



Government Actuary's Department
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**THE LOCAL GOVERNMENT PENSION SCHEME
REGULATION 31 – OTHER EARLY LEAVERS: DEFERRED RETIREMENT
BENEFITS AND ELECTIONS FOR EARLY PAYMENT**

Introduction

1. The Government Actuary is required, under Regulation 31(4) of the LGPS, to provide guidance on the appropriate amounts by which a member's retirement pension and grant should be reduced in respect of early payment. Statutory Instrument 2004/3372 (Local Government Pension Scheme (Amendment No.2) Regulations 2004) amends the Local Government Pension Scheme Regulations 1997 ("the LGPS Regulations") with effect from April 1st 2005, so a revised guidance note is necessary at this time. The purpose of this guidance note is to provide the guidance referred to in Regulation 31(4) of the LGPS to the Office of the Deputy Prime Minister (ODPM), for onward transmission to the administering authorities.

Transitional Provisions and Savings

2. SI 2004/3372 also introduced a Schedule ("the Transitional Schedule") to the LGPS Regulations which impacts on the way in which the reductions under Regulation 31(4) of the LGPS 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		Group 2	Group 3
	(a)	(b)		
Description	A member who was a member prior to 1 st April 2005, who is aged 50 or more on 31 st March 2005.	Any Group 1 member who is not a Group 1(a) member.	A member who was a member prior to 1 st April 2005, who is not a Group 1 member.	Members who are not Group 1 or Group 2 members.
Part A Membership	A member who will be aged 60 or more on 31 st March 2013.	Any period of membership prior to the earlier of 1 st April 2013 or the day after the day on which the member leaves local government employment.	Any period of membership prior to 1 st April 2005.	N/A
Part B Membership	Any period of membership that is not Part A Membership.			



3. For Group 1 and Group 2 members, the age of the member at the earliest of:
- the member’s pre April 2005 Normal Retirement Date (under Regulation 25 of the LGPS, prior to being amended by SI 2004/3372); and
 - 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 7 of the Transitional Schedule)

is referred to as that member’s Critical Retirement Age for Part A Membership (CRA_A). The Critical Retirement Age for Part B Membership is referred to as CRA_B . A member’s CRA_B is 65. If a Group 1 or Group 2 member has a CRA_A of 65, then it is correct, and usually administratively simpler, to treat that member’s entire period of service as one block, and to refer to the table in Appendix I only once.

4. In general terms, this note aims to provide guidance on the appropriate determination of P_A , LS_A , P_B and LS_B , where:
- P_A is the appropriate reduction under Regulation 31(4) of the LGPS to that part of the member’s pension as is calculated by reference to Part A Membership;
 - LS_A is the appropriate reduction under Regulation 31(4) of the LGPS to that part of the member’s lump sum as is calculated by reference to Part A Membership; and
 - correspondingly for P_B and LS_B – to that part of the member’s pension and lump sum respectively as is calculated by reference to Part B Membership.
5. Regulation 93(2)(a) of the LGPS provides that the first period for which any retirement pension under Regulation 31(1) of the LGPS is payable begins on the day the election is made. The sense of Regulation 31(1) of the LGPS indicates that elections for early retirement pensions are only made after the member has left employment. Regulation 31(2) of the LGPS refers to the ‘employing authority or former employing authority’, which might indicate that elections under Regulation 31(1) of the LGPS can be made by an active member (as defined in Schedule 1 to Regulation 2 of the LGPS). For the purposes of this note, practitioners should treat an active member’s election under Regulation 31(1) of the LGPS as being made on the first day after the member’s employment ends (the “effective date” of an election under Regulation 31(1) of the LGPS). This convention will also ensure consistency with Regulation 93(1) of the LGPS.

Applicability to Early Leavers

6. This guidance note only deals with those cases where a reduction in the level of accrued benefits is appropriate under Regulation 31 of the LGPS, and is not relevant for members who are entitled to unreduced benefits because of retirement on ill-health grounds, or for reasons of redundancy. In accordance with Regulation 31(2) of the LGPS, if a member is aged less than 60 at the effective date of an election under Regulation 31(1) of the LGPS 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. If such consent is granted to Group 1 or Group 2 members, then administering authorities are reminded that the period for which the reductions are to be applied (to that portion of the pension and lump sum benefits as relate to Part A Membership) under Regulation 31(4) of the LGPS is the period from the effective date of the election under Regulation 31(1) of the LGPS (early retirement) to the member’s CRA_A – which will be *shorter* than the period from the date of the election for early retirement to the member’s 60th birthday. This may be a factor to be considered before a decision is made to grant consent to an early

retirement request from such a member, or in determining if additional payments are required from the employing authority under Regulation 80(5) of the LGPS.

