



Government  
Actuary's  
Department

# **The Local Government Pension Scheme (England and Wales)**

**Benefits for exits subject to exit payment cap  
Factors and guidance**

Date: XX September 2020 - DRAFT





## Contents

<b>1</b>	<b>Introduction</b>	<b>1</b>
<b>2</b>	<b>Background and additional details</b>	<b>4</b>
<b>3</b>	<b>Overview of process</b>	<b>7</b>
<b>4</b>	<b>Calculation of pension strain</b>	<b>8</b>
<b>5</b>	<b>Benefits on redundancy</b>	<b>11</b>
<b>6</b>	<b>Examples</b>	<b>13</b>
	<b>Appendix A: Assumptions underlying factors</b>	<b>29</b>
	<b>Appendix B: Factors</b>	<b>30</b>
	<b>Appendix C: Legislative references</b>	<b>32</b>
	<b>Appendix D: Limitations</b>	<b>33</b>

DRAFT

# 1 Introduction

- 1.1 The Secretary of State for Housing, Communities and Local Government is required under the Local Government Pension Scheme Regulations 2013 ('the 2013 Regulations') (SI 2013/2356), to issue actuarial guidance on the benefits for all exits subject to the restriction of public sector exit payment regulations 2019.
- 1.2 The purpose of this note is to provide the Secretary of State with factors to be used to calculate the pension strain for all exits subject to the exit payment cap under [regs ref] and accompanying guidance to demonstrate how these factors should be applied.
- 1.3 This guidance note should be used in determining the employer cost of the strain on redundancy for funds subject to the restriction of public sector exit payment regulations 2019. Discretion applies for employers that are currently not in scope of the restriction of public sector exit cap regulations 2019.
- 1.4 This guidance note applies to the calculation of benefits on exits that are subject to the exit payment cap under [regs ref] including redundancy to members aged over 55. This guidance does not apply to exits not in scope of the exit payment restriction under [regs ref]
- 1.5 Discretion applies for exits that are currently not in scope of the restriction of public sector exit cap regulations 2019 under [regs ref].
- 1.6 Relevant guidance notes:
- This guidance note should be read in conjunction with the *LGPS England and Wales Early Payment of Pension guidance*.
  - The guidance note refers to the use of Pensioner Cash Equivalent factors which should be taken from the latest consolidated factors workbook as at the date of this note. Further details and relevant factors are provided in the *LGPS England and Wales Pension Sharing on Divorce guidance*
- 1.7 The factors contained in this note are reproduced from the latest consolidated factors workbook as at the date of this note.
- 1.8 The remainder of this introduction contains:
- details of the implementation and future review of this guidance
  - statements about the use of this note and third-party reliance
- 1.9 In the remainder of this note:
- The **second** section describes an overview of the process for calculating member benefits on grounds on redundancy
  - The **third** section describes calculation of the pension strain
  - The **fourth** section describes member to options for benefits following ceasing on employment on grounds of redundancy
  - The **fifth** section sets out a flow diagram of the process for determining member benefits on redundancy

- The **sixth** section sets out our examples
- Appendix **A** contains the principal assumptions underlying the factors provided in this guidance document
- Appendix **B** contains the tables of factors with notes
- Appendix **C** sets out legislative references
- Appendix **D** sets out some important limitations

### **Implementation and review**

- 1.10 The Secretary of State is required to consult with GAD before issuing actuarial guidance under the 2013 Regulations [Regulation 2(3) of the 2013 Regulations].
- 1.11 As part of this consultation the Ministry of Housing, Communities and Local Government (MHCLG) has asked GAD to recommend actuarial guidance in respect of the regulations detailed in **Appendix C**. This document forms GAD's recommendation for the actuarial guidance required by these regulations.
- 1.12 The factors provided in this Note have been prepared in light of our advice to the Ministry of Housing, Communities and Local Government dated 30 October 2018 and its instructions following that advice.
- 1.13 This note has effect only when this guidance is issued by the Secretary of State in accordance with Regulation 2(3) of the 2013 Regulations, and is subject to the implementation instructions provided at that time.
- 1.14 The factors contained in this guidance will apply from **XXXXXX**. This implementation date has been determined by MHCLG. New enhanced early retirement factors are set out in Appendix B table 2 have been provided and should be used in the calculation of pension strain for pre 2014 final salary benefits (excluding any additional pension purchased by the employee under regulation 16) only. Early retirement factors set out in Appendix B table 1 apply to post 2014 CARE benefits and are consistent with the *LGPS England and Wales Early Payment of Pension* guidance and corresponding factors provided in the latest consolidated factors workbook as at the date of this note
- 1.15 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with retirement calculations for the Local Government Pension Scheme (England and Wales). Any questions concerning the application of the guidance should, in the first instance, be referred to MHCLG.
- 1.16 The factors contained in this guidance will be subject to review periodically. This will depend on external circumstances, for example whenever there is a change in the SCAPE basis; when changes in the actuarial assumptions adopted for other scheme factors take place; or following each future actuarial valuation where mortality and other relevant experience is reviewed or if other credible and material information comes to light.

### **Third party reliance**

- 1.17 This guidance has been prepared for the use of MHCLG and the scheme administrators for the purposes of demonstrating the application of the factors covered by this guidance only. This guidance may be published on MHCLG and the scheme administrator's website but must not otherwise be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.18 When issued by the Secretary of State in accordance with paragraph 1.8 above, this note should be used as the actuarial guidance required under the regulations cited.
- 1.19 Other than MHCLG and the scheme administrators, no person or third party is entitled to place any reliance on the contents of this guidance, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this guidance, whether or not GAD has agreed to the disclosure of its advice to the third party.

