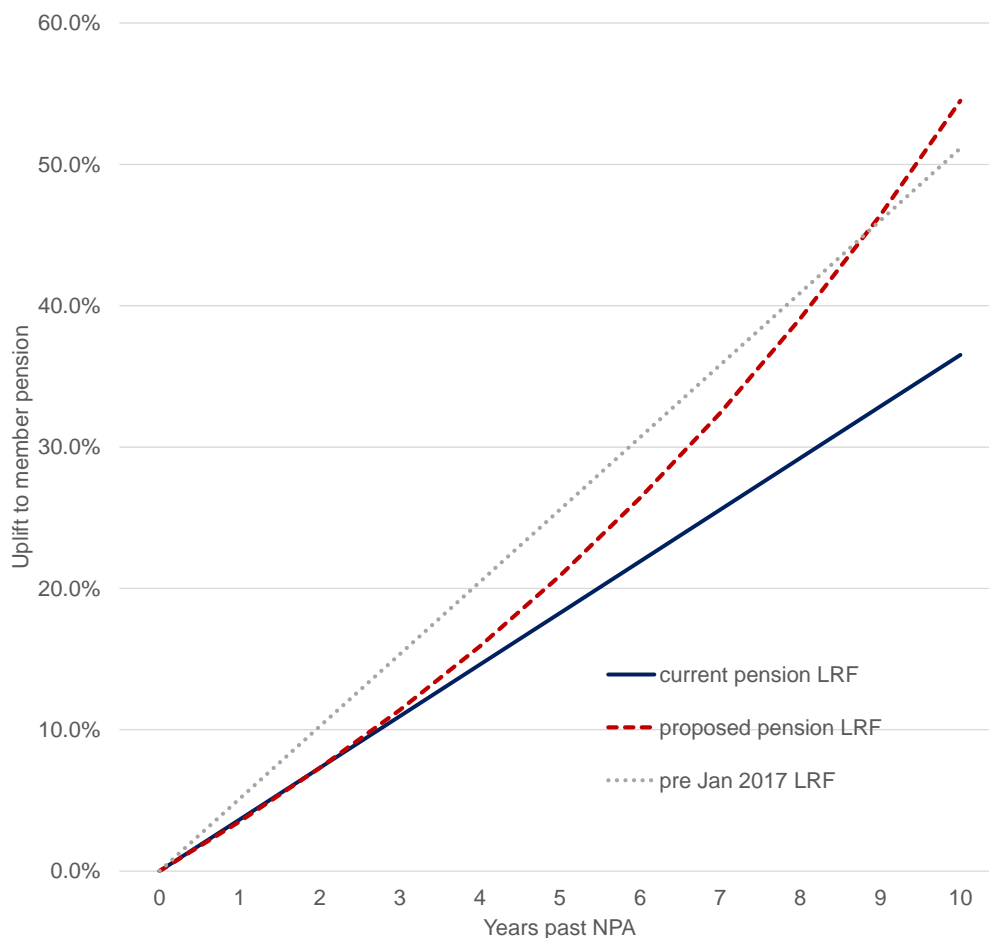
## 1) Impact of new versus old factor values and format:

- The general level of the pension uplift is broadly very similar to the current factors, but the change in method of deriving the factors results in different changes for different periods of service beyond NPA.
  - The pension uplift for members retiring up to 2 years' late has fallen marginally.
  - The pension uplift for members retiring more than 2 years' late has increased and this increase is larger the longer the member works past NPA.
- The changes in discount rate and long term earnings growth assumptions combine differently for the retirement grant uplift. It falls for all periods of service beyond NPA.