7. This note applies for all retirements on or after April 1st 2005. From that date this note replaces the two existing guidance notes issued on 21st January 1998 and 4th March 1999, included in Appendices II and III respectively. However, one of the previous guidance notes, included in Appendix III, will continue to apply in some circumstances outlined in the next paragraph.
8. Group 1 members form a special class where they make an election for early retirement benefits under Regulation 31(1) of the LGPS if:
 - they are not aged 55 or more at the effective date of the election; *and*
 - there is a gap between their last day of service and the effective date of the member's election.

Particular considerations then apply, to allow for the fact that increases to an early retirement pension in payment are deferred until age 55. The appropriate treatment of Group 1(a) members can be determined from the pre April 2005 guidance issued by the Government Actuary's Department on March 4th 1999 (Cases where there is a gap between leaving service and election for early payment). That guidance is included in Appendix III to this guidance note. Group 1(b) members should also be treated in accordance with that note – although the benefits of such members as relate to Part A Membership and Part B Membership should first be apportioned separately to take account of the Transitional Schedule.

Applying the figures from the table in Appendix I

9. The table in Appendix I has separate columns for the reductions to be applied to the pensions to male and female members – and a third column for the reductions to be applied to retirement lump sums. The period(s) in years, to be used to look up P_A and LS_A and/or P_B and LS_B from the table in Appendix I, is (are) obtained by subtracting the member's age (at the effective date of the election under Regulation 31(1) of the LGPS) from CRA_A and/or CRA_B as appropriate. The factors should be interpolated for part years, when the number of “years early” is not an exact integer.

Transfer Credits

10. In cases where a member's service includes a transfer credit acquired under Protected Regulations 66(1)(d) and 66(5) of the LGPS, the retirement pension in respect of this transfer credit may require further reduction in accordance with Protected Regulation 66(7) of the LGPS – but usually only where CRA_A is less than 60. Practitioners should consult the Government Actuary's guidance under Protected Regulation 66(7).

Regulation 36 of the LGPS

11. Because the LGPS is contracted out of the State Earnings Related Pension Scheme, it must satisfy the various requirements of the preservation and revaluation legislation applying to occupational pension schemes. One of these requirements is that the pension payable to a member from “State Pension Age” (SPA) should not be less than the “Guaranteed Minimum Pension” (GMP) in relation to service before 6th April 1997. Where a member retires before SPA (with, or even without, a reduced pension entitlement), it is possible that the reduction in pension might result in the pension payable from SPA falling short of the minimum legislative requirements. In considering whether to give consent to a request for an immediate payment of reduced benefits from a member under age 60, the employing



authority may wish to take into account whether there is a risk that the pension will have to be increased at SPA. For members retiring after 60, but before SPA, the administering authority must ensure that the pension from SPA meets the requirements of the contracting-out legislation, and Regulation 36(1) of the LGPS.

12. The administering authority should conduct a final check on the level of early retirement benefits to ensure that they are adequate to meet the requirements of Regulations 36(5) and 36(6) of the LGPS – and uplift the pensions if necessary.

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Example (1)

13. The first example is a female member who elects while in active service:

▪ Date of Birth:	2 nd April 1947
▪ Date of commencement of service:	1 st October 1985
▪ Last day of employment	1 st April 2005
▪ Effective date of election under Regulation 31(1)	2 nd April 2005

14. The member falls into Group 1, since paragraph 2 of the Transitional Schedule applies to her. The next step is to calculate the *relevant date* for this member (under paragraph 5 of the Transitional Schedule). On 31st March 2013 she will be aged 65 years 363 days – so her relevant date is April 2nd 2005 (the day after she leaves local government employment), and all her service is Part A Membership.

15. We proceed to calculate CRA_A . At her early retirement date, she is aged 58 years, and has 19y 183d of membership. She does not satisfy the rule of 85 at that date, but, had she remained in service, she would first satisfy the rule of 85 on her 62nd birthday – so this is her CRA_A . The term for which the early retirement reductions should be applied is then 4.000 years (62 years less 58 years). (If the member had commenced service, for example, on October 1st 1975 no reductions would be applied if her employing authority consented to her election for early retirement under Regulation 31(2) – but the administering authority might consider that additional payments would be required from the employing authority under Regulation 80(5).) If her employing authority did not consent to early retirement, the election for early retirement benefits would not be effective – the administering authority could not, for example, pay an early retirement pension with reductions applied for 2 years from age 60 to age 58.

16. The appropriate factors can be read from the table in Appendix I:

▪ P_A	23%
▪ LS_A	9%

Assuming that the member has Final Pay of £18,000, her early retirement pension and lump sum are calculated as follows:

$$ERPension.... \frac{(19 + 183/365)}{80} \times £18,000 \times (1 - 0.23) = £3,378.61 \quad p.a.$$

$$ERCash..... \frac{3 \times (19 + 183/365)}{80} \times £18,000 \times (1 - 0.09) = £11,978.12$$

17. 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. The requirements of Regulation 36(5) are satisfied as the initial pension comfortably exceeds £2,156 p.a. – being the amount of pension in respect of her period of membership from October 1st 1985 to 30th April 1995.