DRAFT

## 2 Background and additional details

- 2.1 Under the restriction of public sector exit payment regulations 2019, some benefits on exit are subject to an exit payment cap of £95,000. This includes members ceasing employment on grounds of redundancy, who have the right to a number of exit payments as set out in [XXXX].
- 2.2 In particular, members over age 55 ceasing employment on grounds of redundancy have the right to an immediate pension, which is not reduced to reflect early payment; benefits on exit are subject to an exit payment cap under [regs ref]. If the member elects to receive immediate unreduced benefits, the member is not entitled to additional redundancy cash payments. The member can elect to have statutory redundancy pay in exchange for a partial reduction to their immediate benefits. Immediate payment of pension benefits and redundancy payments are the most common and most significant exit payments. This paper only focuses these exit payments.
- 2.3 Payment of immediate benefits, which are not reduced (or are partially reduced) to reflect early payment involves an additional cost or “pension strain” that is generally paid into the fund by the employer. The pension strain is subject to limits and this guidance note covers the process of calculating the pension strain and member benefits on exit for all exits subject to the exit payment cap in light of the implementation of the £95,000 exit payment cap and in line with regulations [XXXX].
- 2.4 The benefits on exit should be calculated following member instruction regarding preferred option. Member preferences are likely to be driven by individual circumstances and preferences.
- 2.5 Members who exit the scheme and are subject to the restriction of public sector exit payment regulations 2019 and have attained the age of age 55 and **do not** breach the £95,000 exit payment cap have the option to take immediate payment of unreduced scheme benefits including any transferred in benefits (however, additional pensions purchased by the member under regulation 16 would still need to be reduced using standard early retirement factors to reflect early payment). The member is also entitled to have their statutory redundancy pay as cash in exchange for a partial reduction to immediate benefits. If the member’s statutory redundancy pay is less than the pension strain then the excess can be paid as a cash benefit, up to the £95,000 cap. If the member’s discretionary severance payment would have had a higher value than the strain cost (net of statutory redundancy pay) the member will also be entitled to a cash payment equal to the difference between the strain cost (net of statutory redundancy pay) and discretionary severance payment. If the member’s discretionary severance pay is less than the value of the strain cost, no further payment is made. Alternatively, the member can elect to receive normal deferred benefits or immediate benefits reduced to reflect early retirement plus statutory redundancy pay plus any discretionary severance pay.

- 2.6 Such members who **do** breach the £95,000 exit payment cap will ordinarily receive a lower immediate benefit, scaled down so that the value of the pension strain equals £95,000. The member has the option to make a cash payment from their own resources in order to obtain a lesser reduction to immediate scheme benefits. This cash payment can be any amount up to the size of breach above £95,000 exit payment cap. In turn the member will receive immediate payment of benefits unreduced or partially reduced depending on the amount of cash payment made. Alternatively, the member can elect to receive deferred benefits or immediate benefits reduced to reflect early retirement plus statutory redundancy pay plus any discretionary severance pay, subject to the overall £95,000 exit payment cap.
- 2.7 This guidance note reflects cases where members elect to receive immediate pension benefits on exit, in exchange for their statutory redundancy pay. It also allows for cases where members choose to have their statutory redundancy pay as cash in exchange for a partial reduction to immediate benefits (option 1 alternative). Benefits on exit are determined based on member preference at point of exit.
- 2.8 The enhanced early retirement factors set out in Appendix B table 2 should be used in the calculation of the pension strain only and apply to pre-2014 final salary benefits (excluding additional pension purchased by the employee under regulation 16) and should not be used for any other purpose. The early retirement factors set out in Appendix B table 1 apply to post 2014 CARE benefits and are consistent with the *LGPS England and Wales Early Payment of Pension* guidance and corresponding factors provided in the latest consolidated factors workbook as at the date of this note.
- 2.9 Where two or more relevant public sector exits occur for the same person within 28 days, the total cost of the exit payments should not exceed the £95,000 exit payment cap.
- 2.10 This guidance does not cover the calculation of statutory redundancy pay (SRP) or discretionary severance pay (DSP).
- 2.11 This note only considers pension strain and redundancy payments. These are the most significant and most common. Details of the benefits that count towards the cap are set out in [reg ref].
- 2.12 Any additional pension purchased by the employee under regulation 16 should be reduced in line with the *LGPS England and Wales Early Payment of Pension* guidance and corresponding factors, irrespective of whether the member breaches the £95,000 cap. Please refer to GAD guidance note *LGPS England and Wales Early Payment of Pension*.
- 2.13 The pension strain should include any voluntary payments made by an employer who chooses to grant additional pension under regulation 31.
- 2.14 This guidance note must be used in calculating the employer cost of the strain on exit for exits covered by the exit payment cap under [regs ref] for funds subject to the restriction of public sector exit payment regulations 2019. Discretion applies for employers that are currently not in scope of the restriction of public sector exit cap regulations 2019.
- 2.15 The pension strain should be determined based on retirement benefits before commutation. No re-calculation is required if the member subsequently exercises the option to exchange pension for lump sum.

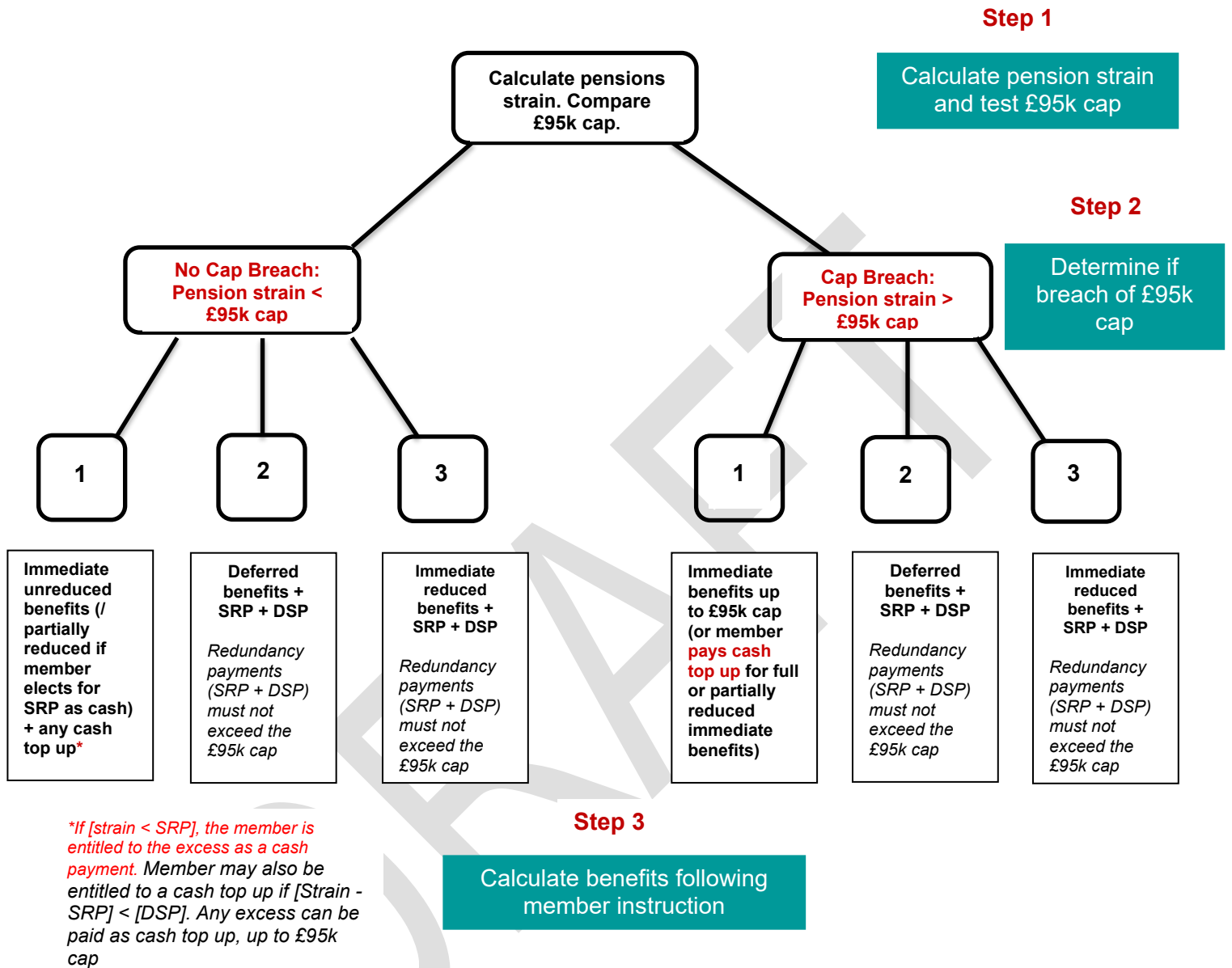
- 2.16 If a member chooses to have their statutory redundancy pay as cash in exchange for partially reduced benefits, and in cases where a proportionate reduction applied to their benefits following a breach of the exit payment cap, the reduction should be proportioned equally across each tranche of benefits.

