

The Local Government Pension Scheme (England and Wales)

Early Payment of Pension

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1 Introduction

- 1.1 Under Regulation 18(2), 30(4) and 30A(4) of the Local Government Pension Scheme Regulations (Benefits, Membership and Contributions) 2007 (“the Benefit Regulations”) (SI. 2007/1166) the Government Actuary is required to issue guidance to determine on the appropriate amounts by which a member’s retirement pension should be reduced in respect of early payment. Regulation 14(3) also requires the Government Actuary to issue guidance on the reduction of additional pension where it is taken earlier than normal retirement age (i.e. age 65).
- 1.2 Paragraph 7(2) of Schedule 2 of the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (“the Transitional Regulations”) (SI. 2008/238) requires the Government Actuary to provide guidance to calculate the retirement pension and grant for members who reach the age of 60 on or after 1 April 2016 and before 1 April 2020 and have satisfied the 85 year rule.
- 1.3 Under Regulation 3(2)(b) of the Transitional Regulations any benefits accrued before 1 April 2008 are reduced in line with guidance issued by the Government Actuary where benefits become payable under Regulation 18 or 30 of the Benefit Regulations.
- 1.4 A member may also have a transfer credit that was awarded under protected regulation 66(8) of the Local Government Pension Scheme Regulations 1997 (“the 1997 Regulations”) (SI. 1997/1612) protected by virtue of Schedule 1 of the Transitional Regulations. GAD issued separate guidance regarding the calculations to apply in respect of these transfer credits on 24 August 2011.
- 1.5 The purpose of this guidance note is to provide the guidance referred to in Regulations 14(3), 18(2), 30(4) and 30A(4) of the Benefits Regulations, Regulation 3(2)(b) and paragraph 7(2) of Schedule 2 of the Transitional Regulations and Regulation 66(8) of the 1997 Regulations. This note has been prepared by the Government Actuary’s Department (GAD) for the Department for Communities and Local Government (DCLG) for onward transmission to administering authorities in order to provide the guidance required.
- 1.6 Under Regulation 154(4) of the 1997 Regulations pension credit members who elect to receive benefits before normal benefit age should have their benefits reduced in line with guidance issued by the Secretary of State. DCLG have confirmed that the reduction factors provided in this guidance should also be applied to pension credit members.
- 1.7 This guidance has been written for pension administrators and assumes some knowledge of general pension terminology, and some familiarity with early retirement calculations for the Local Government Pension Scheme. Any questions concerning the application of the guidance should, in the first instance, be referred to DCLG.

Implementation and Review

- 1.8 The factors and guidance contained in this note should be followed with immediate effect.
- 1.9 The factors should be reviewed periodically, depending on external circumstances, for example when changes in the actuarial assumptions adopted for other scheme factors take place, or following each triennial cycle of future valuations of the LGPS.
- 1.10 This guidance replaces the previous guidance dated 11 April 2008.

Limitations

- 1.11 This guidance note should not be used for any purpose other than to determine benefits on early retirement.
- 1.12 This guidance note should be considered in its entirety as individual sections, if considered in isolation, may be misleading, and conclusions reached by a review of some sections on their own may be incorrect.
- 1.13 This guidance note only covers the principles around the calculation of the benefits on early retirement. Any legal advice in this area should be sought from an appropriately qualified person or source.
- 1.14 This guidance note only deals with those cases where a reduction in the level of accrued benefits is appropriate under the regulations set out in paragraph 1.5 and 1.6, and is not relevant for members who are entitled to unreduced benefits because of retirement on ill-health grounds, or for reasons of redundancy.
- 1.15 Administrators should satisfy themselves that early retirement complies with all legislative requirements including, but not limited to, tax and contracting-out requirements.