Example (2)

18. The second example relates to a male employee:

▪ Date of Birth:	1 st April 1978
▪ Date of commencement of service:	1 st October 1998
▪ Last day of employment:	31 st March 2033
▪ Effective date of election under Regulation 31(1)	1 st April 2033

19. The member falls into Group 2, since paragraph 2 of the Transitional Schedule does not apply to him – he will be only 26 years 364 days old on March 31st 2005. Assuming the member remains in service until the date of his election for early retirement his Part B Membership will be 28 years. His CRA_B is 65 years. After his 53rd birthday (April 1st 2031) the member would satisfy the rule of 85. Although, the member cannot actually make an election under Regulation 31(1) until his 55th birthday (April 1st 2033). Therefore, at any time on or after that date the member can retire and suffer no reduction on his benefits earned by Part A Membership of 6y 182d. As the member is retiring before his 60th birthday, employer consent is required in accordance with Regulation 31(2). The term for which the reductions apply to Part B Membership is 10.000 years (65 years less 55 years). The appropriate factors can be read from the table in Appendix I:

▪ P_A	0%
▪ LS_A	0%
▪ P_B	48%
▪ LS_B	26%

Assuming that the member has Final Pay of £23,000, his early retirement pension and lump sum are calculated as follows:

$$ERPension.....£23,000 \times \frac{1}{80} \times \left(\left(6 + \frac{182}{365} \right) \times (1 - 0.00) + 28.000 \times (1 - 0.48) \right) = £6,054.36 \quad p.a.$$

$$ERCash.....£23,000 \times \frac{3}{80} \times \left(\left(6 + \frac{182}{365} \right) \times (1 - 0.00) + 28.000 \times (1 - 0.26) \right) = £23,476.07$$



Example (3)

20. The third example also relates to a male employee:

▪ Date of Birth:	1 st April 1960
▪ Date of commencement of service:	1 st October 1998
▪ Last day of employment:	31 st March 2020
▪ Effective date of election under Regulation 31(1)	1 st April 2020

21. The member falls into Group 2, since paragraph 2 of the Transitional Schedule does not apply to him – he will be only 44 years 364 days old on March 31st 2005. After his 62nd birthday (April 1st 2022) the member would satisfy the rule of 85. He can retire before that date, as long as he is 55 years or more – but he will suffer reduction on his benefits earned by Part A Membership (6y 182d) in respect of the period from the effective date of his election under Regulation 31(1) to his 62nd birthday (although consent is required for retirement before his 60th birthday, in any event). Assuming the member remains in service as outlined above, his Part B Membership will be 15 years. His CRA_B is 65 years. In this case, the term for which the reductions apply to Part A Membership is 2.000 years (62 years less 60 years). The term for which the reductions apply to Part B Membership is 5.000 years (65 years less 60 years). The appropriate factors can be read from the table in Appendix I:

▪ P _A	15%
▪ LS _A	5%
▪ P _B	33%
▪ LS _B	11%

Assuming that the member has Final Pay of £20,000, his early retirement pension and lump sum are calculated as follows:

$$ERPension.....£20,000 \times \frac{1}{80} \times \left(\left(6 + \frac{182}{365} \right) \times (1 - 0.15) + 15.000 \times (1 - 0.33) \right) = £3,893.46 \quad p.a.$$

$$ERCash.....£20,000 \times \frac{3}{80} \times \left(\left(6 + \frac{182}{365} \right) \times (1 - 0.05) + 15.000 \times (1 - 0.11) \right) = £14,642.77$$

Example (4)

22. The fourth and final example relates to a female employee:

▪ Date of Birth:	1 st April 1952
▪ Date of commencement of service:	1 st October 1992
▪ Last day of employment:	31 st March 2014
▪ Effective date of election under Regulation 31(1)	1 st April 2014

23. The member falls into Group 1. She does not satisfy the 85 year rule at the date of her election for immediate retirement benefits. However, she would have satisfied the 85 year rule at age 63 – had she remained in service. Therefore, she should suffer reduction on her benefits earned by Part A Membership (20y 182d) in respect of the period from the effective date of her election under Regulation 31(1) to her 63rd birthday. Assuming she remains in service until the date of her election for early retirement above, her Part B Membership will be 1 year. Her CRA_B is 65 years. In this case, the term for which the reductions apply to Part A Membership is 1.000 years (63 years less 62 years). The term for which the reductions apply to Part B Membership is 3.000 years (65 years less 62 years). The appropriate factors can be read from the table in Appendix I:

▪ P_A	7%
▪ LS_A	2%
▪ P_B	18%
▪ LS_B	7%

Assuming that the member has Final Pay of £35,000, her early retirement pension and lump sum are calculated as follows:

$$ERPension....£35,000 \times \frac{1}{80} \times \left(\left(20 + \frac{182}{365} \right) \times (1 - 0.07) + 1.000 \times (1 - 0.18) \right) = £8,699.13 \quad p.a.$$

$$ERCash.....£35,000 \times \frac{3}{80} \times \left(\left(20 + \frac{182}{365} \right) \times (1 - 0.02) + 1.000 \times (1 - 0.07) \right) = £27,586.99$$

24. In practice, the administering or employing authority might also consider whether further tests, to ensure that the requirements of Regulation 36 of the LGPS would be satisfied, should be applied in this case.

Appendix I

Percentage Reduction in Accrued Retirement Benefits
(To be used in the calculation of reduced benefits)

<i>Years Early</i>	<i>Pension Reduction (%)</i>		<i>Lump Sum Reduction All Members %</i>
	<i>Males</i>	<i>Females</i>	
0	0	0	0
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11
6	37	31	14
7	40	35	18
8	43	39	21
9	46	42	24
10	48	45	26
11	50	47	28
12	52	49	30
13	54	51	32
14	56	53	34
15	58	55	36

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 Regulation 31(1) of the LGPS; and
 - (ii) is the date on which the member would be entitled to unreduced benefits (assuming, where relevant, that the employer would consent to an election for the early payment of benefits if the member is under age 60), as outlined in paragraph 3 of this guidance note.
- (2) Practitioners may need to refer to this table twice (with different values of *Years Early*) when preparing calculations for Group 1(b) or Group 2 members.
- (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, where the member is a Group 1(b) or a Group 2 member).
- (4) Where the number of *Years Early* is not an integer number, the reduction factors from the table should be interpolated for part years.

LOCAL GOVERNMENT PENSION SCHEME**EARLY RETIREMENT - REGULATION 31**

1. **Purpose.** Regulation 31 of the Local Government Pension Scheme Regulations 1997 (SI No 1612 of 1997) makes provision for members of the Local Government Pension Scheme to elect to retire early on reduced benefits. In accordance with Regulation 31(4), the Government Actuary is required to provide guidance on the appropriate amounts of reduction in retirement pension and retirement grant in respect of early payment. The purpose of this note is to provide the guidance required by Regulation 31(4). This note has been prepared by the Government Actuary's Department at the request of the Department of the Environment, Transport and the Regions, and is issued to them for onward transmission to the administering authorities and local government employers.
2. **Early Leavers.** Under Regulation 31(1), a member who has attained age 50, but who is not entitled to immediate payment of retirement benefits, may elect to receive early payment of his retirement benefits immediately from the date of his election (or date of leaving service, if later). This Guidance Note deals only with those cases where a reduction in the level of accrued benefits is appropriate under Regulation 31, and is not relevant to those who are entitled to unreduced benefits because of retirement on ill-health grounds, or for reasons of redundancy.
3. **Immediate Elections.** This Guidance Note and the attached table is applicable only to members who elect for early payment of benefits immediately at the time of leaving service. Where there is a gap between the date of leaving service and the effective date of the election for early payment of benefits, an alternative approach will be appropriate for members under age 55, because of the restrictions relating to the payment of pensions increases on benefits coming into payment before age 55. In broad terms, pensions increases which have accrued following the date of cessation of service do not come into payment until the member attains age 55. A separate note, and factors, will be prepared for this category.
4. **Employer Consent.** In accordance with Regulation 31(2), a member who makes an election below the age of 60 is not entitled to immediate payment of his retirement benefits, unless the employing authority or former employing authority gives consent to the early payment. Employer consent is not required for members over age 60, and the member therefore has an unfettered entitlement to a reduced early retirement pension if the election is made after the member attains age 60.
5. **Reduction in Benefits.** A member is entitled to unreduced benefits on attaining his or her normal retirement date ("NRD"), or on satisfying the "rule of 85" before NRD. To satisfy the "rule of 85" the member's age (in whole years), plus his total membership (in whole years) including any period between the end of his local government employment and the effective date of the election for the early payment of benefits, must be at least 85. The employer's consent to early payment of benefits is required if the member would satisfy the rule of 85 prior to age 60.
6. The extent of the reduction in accrued benefits for a member who elects for early immediate payment will depend on the period between the date of election and the date on which the member would be entitled to unreduced benefits (assuming the employer consents to the early payment of benefits for a member under age 60). The table attached with this note shows the percentage reduction that is applicable for each "year early" from 1 year to 15 years. Separate factors are shown for the reduction in pension for men, the reduction in pension for women, and the reduction in lump sum retirement grant. The factors should be interpolated for part years, when the number of "years early" is not an exact whole number.