DRAFT



### 3 Overview of process

#### Benefits on redundancy for members over age 55



#### Summary:

##### Step 1: Calculate Pension Strain cost

Details are set out in section 4 below.

##### Step 2: Determine if breach of £95,000 exit payment cap

- If pension strain is LESS than £95,000, there is no breach of £95,000 cap.
- If pension strain is GREATER than £95,000, this results in a BREACH of £95,000 cap.

##### Step 3: Determine member options

Details of 3 options are set out in section 5. below

## 4 Calculation of pension strain

- 4.1 In accordance with regulations [regulation reference] exit payments are restricted to a maximum of £95,000. This section sets out the process for calculating the value of pension strain under regulations [regulation reference] below. This should be assessed against the £95,000 exit payment cap.
- 4.2 The pension strain costs, where benefits become payable to a member under [regulations reference] are determined by applying the appropriate factors to the accrued benefit entitlement(s) at the date of retirement using the formula below and factors in Appendix B.
- 4.3 This note only considers pension strain and redundancy payments. These are the most significant and most exit payments made on redundancy. Details of all exit payments that count towards the cap are set out in [reg ref].

### Step 1: Calculate Pension Strain cost

- 4.4 **First**, calculate the immediate unreduced benefits entitled to the member on exit, as if no cap was in place.
- 4.5 **Next**, calculate the immediate reduced benefits.
- Final salary benefits including any transferred in benefits (excluding additional pension purchased by the member) should be reduced using the enhanced early retirement on redundancy factors set out in Table 2.
  - CARE benefits including any transferred in benefits should be reduced using the early retirement factors set out in Table 1.
  - The pension strain calculation should also include any additional pension awarded by the employer under regulation 31.
  - Any additional pension purchased by the employee under regulation 16 should be excluded from the strain calculation, as it still subject to early retirement reduction.
  - Factors should be based on the member's age at exit.
- 4.6 **Then**, calculate the value of the pension benefits using the Pensioner Cash Equivalent Transfer Value (PCETV) on divorce factors in force and provided in the latest consolidated factors workbook at the date of this note
- 4.7 **Note**, where the member's age date of exit is not an integer, the factor should be interpolated.
- 4.8 Apply relevant PCETV valuation factor to the difference between pension benefits calculated. Add the cash cost of providing unreduced pre-2008 retirement grant early.
- 4.9 Further details of calculation process set out in 4.1.

4.10 Calculation of pension strain as follows:

**Pension strain = Cost of immediate unreduced pension + cost of immediate unreduced of lump sum**

**The cost of immediate unreduced pension =**

Unreduced pension:  $P_{pre\ 2014} + P_{post\ 2014}$

Reduced pension:  $[P_{pre\ 2014} \times (1 - ERF_{table\ 2})] + [P_{post\ 2014} \times (1 - ERF_{table\ 1})]$

= [Unreduced pension – Reduced pension] x PCETV factor

**The cost of early payment of lump sum =**

Unreduced retirement grant = Pre 2008 retirement grant

Reduced retirement grant = [Pre 2008 retirement grant x (1 – Retirement Grant Reduction)]

= Unreduced retirement grant – Reduced retirement grant

**Pension strain = cost of immediate unreduced pension + cost of early payment lump sum**

If pension strain + any additional benefits < £95,000 there is no breach of cap. If pension strain > £95,000 the cap is breached<sup>1</sup>.

4.11 Where:

$P_{pre\ 2014}$	The member's earned pre 2014 benefits at exit
$P_{post\ 2014}$	The member's earned post 2014 benefits at exit
$ERF_{table\ 1}$	Factor for pre-2014 pension (for calculating the strain cost) from table 1 (Table XXX in consolidated factors workbook)
$ERF_{table\ 2}$	Factor for pre-2014 pension (for calculating the strain cost) from table 2 (Table XXX in consolidated factors workbook)
$PCETV\ factor_{member}$	Factor for valuing strain based on PCETV factors for member's pension only (Table XXX in consolidated factor workbook)
Retirement Grant Reduction	Factor for retirement grant reduction (for calculating the strain cost) from table 2 (Table XXX in consolidated factors workbook)

<sup>1</sup> This note only considers pension strain and redundancy payments. Details of the benefits that count towards the cap are set out in [reg ref]. In the rest of this document, pension strain includes these additional benefits.