2 Applying the Factors

- 2.1 In general terms, this guidance aims to provide guidance on the appropriate determination of P_{65} , RG_{65} , P_{CRA} , RG_{CRA} , P_{taper} and RG_{taper} , where:
- 2.1.1 P_{65} is the appropriate reduction to that part of the member's pension which is calculated by reference to a retirement age of 65;
 - 2.1.2 RG_{65} is the appropriate reduction to that part of the member's retirement grant which is calculated by reference to a retirement age of 65;
 - 2.1.3 P_{CRA} and RG_{CRA} are the appropriate reductions to that part of the member's pension and retirement grant respectively which is calculated by reference to the critical retirement age (where this falls below age 65); and
 - 2.1.4 P_{taper} and RG_{taper} are the appropriate reductions to that part of a Group 2 member's pension and retirement grant respectively subject to tapered protection.
- 2.2 Appendix A sets out the Early Retirement Factors in 2 separate tables, Table 1 should be used for all cases unless the age of the member on taking early retirement is below 55. Appendix B sets out details of the pension age that should be used for different periods of service and different groups of members.
- 2.3 The table in Appendix A has separate columns for the reductions to be applied to the pensions of male and female members – and a third column for the reductions to be applied to retirement grants. The period(s) in years, to be used to look up P_{65} and RG_{65} and P_{CRA} and RG_{CRA} from the table in Appendix A, are obtained by subtracting the member's age from 65 or Critical Retirement Age (CRA) as appropriate. The factors should be interpolated for part years, when the number of "years early" is not an exact integer.
- 2.4 The pension following early retirement is calculated as follows:
- $$\text{Pension at early retirement} = \text{Accrued pension} \times (1 - P)$$
- where P is an early retirement factor from Appendix A depending on the gender of the member and the number of years early the pension is taken. The retirement grant is calculated in a similar way. This calculation may need to be performed several times if members have different retirement ages for different periods of service. The total pension that the member receives at early retirement will then be the sum of the pension at early retirement for each of the relevant periods of service.
- 2.5 If a member is aged less than 60 at the effective date of an election under Regulation 30(1) or 30A(2) of the Benefit Regulations then the member is not entitled to immediate payment of retirement benefits, unless the employing authority or former employing authority gives consent to the early payment (unless the member is covered by Regulation 16A(3) of the Benefit Regulations or Regulation 15 of the Transitional Regulations). Any member who wishes to make an election under Regulation 18(1) requires the employing authority to give consent to the early payment.
- 2.6 If such consent is granted to Group 1, 2 or 3 members, then the reduction to be applied (to that portion of the pension and retirement grant benefits calculated with reference to a CRA) is the period from the effective date of the election to the member's CRA. This may be shorter than the period from the date of the election for early retirement to the

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member's 60th birthday. A similar argument applies to benefits subject to a tapered reduction factor.

- 2.7 The tapered reduction factors for Part B and C membership of Group 2 members are calculated according to the taper period which is the number of years from 1 April 2016 to the date on which the member would attain their CRA and would also be aged 60 or over. Part-years should be taken into account in this calculation the result of which should be between 0 and 4 years. The interpolation factor (F_I) is then equal to the taper period divided by 4 years. Then the tapered reduction factors are interpolated from the CRA and age 65 factors as follows:

$$P_{Taper} = F_I \times P_{65} + (1 - F_I) \times P_{CRA}$$

$$RG_{Taper} = F_I \times RG_{65} + (1 - F_I) \times RG_{CRA}$$

- 2.8 The appropriate reduction factors to be applied to each part of service are based upon either the Critical Retirement Age (where this is before age 65), age 65 or the taper.
- 2.9 DCLG have confirmed that the pension paid to a dependant following the death of a member after election for early payment should be calculated as if no reduction for early payment had been applied to the member's pension.

Learning Skills Council

- 2.10 Under Regulation 16A(1) b) and 16A(5) of the Benefit Regulations employees of the Learning and Skills Council for England have a right to retire from age 50. If these members retire before age 55 then the reductions in Table 2 should be applied to the member's benefits. If these members retire at or after age 55 then the factors in Table 1 remain appropriate to use.
- 2.11 If there is a gap between the date of leaving and the date of election for a member covered by Regulation 16A of the Benefit Regulations, then the case should be referred to GAD via DCLG.
- 2.12 Regulation 16A of the Benefit Regulations defines the normal retirement age for such members as age 60. The reduction factors in Table 1 applied to pensions taken before normal retirement age by such members should be with reference to age 60, rather than CRA or age 65, as appropriate.