7. **Examples.** *Two simple examples are described to illustrate the application of the factors. The first example is a female local government employee, whose service with the local government commenced at exact age 45, who serves continuously until exact age 58, and who then elects for early payment of her retirement benefits. The employer's consent would be required as age is below 60. Since the earliest age at which unreduced benefits would be applicable in this example is age 65, the period of years between the date of election and the date of entitlement to unreduced benefits is 7 years (the difference between age 65 and age 58). Taking the factors in the table, the accrued pension benefit would be reduced by 35%, resulting in pension payment of 65% of the accrued pension, but subject to the underpinning minimum of the requisite benefit test (Regulation 36(5)) and the potential impact of the Guaranteed Minimum Pension. The lump sum retirement grant would be reduced by 18%, resulting in a payment of 82% of the accrued retirement grant.*
8. *The second example relates to a male employee who commences work at exact age 27, and who serves continuously until age 56, which is the earliest age at which this member would satisfy the rule of 85 requirement. (The rule of 85 is satisfied because the member's age of 56, plus his total membership of 29 years, would be equal to 85.) If the employer does not give consent to the payment of immediate benefits at age 56, then the earliest age at which unreduced benefits could be payable would be on attainment of age 60.*
9. *If the employer were to give his consent to the immediate payment of benefits from age 56, then there would be no reduction in accrued benefits payable, because the member satisfies the rule of 85. However, the reduction factors for converting benefits payable from age 60 to their equivalent payments from age 56, (viz. 28% for pension and 9% for lump sum), give an indication of the extra cost being incurred through the exercise of this discretion.*
10. *If the same member were to apply for immediate early payment of benefits from age 54, and if the employer gave his consent, then the period of years between the date of election and the date of entitlement to unreduced benefits would be two years (ie the difference between age 56 and age 54). In those circumstances, the accrued pension should be reduced by 15%, and the accrued lump sum retirement grant by 5%.*

11. **Transfer Credits.** *In cases where a member's service includes a transfer credit acquired under Regulation 66(1)(d) and 66(5), the retirement pension in respect of this transfer credit should first be reduced in accordance with Regulation 66(7), and then further reduced in accordance with Regulation 31(4), if the member does not satisfy the Rule 85. In such cases, the percentage reduction in the retirement pension in respect of the reduced transfer credit should be determined using the factor for the period from the last day of service to the date used in calculating the reduction in the transfer credit under Regulation 66(7), effectively the earliest date on which the rule of 85 would be satisfied.*

12. **GMP Test.** *Because the Local Government Pension Scheme is contracted out of the State Earnings Related Pension Scheme, it must satisfy the various requirements of the preservation and revaluation legislation applying to occupational pension schemes. One of these requirements is that the pension payable to a member from State pension age should not be less than the "Guaranteed Minimum Pension" (GMP) in relation to service before 6th April 1997. Where a member retires early with a reduced pension entitlement, it is possible that the reduction in pension might result in the pension payable from State pension age falling short of the minimum legislative requirements. In considering whether to give consent to a request for an immediate payment of reduced benefits from a member under age 60, the employing authority may wish to take into account whether there is a risk that the pension will have to be increased at State pension age. In order to leave a reasonable margin between the reduced pension and the minimum requirements effective from State pension age, a reasonable test would be to check whether the reduced pension would exceed the current level of the GMP by at least 2% a year for each year between the date of election and the date of attaining State pension age.*

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LOCAL GOVERNMENT PENSION SCHEME**EARLY RETIREMENT UNDER REGULATION 31(4)****Percentage Reduction in Accrued Retirement Benefits**
(To be used in the calculation of reduced benefits)

Years Early	Pension Reduction (%)		Lump Sum Reduction All Members %
	Males	Females	
0	0	0	0
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11
6	37	31	14
7	40	35	18
8	43	39	21
9	46	42	24
10	48	45	26
11	50	47	28
12	52	49	30
13	54	51	32
14	56	53	34
15	58	55	36

Notes:

- (1) The number of “years early” is the period between the dates (a) and (b) below, where:
- (a) is the date from which the member has elected to receive his retirement benefits immediately under Regulation 31(1), and
- (b) is the date on which the member would be entitled to unreduced benefits (assuming the employer consents to the early payment of benefits for a member under age 60) i.e. the earlier of the date the member satisfies the “Rule of 85” and his NRD.
- (2) The member satisfies the “Rule of 85” if his age (in whole years) plus his total membership (in whole years), plus the period between termination of local government employment and the date he elects, equals 85.
- (3) Where the number of “years early” is not exact, reduction factors should be interpolated for part years.