**Points to note in using the factors:**

- 4.12 Immediate unreduced pensions and lump sum refers to the unreduced amounts of benefits which would be payable on exit if the exit payment did not apply. Therefore:
- No actuarial adjustment is to be applied to normal scheme benefits.
  - Any transferred in benefits awarded to the members are an earned pension credit based on normal pension age and are not subject to any actuarial adjustment on redundancy. Therefore any transferred in benefits should be included in the strain calculation.
  - The pension strain calculation should also include any additional pension awarded by the employer under regulation 31.
  - Any additional pension purchased by the employee under regulation 16 still requires early retirement adjustment and should be excluded from pension strain calculation. See GAD guidance note *LGPS England and Wales Early Payment of Pension guidance for further details*
- 4.13 The relevant early retirement factors to be applied depend on whether they relate to pre-2014 benefits or post-2014 benefits and the period of time to retirement.
- 4.14 The PCETV factor refers to the Pensioner Cash Equivalent Transfer Value (PCETV) on divorce factors from the latest consolidated factors workbook as at the date of this note. The relevant PCETV factor refers to the factor applied to member's pension only and depends on the member's age at date of retirement.
- 4.15 Where the member's age at exit is not an integer, the early retirement factors **and** PCETV factor should be interpolated to reflect member's age at exit. See examples for details.

## 5 Benefits on exit

- 5.1 The benefits on exit should be calculated following member instruction regarding preferred option. Member preferences are likely to be driven by individual circumstances and preferences.

### Member options for benefits on redundancy

- 5.2 Member options under following breach/ no breach of pension strain<sup>2</sup>

	No breach	Breach
	Pension strain is less than (<) £95,000	Pension strain is greater than (>) £95,000
Option 1*	<p><b>Immediate unreduced benefits.</b></p> <p>If the member's pension strain is less than the statutory redundancy pay, the member is entitled to a cash payment, up to the amount of statutory redundancy pay. This cash top up is equal to [SRP – strain].</p> <p>If the member's discretionary severance payment would have been more than the value of the strain cost (net of statutory redundancy pay), then the excess can be paid as a further cash benefit up to the £95,000 exit payment cap. This cash top up is equal to <math>\text{Max}[[\text{DSP} - (\text{strain} - \text{SRP}), 0]</math>.</p>	<p><b>Immediate benefits calculated such that the pension strain equals £95,000.</b></p> <p>Member can make an additional cash payment out of their own resources of any amount up to the size of breach of £95,000 cap to receive immediate unreduced benefits.</p>
Option 2†	Deferred benefits + statutory redundancy pay + discretionary severance pay	Deferred benefits + statutory redundancy pay + discretionary severance pay
Option 3 <sup>3</sup> †	Immediate reduced benefits+ statutory redundancy pay + discretionary severance pay	Immediate reduced pension + statutory redundancy pay + discretionary severance pay

\*Under option 1, member can also elect to have statutory redundancy pay in cash in exchange for a partial reduction to immediate benefits. Please refer to example 1 and 7 for further details.

† For members choosing option 2 or 3, the sum of statutory redundancy pay plus discretionary severance pay is subject to the £95,000 cap

<sup>2</sup> This note only considers pension strain and redundancy payments. Details of the benefits that count towards the cap are set out in [reg ref]

<sup>3</sup> Calculated in accordance with standard factors, Appendix B, table 1.

**Points to note in calculation of strain cost:**

- 5.3 Under option 3, where members elect for immediate reduced benefits plus redundancy cash payments, the immediate reduced benefits should be calculated with reference *LGPS England and Wales Early Payment of Pension* guidance and corresponding the factors provided in the consolidated factor workbook as at the date of this note.
- 5.4 This guidance does not cover the calculation of statutory redundancy pay (SRP) or discretionary severance pay (DSP).
- 5.5 For cases where tapered reduction applies, the taper reduction factors should be calculated with reference to approach outlined in the *LGPS England and Wales Early Payment of Pension* guidance.
- 5.6 The pension strain should be determined based on retirement benefits before commutation. No re-calculation is required if the member subsequently exercises the option to exchange pension for lump sum.
- 5.7 If a member chooses to have their statutory redundancy pay as cash in exchange for partially reduced benefits, and in cases were a proportionate reduction applied to their benefits following a breach of the exit payment cap, the reduction should be proportioned equally across each tranche of benefits.

DRAFT

## 6 Examples

We have covered the options available to members on redundancy as follows:

- **Example 1:** Member aged 56 years and 325 days who does not breach the cap and is not entitled to a cash top up. The member opts for option 1 or option 1 (alternative)
- **Example 2:** Same member as in example 1, but member opts for option 2.
- **Example 3:** Same member as in example 1, but member opts for option 3.
  
- **Example 4:** Member aged 56 years and 325 days who does breach the cap who opts for option 1. We have illustrated the impact of the member making:
  - *A cash payment out of their own resources up to amount of the breach*
  - *A cash payment out of their own resources less than amount of the breach*
  - *No cash payment out of their own resources*
- **Example 5:** Same member as in example 4, but member opts for option 2.
- **Example 6:** Same member as in example 4, but member opts for option 3.
  
- **Example 7:** Member aged 64 years who does not breach the cap and is entitled to a cash top up (as discretionary severance pay is more than pension strain (net of SRP)). The member opts for option 1 or option 1 (alternative)
- **Example 8:** Same member as in example 7, but member opts for option 2.
- **Example 9:** Same member as in example 7, but member opts for option 3.

## Example 1

6.1 Member who is made redundant at age 56 years 325 days, does not breach the cost cap and chooses immediate unreduced (or partially reduced) benefits at retirement:

- Date of Birth: 01 April 1963
- Date of commencement of service: 1 May 2007
- Date of redundancy: 20 Feb 2020
- Salary at redundancy: £57,000
- Age at redundancy: 56.89
- Statutory redundancy pay: £9,684
- Discretionary severance pay: £19,912

6.2 Assume that the member benefits before reduction are:

	Unreduced Benefits	Retirement age
Part A (up to 31 March 2008)	£653 pa	65
Part B1 (1 April 2008 to 31 March 2014)	£5,707 pa	65
Part B2 (1 April 2014 to 31 March 2016)	£2,324 pa	67
Part C (1 April 2016 to 20 February 2020)	£4,476 pa	67
<i>Total</i>	<i>£13,161 pa</i>	
Retirement Grant	£1,960	65

6.3 **Strain calculation: Determine early retirement factors and PCETV factors used for the purposes of valuing strain**

Calculate the reduced benefits using the early retirement factors in Appendix B table 1 for pension accrued post 2014 and the enhanced early retirement factors in Appendix B table 2 for pension accrued pre 2014.

The members age at redundancy falls between 56 and 57 so interpolate the factors in the tables between the two ages.

For part A and B1, the appropriate factors can be read from **Table 2** in Appendix B.