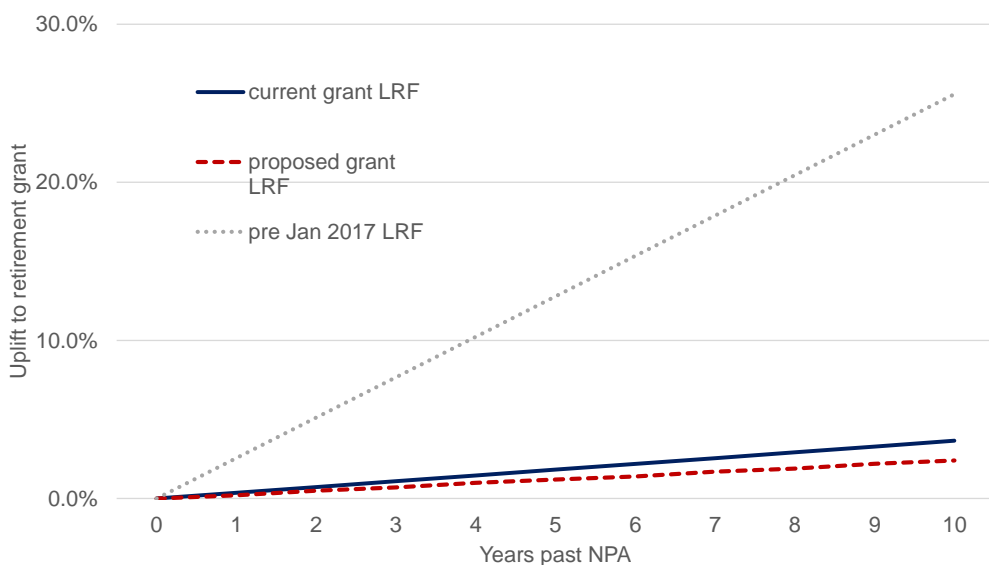
These effects are shown in the table and charts 1 and 2 below.

Years Late	Pension Increase (%)			Retirement Grant Increase (%)		
	2014 Factors (0.014% per day)	Current factors (0.014% per day)	Proposed factors	2014 Factors (0.007% per day)	Current factors (0.001% per day)	Proposed factors
0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
1	5.1%	3.7%	3.5%	2.6%	0.4%	0.2%
2	10.2%	7.3%	7.3%	5.1%	0.7%	0.5%
3	15.3%	11.0%	11.4%	7.7%	1.1%	0.7%
4	20.5%	14.6%	15.9%	10.2%	1.5%	1.0%
5	25.6%	18.3%	20.9%	12.8%	1.8%	1.2%
6	30.7%	21.9%	26.4%	15.3%	2.2%	1.4%
7	35.8%	25.6%	32.4%	17.9%	2.6%	1.7%
8	40.9%	29.2%	39.1%	20.5%	2.9%	1.9%
9	46.0%	32.9%	46.4%	23.0%	3.3%	2.2%
10	51.1%	36.5%	54.5%	25.6%	3.7%	2.4%

**Chart 1: Uplift to pension under current and proposed late retirement factors**



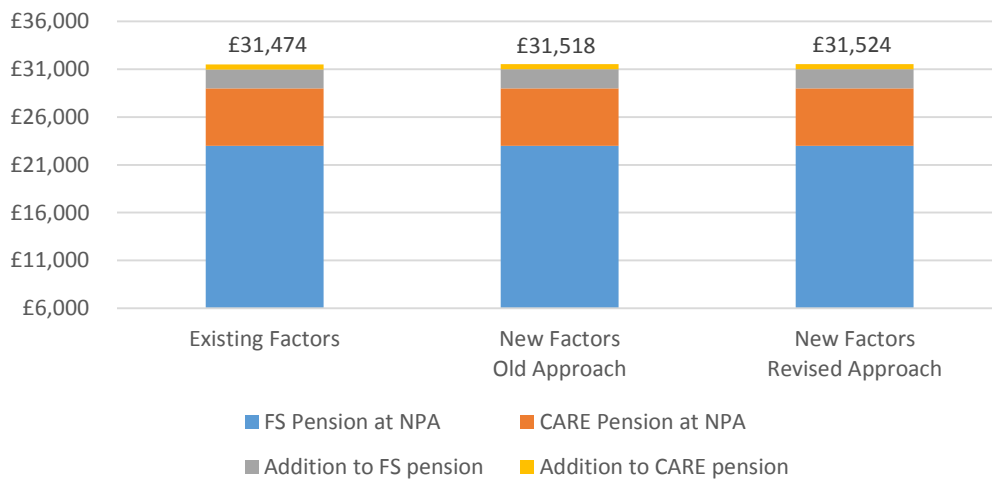
**Chart 2: Uplift to retirement grant under current and proposed late retirement factors**