LOCAL GOVERNMENT PENSION SCHEME**EARLY RETIREMENT - REGULATION 31****(CASES WHERE THERE IS A GAP BETWEEN LEAVING SERVICE AND ELECTION FOR EARLY PAYMENT)**

1. **Purpose** Regulation 31(4) of the Local Government Pension Scheme Regulations (SI No. 1612 of 1997) requires the Government Actuary to provide guidance on the appropriate amounts of reduction in retirement pension and retirement grant on the early retirement of a member under Regulation 31. A note was prepared by the Government Actuary's Department ("GAD") at the request of the Department of the Environment, Transport and the Regions ("DETR") and issued to them on 21 January 1998 to provide the guidance applicable to members who elect for early payment of benefits immediately at the time of leaving service. The purpose of this note, which has also been prepared by GAD at the request of DETR, and is issued to them for onward transmission to the administering authorities and local government employers, is to provide guidance which is applicable to members who do not elect for early payment of benefits immediately at the time of leaving service but do so later.
2. **Early leavers** Under Regulation 31(1), a member who has left service and who is entitled to deferred retirement benefits under the Local Government Pension Scheme ("LGPS") may elect to receive early payment of his retirement benefits at any time after attaining age 50.
3. **Employer consent** In accordance with Regulation 31(2), a member who is under age 60 when he makes the election is not entitled to immediate payment of his retirement benefits, unless the former employing authority gives consent to the early payment.
4. **Unreduced benefits** The benefits of a member who elects for early payment will normally be reduced by the application of the factors described in this Note. However, a member is entitled to unreduced benefits if he satisfies the "rule of 85". To satisfy the "rule of 85", the member's age (in whole years), plus his total membership (in whole years), including the period between the end of his local government employment and the effective date of the election for the early payment of benefits, must be at least 85. The employer's consent to early payment of benefits is required, however, if the member satisfies the rule of 85, but has not attained age 60.
5. **Accrued pension increases** The guidance to be provided on the extent of the reduction in accrued benefits for members who elect for early immediate payment of benefits is more complicated where there is a gap between the date of the leaving service and the effective date of the election. This is because the pension increases which have accrued since leaving service vary according to the time interval between leaving service and early payment. For the LGPS, the administering authorities use factors known as pensions increase multipliers to adjust preserved pensions and lump sums for pension increases since the date of leaving service.
6. **Example (1)** For example, since 6 April 1998 the pensions increase multiplier for a preserved pension with a "beginning date" between 7 December 1981 and 6 January 1982 has been 2.1520. It is likely that this multiplier will be increased in April 1999. Thus, if a preserved pension, before pension increases, were £1,000 and the pension were due to commence in October 1998, the initial rate, including pension increases, would be £2,152 (i.e. £1,000 x 2.1520). If the preserved lump sum were £3,000, and no deductions from it were to be made, the lump sum would be £6,456 (i.e. £3,000 x 2.1520). There would then be a further increase in the lump sum payable in April 1999 expressed as a percentage of £6,456 according to the period between 7 April 1998 and the date on which £6,456 was paid.

7. **Basic preserved pension and basic preserved lump sum** For the purpose of this note, the amounts of the preserved pension and lump sum calculated as at the date of leaving service before adjustment for pension increases are described as basic preserved pensions and basic preserved lump sum. Percentage reductions in accrued preserved pensions and preserved lump sums for early payment should be applied to the basic preserved pension and lump sum before the application of the pension increase multiplier.
8. **Percentage reductions** The extent of the reduction in accrued benefits for a member who elects for early immediate payment at age 55 or over will depend on the period between the date of election and the date on which the member would be entitled to unreduced benefits (assuming the employer consents to the early payment of benefits for a member under age 60). The same percentage reductions should be applied to the basic preserved pension and basic preserved lump sum as would be applied if there were no gap between the date of leaving service and the effective date of the election. For convenience, these percentage reductions for each “year early” from one to fifteen years are attached at Appendix 1.
9. **Adjustment for pension increases** For members who have attained age 55 at the date of election to retire early, there is no requirement to defer payment of pension increases. Thus the immediate pension and lump sum are obtained by applying the pension increase multiplier to the reduced basic preserved pension and reduced basic lump sum calculated using the factors in Appendix 1.
10. **Example (2)** For the purpose of this example, it is assumed that the option to retire early with a reduced pension under Regulation 31 applies to members who left service before 1 April 1998. This assumption is made in order to use rates of pension increases awarded in the past, rather than making assumptions about future rates of inflation. Consider a female member who left service on 1 October 1992 with a basic preserved pension of £1,000 and a basic preserved lump sum of £3,000. She was aged 45 exact when she commenced local government employment on 1 October 1986. She elects for early payment of benefits on 1 October 1998, her 57th birthday. The employer’s consent would be required as her age is below 60. Since the earliest age at which unreduced benefits would be applicable in this example is age 65 (assuming she has no transferred-in service), the period between the date of election and the date of entitlement to unreduced benefits is 8 years (the difference between age 65 and age 57).
11. Taking the factors for 8 years early in the table in Appendix 1, the basic preserved pension would be reduced by 39% to £610 and the basic preserved lump sum would be reduced by 21% to £2,370. Applying the pensions increase multiplier of 1.1640, the immediate pension would be £710.04 (= 1.164 x 610), and the immediate lump sum would be £2,758.68 (= 1.164 x 2,370). The pension payable would be subject to the underpinning minimum of the requisite benefit test (Regulation 36(5)) and the potential impact of the Guaranteed Minimum Pension. There would be a further lump sum payment early in April 1999 of £44.14 (= 1.6% of 2,758.68) on the further assumption of a 3.2% increase in the RPI between September 1997 and September 1998.