Environment Agency

- 2.13 Regulation 15 of the Transitional Regulations has been introduced by Regulation 36 of the Local Government Pension Scheme (Miscellaneous) Regulations 2010 (SI. 2010/2090). Under this regulation Civil Servants transferred to the Environment Agency are entitled to retire from age 50. If these members retire before age 55 then the reductions in Table 2 should be applied to the member's benefits. If these members retire at or after age 55 then the factors in Table 1 remain appropriate to use.
- 2.14 If there is a gap between the date of leaving and the date of election for a member covered by Regulation 15 of the Transitional Regulations, then the case should be referred to GAD via DCLG.
- 2.15 Regulation 15 of the Transitional Regulations defines the normal retirement age for such members as age 60. The reduction factors in Table 1 applied to pensions taken before normal retirement age by such members should be with reference to age 60, rather than CRA or age 65, as appropriate.

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3 Example

3.1 Female member who elects while in active service:

• Date of Birth:	2 October 1954
• Date of commencement of service:	1 April 1993
• Last day of employment	1 October 2012
• Effective date of election under Regulation 30(1)	2 October 2012
• Age at election	58

3.2 The member falls into Group 1, as she was born before 31 March 1956. The next step is to calculate the *relevant date* for this member (as defined in Paragraph 2 of Schedule 2 of the Local Government Pension Scheme (Transitional) Regulations 2008 (SI. 2008/238) for details). On 31 March 2016 she will be aged 61 years – so her relevant date is the day after she leaves local government employment (i.e. 2 October 2012), and all her service is based on retirement from CRA.

3.3 We proceed to calculate the member's CRA. At her early retirement date, she is aged 58 years exactly, and has 19y 184d of membership. She does not satisfy the rule of 85 at that date but would first satisfy the rule of 85 on her 62nd birthday – so this is her CRA. The term for which the early retirement reductions should be applied is then 4 years (62 years less 58 years). (If the member had commenced service, for example, on 1 April 1982 no reductions would be applied if her employing authority consented to her election for early retirement under Regulation 30(2) of the Benefit Regulations – but the administering authority might consider that additional payments would be required from the employing authority under Regulation 41(2) of the Administration Regulations).

3.4 Assuming that the member has Final Pay of £18,000, her benefits before reduction are:

Pre 2008 Pension = $15 / 80 \times £18,000 = £3,375.00$ pa
 Post 2008 Pension = $(4 + 184/365) / 60 \times £18,000 = £1,351.23$ pa
 Total Pension = £4,726.23 pa

Pre 2008 Retirement Grant = $3 \times £3,375.00 = £10,125.00$

The appropriate factors can be read from Table 1 in Appendix A:

▪ PCRA	20%
▪ RGCRA	11%

Her early retirement pension and retirement grant are calculated as follows:

ERPension....£4,726.23 pa x (1 - 0.20) = £3,780.98 pa
ERCash.....£10,125.00 x (1 - 0.11) = £9,011.25

3.5 If the above election was made under Regulation 18(1) of the Benefit Regulations (“flexible retirement”) instead of 30(1) then the calculation of reduced benefits would be the same. The last day of employment would not be 1 October 2012, but would instead be the last day of reckonable service for calculating benefits. Employer consent would be required and a payment may be required by the administering authority under regulation 41(2) of the administration regulations. The employer may waive all or part of

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the reduction, and in this case the fund's actuary would advise on the payment required as a result of the waiver.

- 3.6 In practice, the administering or employing authority might also consider whether a further test to ensure that the benefits will meet the Guaranteed Minimum Pension at State Pension Age should be applied.

A handwritten signature in black ink, consisting of a series of loops and a horizontal line at the bottom.

Ian Boonin
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Government Actuary's Department

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Appendix A - Factors

Table 1: Factors to use after age 55

Years Early	Pension Reduction (%)		Retirement Grant Reduction All Members %
	Males	Females	
0	0	0	0
1	6	5	3
2	11	11	6
3	16	15	8
4	20	20	11
5	25	24	14
6	29	27	16
7	32	31	19
8	36	34	21
9	39	37	23
10	42	40	26

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.
- (2) Practitioners may need to refer to this table twice (with different values of *Years Early*) when preparing calculations for Group 1, 2 or 3 members. If tapered factors are required they are derived from these two sets of factors.
- (3) If the date in (1)(i) is later than the date in (1)(ii), then it should be clear that no reductions are to be applied (to the relevant part of the membership under consideration, if applicable).
- (4) Where the number of *Years Early* is not an integer number, the reduction factors from the table should be interpolated for part years.
- (5) These factors should not be used to calculate the reductions to be applied to members aged below 55 at the date of retirement. The factors in Table 2 should be used in such calculations.