For part B2 and C, the appropriate factors can be read from **Table 1** in Appendix B.

	Age 56	Age 57	Age 56.89
Part A, Part B1	21.3%	19.5%	19.7%
Part B2, Part C	41.6%	37.7%	38.1%
Retirement Grant	2.1%	1.9%	1.9%

The PCETV used for valuing the pension strain refers to the Pension Cash Equivalent on divorce member factors currently in force. The relevant PCETV depend on the member's age at date of retirement.

	Age 56	Age 57	Age 56.89
PCETV <sub>member</sub>	22.44	21.98	22.03



#### 6.4 Determine reduced benefits for the purposes of the strain calculation only:

The early retirement pension (*ERPension*) and retirement grant (*ERCash*) for the purposes of the strain calculation are calculated as follows:

##### *ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (\text{£}653 \text{ pa} + \text{£}5,707 \text{ pa}) \times (1 - 0.197) \qquad = \text{£}5,108 \text{ pa} \end{aligned}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (\text{£}2,324 \text{ pa} + \text{£}4,476 \text{ pa}) \times (1 - 0.381) \qquad = \text{£}4,207 \text{ pa} \end{aligned}$$

$$\text{Total reduced pension benefits} \qquad = \text{£}9,315 \text{ pa}$$

##### *ERCash*

$$= \text{£}1,960 \times (1 - 0.019) \qquad = \text{£}1,923$$

#### 6.5 Determine the pension strain:

Calculate the pension strain as the difference between the immediate unreduced and reduced benefits multiplied by the valuation factor (PCETV factor).

**Pension strain =**

$$(\text{£}13,161 - \text{£}9,315) \times 22.03 + (\text{£}1,960 - \text{£}1,923) \qquad = \text{£}84,765$$

**The pension strain is less than £95,000, therefore, the member does not breach the £95,000 exit payment cap.**

#### 6.6 Calculate whether the pension strain is less than the statutory redundancy pay:

$$\text{Pension strain} = \text{£}84,765$$

$$\text{Statutory redundancy pay} = \text{£}9,684$$

Pension strain is greater than SRP, therefore member is not entitled to a further cash payment.

#### 6.7 Calculate whether pension strain (net of statutory redundancy pay) is less than discretionary severance pay:

$$= \text{Pension strain} - \text{statutory redundancy pay} = \text{£}84,765 - \text{£}9,684 = \text{£}75,081$$

$$= \text{Discretionary severance pay} = \text{£}19,912$$

*Pension strain (net of SRP) is greater than DSP, therefore member is not entitled to a cash top up.*

#### 6.8 **Option 1:** If the member opts for immediate unreduced benefits then the member receives the following:

$$\text{Immediate unreduced pension pa:} \qquad = \text{£}13,161 \text{ pa}$$

$$\text{Immediate retirement grant:} \qquad = \text{£}1,960 \text{ pa}$$

- 6.9 **Option 1 (alternative):** If the member opts for partially reduced benefits and SRP then calculate the reduction to the immediate unreduced benefits based on the value of SRP relative to the value of the pension strain.

$$\text{Strain} - \text{SRP} = \text{£}84,765 - \text{£}9,684 = \text{£}75,081$$

$$(\text{Strain} - \text{SRP}) / \text{Strain} = \text{£}75,081 / \text{£}84,765 = 89\%$$

Immediate pension pa reduced to reflect payment of statutory redundancy pay:

$$= (\text{£}13,161 - \text{£}9,315) \times 0.89 + \text{£}9,315 = \text{£}12,722$$

Immediate retirement grant reduced to reflect payment of statutory redundancy pay:

$$= (\text{£}1,960 - \text{£}1,923) \times 0.89 + \text{£}1,923 = \text{£}1,956$$

- 6.10 Then the member receives the following benefits:

Statutory redundancy pay: = £9,684

Immediate unreduced pension pa (-SRP): = £12,722

Immediate retirement grant (-SRP): = £1,956

## Example 2

6.11 **Option 2:** Member from example 1 who chooses deferred benefits at retirement.

6.12 Calculate the total redundancy pay and ensure this does not breach £95,000 cap.

Statutory redundancy pay + discretionary severance pay

$$= £9,684 + £19,912 = £29,596$$

This is less than £95,000 exit payment cap so member can receive full redundancy pay.

6.13 The member receives the following benefits:

Statutory redundancy pay: = £9,684

Discretionary severance pay: = £19,912

Deferred benefits pa (paid at NPA): = £13,161

Deferred retirement grant (paid at NPA): = £1,960

*\*deferred benefits will increase up to retirement*

DRAFT

### Example 3

- 6.14 **Option 3:** The member from example 1 who chooses immediate reduced benefits at retirement.
- 6.15 Calculate the reduced immediate benefits paid to member using the early retirement factors in Appendix B table 1. **Note that this is different to the reduced benefit calculated for the pension strain in 6.4.**

For part A and B1, the appropriate factors can be read from **Table 1** in Appendix B.

For part B2 and C, the appropriate factors can be read from **Table 1** in Appendix B.

	Age 56	Age 57	Age 56.89
Part A, Part B1	35.0%	32.1%	32.4%
Part B2, Part C	41.6%	37.7%	38.1%
Retirement	19.2%	17.3%	17.5%

- 6.16 The early retirement pension (*ERPension*) and retirement grant (*ERCash*) are calculated as follows:

#### *ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (\text{£}653 \text{ pa} + \text{£}5,707 \text{ pa}) \times (1 - 0.324) \qquad \qquad \qquad = \text{£}4,299 \text{ pa} \end{aligned}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (\text{£}2,324 \text{ pa} + \text{£}4,476 \text{ pa}) \times (1 - 0.381) \qquad \qquad \qquad = \text{£}4,207 \text{ pa} \end{aligned}$$

$$\text{Total reduced pension benefits paid to member} \qquad \qquad \qquad = \text{£}8,506 \text{ pa}$$

#### *ERCash*

$$= \text{£}1,960 \times (1 - 0.175) \qquad \qquad \qquad = \text{£}1,617$$

- 6.17 The member receives the following benefits:

$$\text{Statutory redundancy pay:} \qquad \qquad \qquad = \text{£}9,684$$

$$\text{Discretionary severance pay:} \qquad \qquad \qquad = \text{£}19,912$$

$$\text{Immediate pension pa:} \qquad \qquad \qquad = \text{£}8,506$$

$$\text{Immediate reduced benefits pa:} \qquad \qquad \qquad = \text{£}1,617$$

## Example 4

6.18 Member who is made redundant at age 56 years 325 days, breaches the cost cap and chooses to make cash payment to receive immediate unreduced (or partially reduced) benefits at retirement:

- Date of Birth: 01 April 1963
- Date of commencement of service: 1 May 2007
- Date of redundancy: 20 Feb 2020
- Salary at redundancy: £69,000
- Age at redundancy: 56.89
- Statutory redundancy pay: £9,684
- Discretionary severance pay: £26,143

### Strain calculation: Enhanced ERFs

6.19 Assume that the member benefits before reduction are:

	Unreduced Benefits	Retirement age
Part A (up to 31 March 2008)	£791 pa	65
Part B1 (1 April 2008 to 31 March 2014)	£6,909 pa	65
Part B2 (1 April 2014 to 31 March 2016)	£2,813 pa	67
Part C (1 April 2016 to 20 Feb 2020)	£5,418 pa	67
<i>Total</i>	<i>£15,932 pa</i>	
Retirement Grant	£2,373	65

### 6.20 Strain calculation: Determine early retirement factors and PCETV factors used for the purposes of valuing strain

Calculate the reduced benefits using the early retirement factors in Appendix B table 1 for pension accrued post 2014 and the enhanced early retirement factors in Appendix B table 2 for pension accrued pre 2014.

The members age at redundancy falls between 56 and 57 so interpolate the factors in the tables between the two ages.

For part A and B1 the appropriate factors can be read from **Table 2** in Appendix B.

For part B2 and C the appropriate factors can be read from **Table 1** in Appendix B.

	Age 56	Age 57	Age 56.89
Part A, Part B1	21.3%	19.5%	19.7%
Part B2, Part C	41.6%	37.7%	38.1%
Retirement	2.1%	1.9%	1.9%

The PCETV used for valuing the pension strain refers to the Pension Cash Equivalent on divorce factors currently in force. The relevant PCETV depend on the member's age at date of retirement.

	Age 56	Age 57	Age 56.89
PCETV <sub>member</sub>	22.44	21.98	22.03

6.21 The early retirement pension (*ERPension*) and retirement grant (*ERCash*) are calculated as follows:

*ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (£791 \text{ pa} + £6,909 \text{ pa}) \times (1 - 0.197) \qquad = £6,183 \text{ pa} \end{aligned}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (£2,813 \text{ pa} + £5,418 \text{ pa}) \times (1 - 0.381) \qquad = £5,093 \text{ pa} \end{aligned}$$

$$\text{Total reduced pension benefits} \qquad = £11,276 \text{ pa}$$

*ERCash*

$$= £2,373 \times (1 - 0.019) \qquad = £2,328$$

**6.22 Determine the pension strain:**

Calculate the pension strain as the difference between the immediate unreduced and reduced benefits multiplied by the valuation factor (PCETV factor).

**Pension strain =**

$$(£15,932 - £11,276) \times 22.03 + (£2,373 - £2,328) \qquad = £102,611$$

**The pension strain is greater than £95,000, therefore, the member does breach the £95,000 exit payment cap.**

6.23 The pension strain has breached the cap so member is not entitled to a cash top up.

6.24 **Option 1:** The member can choose to make a cash payment out of their own resources of any amount up to the size of the breach, to receive partially reduced benefits or unreduced benefit where the additional cash payment equals the breach)

$$\text{The size of the breach is } £102,611 - £95,000 \qquad = £7,611.$$

6.25 **Full cash top up:** The member makes the full cash top up of £7,611 and is entitled to the following benefits:

$$\text{Immediate unreduced pension pa:} \qquad = £15,932$$

$$\text{Immediate retirement grant:} \qquad = £2,373$$

- 6.26 **Partial cash top up:** The member makes a cash top up of £4,500. Calculate the proportionate reduction based on the breach of the cap over the cash top up.

Proportionate reduction applied to benefits:

$$= 1 - [(\pounds7,611 - \pounds4,500)] / (\pounds102,611)$$

$$= 1 - (\pounds3,111) / (\pounds102,611) = 97\%$$

Immediate partially reduced pension

$$= (\pounds15,932 - \pounds11,276) \times 97\% + \pounds11,276 = \pounds15,791$$

Immediate partially reduced retirement grant

$$= (\pounds2,373 - \pounds2,328) \times 97\% + \pounds2,328 = \pounds2,372$$

- 6.27 Then the member is entitled to the following benefits:

Immediate partially reduced pension pa: = £15,791

Immediate retirement grant: = £2,372

- 6.28 **No cash top up:** The member does **not** choose to make a cash top up.

Calculate the proportionate reduction as:

$$1 - [\pounds7,611 / (\pounds106,211)] = 93\%$$

Immediate partially reduced pension

$$(\pounds15,932 - \pounds11,276) \times 93\% + \pounds11,276 = \pounds15,587$$

Immediate partially reduced retirement grant

$$(\pounds2,373 - \pounds2,328) \times 93\% + \pounds2,328 = \pounds2,372$$

- 6.29 The member receives the following benefits:

Immediate partially reduced pension pa: = £15,587

Immediate retirement grant: = £2,372

## Example 5

6.30 **Option 2:** The member in example 4 who chooses to take deferred benefits.

6.31 Calculate the total redundancy pay and ensure this does not breach £95,000 cap.

Statutory redundancy pay + discretionary severance pay

$$= £9,684 + £26,143 = £35,827$$

This is less than £95,000 exit payment cap so member can receive full redundancy pay.

6.32 Therefore, member is entitled to the following benefits

Statutory redundancy pay: = £9,684

Discretionary severance pay: = £26,143

Deferred benefits pa (paid at NPA): = £15,932

Deferred retirement grant (paid at NPA): = £2,373

*\*deferred benefits will increase up to retirement*



### Example 6

- 6.33 **Option 3:** The member in example 4 who chooses to take immediate reduced benefits:
- 6.34 Calculate the reduced immediate benefits paid to member using the early retirement factors in Appendix B table 1. **Note that this is different to the reduced benefit calculated for the pension strain in 6.20.**

For part A and B1, the appropriate factors can be read from **Table 1** in Appendix B.

For part B2 and C, the appropriate factors can be read from **Table 1** in Appendix B.