MEMBERS UNDER AGE 55

12. **Members under age 55** Pensions increases cannot normally be paid before age 55 to members who are under age 55 when they elect for early immediate payment of benefits. The reduction in pension increases already accrued for which payment has to be deferred to age 55 depends mainly on the period (if any) between the 55th birthday and the date after the 55th birthday on which the member would be entitled to unreduced benefits (assuming the employer consents). The reduction in basic benefits, on the other hand, depends mainly on the longer period between the date of election and the date on which the member would be entitled to unreduced benefits. In order to be able to apply the pensions increase multiplier to the reduced pension in payment and the lump sum already paid once the member reaches age 55, it is appropriate to

derive a single percentage reduction for early payment of benefit which is a combination of the reduction for early payment at the date of election and that for early payment at age 55.

13. **Percentage reductions** In order to maintain consistency with the early retirement factors applicable where there is no gap between date of leaving and date of election, it is appropriate to adopt the percentage reductions used in those circumstances (which are shown in Appendix 1) as the basis for producing “combined” reduction factors for members below age 55. The relevant reduction factors are as follows:

BPR is the Pension Reduction according to the total number of years early;

PIR is the Pension Reduction according to the number of years between the 55th birthday and the date on which the member would be entitled to unreduced benefits (or 0, if the 55th birthday is the later of the two dates);

BLSR is the Lump Sum Reduction according to the total number of years early;

PILSR is the Lump Sum Reduction according to the number of years between the 55th birthday and the date on which the member would be entitled to unreduced benefits (or 0, if the 55th birthday is the later of the two dates).

The formulae for deriving the combined reductions are

- (a) Combined Pension Reduction (%) is 100 times the complement of:

$$\frac{(1 - BPR/100) + (P - 1) \times (1 - PIR/100) \times A}{1 + (P - 1) \times A}$$

- (b) Combined Lump Sum Reduction (%) is 100 times the complement of:

$$\frac{(1 - BLSR/100) + (P - 1) \times (1 - PILSR/100) \times B}{1 + (P - 1) \times B}$$

where *P* is the pensions increase multiplier, and
A and *B* are the factors shown in Appendix 2

14. **Example (3)** For the purpose of this example, it is assumed that the option to retire early with a reduced pension under Regulation 31 applies to members who left service before 1 April 1998. This assumption is made in order to use rates of pensions increases awarded in the past, rather than making assumptions about future rates of inflation. Consider a male member who commenced working for a local government employer on his 27th birthday on 1 October 1975 and left 13 years later with a basic preserved pension of £1,500 and a basic preserved lump sum of £4,500. He elects for early payment of benefits on 1 October 1998, his 50th birthday. The former employer’s consent is required as he is under 60. The earliest age at which he could satisfy the rule of 85 requirement would be his 56th birthday (when his age, plus his membership, plus the period since he left service, would equal 85). Thus the number of years between the date of election and the date of entitlement to unreduced benefits is 6 years (the difference between age 56 and age 50). The number of years between the 55th birthday and the date of entitlement to unreduced benefits is 1 year.
15. **The calculation** The pensions increase multiplier on 1 October 1998 for a member who left service on 1 October 1988 is 1.5149. From Appendix 1, the percentage reductions to be combined are:

Basic Pension Reduction (BPR)

37

%



<i>Pensions Increase Reduction (PIR)</i>	8
<i>Basic Lump Sum Reduction (BLSR)</i>	14
<i>Pensions Increase Lump Sum Reduction (PILSR)</i>	2

The values of the variables in the formulae for combining these reductions, based on the number of years to the member's 55th birthday, which is 5, are as follows, from Appendix 2:

$$\begin{aligned} A &= 0.759 \\ B &= 0.682 \end{aligned}$$

(If the time interval to age 55 were not an exact number of years, interpolation would be required to obtain factors A and B.)