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Table 2: Factors to use before age 55 (this table only applies to members covered by regulation 16A of the Benefit Regulations or Regulation 15 of the Transitional Regulations)

<i>Age at retirement</i>	<i>Pension Reduction (%)</i>		<i>Retirement Grant Reduction All Members %</i>
	<i>Males</i>	<i>Females</i>	
54	26	25	16
53	30	29	19
52	33	32	21
51	36	35	23
50	39	38	26

Notes:

- (1) The age at retirement is the age at which the member retires
- (2) Where the age at retirement is not an integer number, the reduction factors from the table should be interpolated for part years.
- (3) These factors should not be used to calculate the reduction to be applied to any member above age 55 at retirement.

Appendix B - Transitional Provisions

Schedule 2 of The Local Government Pension Scheme (Transitional) Regulations 2008 (SI. 2008/238) (“the Transitional Schedule”) impacts on the way in which reductions to pensions under the regulations mentioned in paragraph 1.5 should be applied – depending on the details of the member involved. For the purposes of this guidance note, members have been grouped into a number of categories for ease of reference:

- Group 1: A member who was an active member prior to 1 October 2006, and born on 31 March 1956 or earlier;
- Group 2: A member who was an active member prior to 1 October 2006, and born between 1 April 1956 and 31 March 1960 inclusive and who would reach their Critical Retirement Age by 31 March 2020;
- Group 3: A member who was an active member prior to 1 October 2006 who is not a Group 1 or Group 2 member;
- Group 4: A member who was not a member prior to 1 October 2006.

The age of the member at the earliest of:

- the member’s pre 1 October 2006 Normal Retirement Date (under Regulation 25 of the 1997 regulations, prior to being amended by SI. 2006/966);
- the earliest date at which the member would have satisfied the 85 year rule had the member remained in service (calculated in accordance with paragraph 3 of the Transitional Schedule) and
- age 65

is referred to as that member’s Critical Retirement Age (CRA).

A member’s total membership should be divided into the following periods:

- Part A: Membership up to 31 March 2008
- Part B: Membership from 1 April 2008 to 31 March 2016
- Part C: Membership from 1 April 2016 to 31 March 2020
- Part D: Membership from 1 April 2020

Retirement ages for each combination of member group and service part are given below.

	Group 1	Group 2	Group 3	Group 4
Part A	CRA	CRA	CRA	65
Part B	CRA	Taper	65	65
Part C	65	Taper	65	65
Part D	65	65	65	65

Membership credited under Regulation 84 of the Local Government Pension Scheme (Administration) Regulations 2008 (SI 239 of 2008) (the “Administration Regulations”) or equivalent previous Regulations (transferred-in membership) in respect of Group 1, 2 or 3 members should be treated as Part A Membership if the member was an active member immediately before 1 April 2008 or if the transfer occurred before 1 April 2008. Other Membership under Regulation 84 should be treated as Part D Membership.

Membership credited under Regulation 55 of the 1997 Regulations or equivalent previous Regulations (Added Years) should be treated as Part A Membership if the election was before 1st October 2006. Other Membership under Regulation 55 should be treated as Part D Membership.

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Membership credited under Regulation 40 of the Administration Regulations or equivalent previous Regulations (Employer Augmented Membership) in respect of Group 1, 2 or 3 members should be treated as Part A Membership if it was credited before 1 April 2008. Other Membership under Regulation 40 should be treated as Part D Membership.

Pension awarded under Regulation 23 of the Administration Regulations (Added Pension) should be treated as if it is payable unreduced from age 65.

A transfer credit awarded under protected regulation 66(8) of the 1997 Regulations, or equivalent previous regulations, should be reduced if it is taken earlier than the retirement age assumed for the calculation of the credit. For example, transfer credits awarded on or after 1 September 2011 are calculated based on a retirement age of 65. Therefore, if taken before age 65 a reduction factor should be applied based on the period from the date of early retirement to age 65 using the factors in table A. These credits give rise to pension benefits but not retirement grant, so only the pension factor will be required. Similarly, if a credit was previously calculated based on a member's CRA, then if taken early the credit should be reduced relative to the period to CRA.