2) The new method aims to remove the “cliff edge” in uplifts when factors are updated:

- The new method means that these changes will only gradually be reflected in late retirement uplifts awarded over the next few years, as periods of service beyond NPA increasingly fall after the implementation date of the factors.
- Whether members will receive higher pension uplifts under the revised approach or the old approach using the new factors depends on how the old and new factors compare for the time elapsed since they reached NPA.
  - Members who have reached NPA within 2 years of the introduction of this revised approach would see a larger uplift than were the new table of factors alone be used to calculate uplifts (as the new uplifts are lower up to 2 years beyond NPA). This group corresponds to over half of all late retirements 2013-16. Chart 3 below illustrates this effect.
  - However Members who reached NPA more than 2 years prior to the introduction of the new factors would see lower increases than under the new factors. Chart 4 below illustrates this effect.
- Retirement grants would be higher under the new approach and factors versus the old approach using the new factors for all members who reached NPA before the date of implementation.

**Chart 3: Draft guidance example 1 member under different approaches**

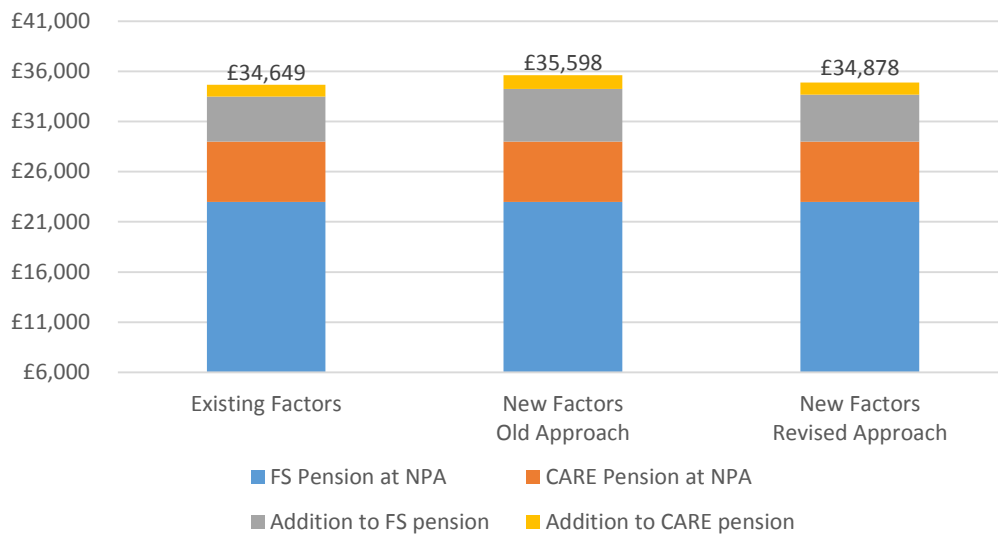


Example 1 considers a male, whose 65th birthday fell on 30 May 2017 and who retires directly from active service on 30 September 2019. His NPA for late retirement increases is 65 for both pre and post 2014 service. His period worked after NPA includes the date at which new factors came into force on 1 April 2019. It is assumed that the statutory underpin has no impact on the member’s benefits.

The member has several tranches of service as follows:

Pre-2008 CRA 62:	Pension	£13,000.00 pa
	Retirement Grant	£39,000.00
Post-2008 Pre-2014 NPA 65:	Pension	£10,000.00 pa
Post-2014 NPA 65:	Pension	£6,000.00 pa

**Chart 4: Draft guidance example 1 member (but 3 years older)**



This revised example considers a male, whose 65th birthday fell on 30 May **2014** and who retires directly from active service on 30 September 2019. His NPA for late retirement increases is 65 for both pre and post 2014 service. His period worked after NPA includes the date at which new factors came into force on 1 April 2019. It is assumed that the statutory underpin has no impact on the member's benefits.

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