	Age 56	Age 57	Age 56.89
Part A, Part B1	35.0%	32.1%	32.4%
Part B2, Part C	41.6%	37.7%	38.1%
Retirement	19.2%	17.3%	17.5%

- 6.35 The early retirement pension (*ERPension*) and retirement grant (*ERCash*) are calculated as follows:

#### *ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (\text{£}791 \text{ pa} + \text{£}6,909 \text{ pa}) \times (1 - 0.324) \qquad = \text{£}5,204 \text{ pa} \end{aligned}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (\text{£}2,813 \text{ pa} + \text{£}5,418 \text{ pa}) \times (1 - 0.381) \qquad = \text{£}5,093 \text{ pa} \end{aligned}$$

$$\text{Total reduced benefits} \qquad = \text{£}10,297 \text{ pa}$$

#### *ERCash*

$$= \text{£}2,373.00 \times (1 - 0.175) \qquad = \text{£}1,958$$

- 6.36 The member receives benefits of:

$$\text{Statutory redundancy pay:} \qquad = \text{£}9,684$$

$$\text{Discretionary severance pay:} \qquad = \text{£}26,143$$

$$\text{Immediate reduced benefits pa:} \qquad = \text{£}10,297$$

$$\text{Immediate reduced retirement grant:} \qquad = \text{£}1,958$$

## Example 7

6.37 A member who is made redundant at age 64 years who does not breach the cap, pension strain is less than DSP and chooses immediate unreduced benefits with a cash top up to redundancy pay.

- Date of Birth: 20 Feb 1956
- Date of commencement of service: 1 May 2007
- Date of redundancy: 20 Feb 2020
- Salary at redundancy: £35,000
- Age at redundancy: 64
- Statutory redundancy pay: £9,684
- Discretionary severance pay: £8,489

### Strain calculation: Enhanced ERFs

6.38 Assume that the member benefits before reduction are:

	Unreduced Benefits	Retirement age
Part A (up to 31 March 2008)	£401 pa	65
Part B1 (1 April 2008 to 31 March 2014)	£3,505 pa	65
Part B2 (1 April 2014 to 31 March 2016)	£1,427 pa	66
Part C (1 April 2016 to 20 Feb 2020)	£2,749 pa	66
<i>Total</i>	<i>£8,081 pa</i>	
Retirement Grant	£1,204	65

### 6.39 Strain calculation: Determine early retirement factors and PCETV factors used for the purposes of valuing strain

Calculate the reduced benefits using the early retirement factors in Appendix B table 1 for pension accrued post 2014 and the enhanced early retirement factors in Appendix B table 2 for pension accrued pre 2014.

Member's age at redundancy is an integer, so no need to interpolate factors.

For part A and B1, the appropriate factors can be read from **Table 2** in Appendix B.

For part B2 and C, the appropriate factors can be read from **Table 1** in Appendix B.

	Age 64
Part A, Part B1	3.1%
Part B2, Part C	9.9%
Retirement Grant	0.2%

The PCETV used for valuing the pension strain refers to the Pension Cash Equivalent on divorce factors currently in force. The relevant PCETV depend on the member's age at date of retirement.

	Age 64
PCETV	18.58

- 6.40 The early retirement pension (*ERPension*) and retirement grant (*ERCash*) are calculated as follows:

*ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (\text{£}401 \text{ pa} + \text{£}3,505 \text{ pa}) \times (1 - 0.031) \end{aligned} \qquad = \text{£}3,785 \text{ pa}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (\text{£}1,427 \text{ pa} + \text{£}2,749 \text{ pa}) \times (1 - 0.099) \end{aligned} \qquad = \text{£}3,762 \text{ pa}$$

$$\text{Total reduced pension benefits} \qquad = \text{£}7,547 \text{ pa}$$

*ERCash*

$$= \text{£}1,204.00 \times (1 - 0.002) \qquad = \text{£}1,201$$

**6.41 Determine the pension strain:**

Calculate the pension strain as the difference between the immediate unreduced and reduced benefits multiplied by the valuation factor (PCETV factor).

**Pension strain =**

$$\text{Pension strain} = (\text{£}8,081 - \text{£}7,547) \times 18.58 + (\text{£}1,204 - \text{£}1,201) = \text{£}9,933$$

- 6.42 Calculate whether the pension strain is less than the statutory redundancy pay:

$$\text{Pension strain} = \text{£}9,933$$

$$\text{Statutory redundancy pay} = \text{£}9,684$$

Pension strain is greater than SRP, therefore member is not entitled to a further cash payment.

- 6.43 Calculate whether pension strain (net of statutory redundancy pay) is less than discretionary severance pay:

$$= \text{Pension strain} - \text{statutory redundancy pay} = \text{£}9,933 - \text{£}9,684 = \text{£}249$$

$$= \text{Discretionary severance pay} = \text{£}8,489$$

*Pension strain (net of SRP) is less than DSP.*

- 6.44 As the pension strain net of statutory redundancy pay is less than the discretionary severance pay, the member is entitled to a cash top up calculated as follows:

Cash top up to member as net strain is less than DSP

$$= \text{£}8,489 - (\text{£}9,933 - \text{£}9,684) = \text{£}8,240$$

- 6.45 **Option 1:** If the member opts for immediate unreduced benefits then the member receives the following:

$$\text{Immediate unreduced pension pa:} \qquad = \text{£}8,081$$

$$\text{Immediate unreduced retirement grant:} \qquad = \text{£}1,204$$

$$\text{Cash top up to redundancy pay (where strain less than DSP):} \qquad = \text{£}8,240$$

- 6.46 **Option 1 (alternative):** If the member opts for partially reduced benefits and SRP then calculate the reduction to the immediate unreduced benefits based on the value of SRP relative to the value of the pension strain.

$$\text{Strain} - \text{SRP} = \text{£}9,933 - \text{£}9,684 = \text{£}249$$

$$(\text{Strain} - \text{SRP}) / \text{Strain} = \text{£}249 / \text{£}9,933 = 3\%$$

Immediate pension p.a. reduced to reflect payment of statutory redundancy pay:

$$= (\text{£}8,081 - \text{£}7,547) \times 0.03 + \text{£}7,547 = \text{£}7,560$$

Immediate retirement grant reduced to reflect payment of statutory redundancy pay:

$$= (\text{£}1,204 - \text{£}1,201) \times 0.03 + \text{£}1,201 = \text{£}1,201$$

- 6.47 The member is entitled to the following benefits:

Statutory redundancy pay:	= £9,684
Immediate unreduced pension pa (-SRP):	= £7,560
Immediate unreduced retirement grant (-SRP):	= £1,201
Cash top up to redundancy pay (where strain less than DSP):	= £8,240

## Example 8

6.48 **Option 2:** Member from example 7 who does not breach the cap and chooses deferred benefits at retirement

6.49 Calculate the total redundancy pay and ensure this does not breach £95,000 cap.

Statutory redundancy pay + discretionary severance pay

$$= £9,684 + £8,489 = £18,173$$

This is less than £95,000 exit payment cap so member can receive full redundancy pay.

6.50 The member is entitled to the following benefits:

Statutory redundancy pay: = £9,684

Discretionary severance pay: = £8,489

Deferred benefits pa (paid at NPA): = £8,081

Deferred retirement grant (paid at NPA): = £1,204

*\*deferred benefits will increase up to retirement*

## Example 9

- 6.51 **Option 3:** The member from example 7 who chooses immediate reduced benefits at retirement.
- 6.52 Calculate the reduced immediate benefits paid to member using the early retirement factors in Appendix B table 1. **Note that this is different to the reduced benefit calculated for the pension strain in 6.39.**

Member's age at redundancy is an integer, so no need to interpolate factors.

For part A and B1 (NPA 65, hence one year early), the appropriate factors can be read from **Table 1** in Appendix B.

For part B2 and C (NPA 66, hence two years early), the appropriate factors can be read from **Table 1** in Appendix B.

	Age 64
Part A, Part B1	5.1%
Part B2, Part C	9.9%
Retirement grant	2.3%

- 6.53 The early retirement pension (*ERPension*) and retirement grant (*ERCash*) are calculated as follows:

### *ERPension*

$$\begin{aligned} & \text{(Reduced Part A and Part B1 benefits)} \\ & = (£401 \text{ pa} + £3,505 \text{ pa}) \times (1 - 0.051) \qquad = £3,707 \text{ pa} \end{aligned}$$

$$\begin{aligned} & \text{(Reduced Part B2 and Part C benefits)} \\ & = (£1,427 \text{ pa} + £2,749 \text{ pa}) \times (1 - 0.099) \qquad = £3,762 \text{ pa} \end{aligned}$$

$$\text{Total reduced pension benefits to members} \qquad = £7,469 \text{ pa}$$

### *ERCash*

$$= £1,204 \times (1 - 0.023) \qquad = £1,176$$

- 6.54 The member receives benefits of:

$$\text{Statutory redundancy pay:} \qquad = £9,684$$

$$\text{Discretionary severance pay:} \qquad = £8,489$$

$$\text{Immediate reduced pension pa:} \qquad = £7,469$$

$$\text{Immediate reduced retirement grant:} \qquad = £1,176$$

## Appendix A: Assumptions underlying factors

### Financial assumptions

Nominal discount rate	4.448%
CPI	2.00%
Real discount rate (in excess of CPI)	2.40%
Salary increase	4.2%

### Mortality assumptions

Base mortality tables and adjustments	Member: 101% of S2NMA (M) and 92% of S2NFA (F) (as per 2016 valuation)
Future mortality improvement	Based on ONS principal UK population projections 2016
Year of Use	2020

### Other assumptions

Proportion of male members for unisex factors	35%
Allowance for commutation	Nil

## Appendix B: Factors

**Table 1 (Consolidated factor spreadsheet table number 401):**

**Strain calculation factors for early payment of post 2014 pension benefits- factors to use after age 55 (reproduced from the standard early retirement factors provided in the consolidated factor workbook)**

Years Early	Pension Reduction (%)		Retirement Grant Reduction (%)
	Males	Females	All Members
0	0.0%	0.0%	0.0%
1	5.1%	5.1%	2.3%
2	9.9%	9.9%	4.6%
3	14.3%	14.3%	6.9%
4	18.4%	18.4%	9.1%
5	22.2%	22.2%	11.2%
6	25.7%	25.7%	13.3%
7	29.0%	29.0%	15.3%
8	32.1%	32.1%	17.3%
9	35.0%	35.0%	19.2%
10	37.7%	37.7%	21.1%
11	41.6%	41.6%	N/A
12	44.0%	44.0%	N/A
13	46.3%	46.3%	N/A

**Table 2 (Consolidated factor spreadsheet table number XXX):**

**Strain calculation factors for enhanced early payment of pre 2014 pension benefits - factors to use after age 55**

Years Early	Pension Reduction (%)	Retirement Grant Reduction (%)
	All Members	All Members
0	0.0%	0.0%
1	3.1%	0.2%
2	6.0%	0.5%
3	8.6%	0.7%
4	11.1%	1.0%
5	13.4%	1.2%
6	15.6%	1.4%
7	17.6%	1.7%
8	19.5%	1.9%
9	21.3%	2.1%
10	22.9%	2.4%
11	26.2%	N/A
12	27.7%	N/A
13	29.1%	N/A

Notes:



- (1) The number of *Years Early* is the period between the dates (i) and (ii) below, where:
  - (i) is the effective date of the member's election under the relevant regulations; and
  - (ii) is the date (or dates) on which the member would be entitled to unreduced benefits.
- (4) Where the number of *Years Early* is not an integer number, the valuation and reduction factors from the tables should be interpolated for part years in a consistent approach as used in calculating standard early retirement cases, in line with the LGPS England and Wales Early retirement factor guidance.
- (5) These factors should not be used to calculate the reductions to be applied to members aged below 55 at the date of retirement. Such cases should be referred to MHCLG, for onward transmission to GAD.

DRAFT

## **Appendix C: Legislative references**

*GAD NOTE: To be updated to reflect relevant regulations once regulations are agreed.*

DRAFT

## Appendix D: Limitations

- D.1 This guidance should not be used for any purpose other than those set out in this guidance.
- D.2 The factors contained in this guidance are subject to regular review. Scheme managers and administrators need to ensure that they are using the latest factors, as relevant, when processing cases.
- D.3 Advice provided by GAD must be taken in context and is intended to be considered in its entirety. Individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect. GAD does not accept responsibility for advice that is altered or used selectively. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.
- D.4 This guidance only covers the actuarial principles around the calculation and application of early retirement factors. Any legal advice in this area should be sought from an appropriately qualified person or source.
- D.5 Scheme managers and administrators should satisfy themselves that early retirement calculations and benefit awards comply with all legislative requirements including, but not limited to, tax and contracting-out requirements.
- D.6 This guidance is based on the Regulations in force at the time of writing. It is possible that future changes to the Regulations might create inconsistencies between this guidance and the Regulations. If users of this guidance believe there to be any such inconsistencies, they should bring this to the attention of MHCLG and GAD. Under no circumstances should this guidance take precedence over the Regulations. Administrators should ensure that they comply with all relevant Regulations.