16. The fraction to be evaluated to give the Pension Reduction is:

$$\begin{aligned} &\frac{(1 - 37/100) + (1.5149 - 1) \times (1 - 8/100) \times 0.759}{1 + (1.5149 - 1) \times 0.759} \\ &= \frac{0.63 + (0.5149 \times 0.92 \times 0.759)}{1 + (0.5149 \times 0.759)} = 0.7115 \end{aligned}$$

giving a Combined Pension Reduction of 28.85% (i.e. $100 \times (1 - 0.7115)$)

17. The fraction to be evaluated to give the Lump Sum reduction is:

$$\begin{aligned} &\frac{(1 - 14/100) + (1.5149 - 1) \times (1 - 2/100) \times 0.682}{1 + (1.5149 - 1) \times 0.682} \\ &= \frac{0.86 + (0.5149 \times 0.98 \times 0.682)}{1 + (0.5149 \times 0.682)} = 0.8912 \end{aligned}$$

giving a Combined Lump Sum Reduction of 10.88% (i.e. $100 \times (1 - 0.8912)$)

18. **Benefits before age 55** The basic preserved pension of £1,500 would be reduced by 28.85% to £1,067.25. The pension would be paid at this rate until age 55 or the previous death of the member. The basic preserved lump sum of £4,500 would be reduced by 10.88% to £4,010.40 for payment at the date of election for early retirement (i.e. age 50 in this case).
19. **Benefits at age 55** The pension from age 55 would be the amount obtained by applying the pensions increase multiplier on 1 October 2003 (for someone who left service on 1 October 1988) to the reduced basic pension of £1,067.25. If, for example, inflation were at the rate of 3.2% p.a. from September 1997 to September 2002, the pension at age 55 would be:

$$1067.25 \times 1.5149 \times (1.032)^5 = £1,892.56$$

20. Also due for payment at age 55 is the pension increase element on the lump sum already accrued up to date of election (age 50 in this case). This should be calculated by multiplying the reduced basic lump sum (£4,010.40) by the factor $(P - 1)$, where P is the pension increase multiplier at date of election and not at age 55. This gives a benefit of £2,064.95, which is derived from the calculation $(1.5149 - 1) \times 4010.40$. Also, the pension increase for the period from 6 April 1998 to the date the lump sum was taken, would be due for payment on 1 October 2003; this would be £97.21 ($= 1.5149 \times 4,010.40 \times .016$), assuming inflation of 3.2% p.a. No interest should be added for the period 1 October 1998 to 1 October 2003 to either of these amounts.

21. **Transfer credits** *In cases where a member's service includes a transfer credit acquired under Regulation 66(1)(d) and 66(5) and adjusted under Regulation 66(8), the transfer credit should first be reduced in accordance with Regulation 66(7). The retirement pension in respect of the reduced transfer credit should then be reduced further in accordance with Regulation 31(4), if the member does not satisfy the Rule of 85. (For the purpose of determining whether the member does satisfy the Rule of 85 and, if not, when he will do so, total membership should include the transfer credit after reduction under Regulation 66(7) and not before such reduction.) In cases where the member does not satisfy the Rule of 85, the percentage reduction in the basic retirement pension in respect of the reduced transfer credit should be based on the period from the date of the election for reduced benefits or from the 55th birthday, as appropriate, to the date used in calculating the reduction in the transfer credit under Regulation 66(7).*
22. **GMP test** *Because the LGPS is contracted out of the State Earnings Related Pension Scheme, it must satisfy the various requirements of the preservation and revaluation legislation applying to occupational pension schemes. One of these requirements is that the pension payable to a member from State pension age should not be less than the "Guaranteed Minimum Pension" (GMP) in relation to service before 6th April 1997. Where a member retires early with a reduced pension entitlement, it is possible that the reduction in pension might result in the pension payable from State pension age falling short of the minimum legislative requirements. In considering whether to give consent to a request for an immediate payment of reduced benefits from a member under age 60, the employing authority may wish to take into account whether there is a risk that the pension will have to be increased at State pension age. In order to leave a reasonable margin between the reduced pension and the minimum requirements effective from State pension age, a reasonable test would be to check whether the reduced pension would exceed the current level of the GMP by at least 2% a year for each year between the date of election and the date of attaining State pension age. For this purpose the pension increase multiplier should be applied to the reduced pension for a member under age 55.*

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Appendix 1**LOCAL GOVERNMENT PENSION SCHEME****EARLY RETIREMENT UNDER REGULATION 31(4)****Percentage Reduction in Accrued Retirement Benefits**
(To be used in the calculation of reduced benefits)

Years Early	Pension Reduction (%)		Lump Sum Reduction All Members %
	Males	Females	
0	0	0	0
1	8	7	2
2	15	13	5
3	22	18	7
4	28	23	9
5	33	27	11
6	37	31	14
7	40	35	18
8	43	39	21
9	46	42	24
10	48	45	26
11	50	47	28
12	52	49	30
13	54	51	32
14	56	53	34
15	58	55	36

Notes:

- (1) The number of “years early” is the period between the dates (a) and (b) below, where:
- (a) is the date from which the member has elected to receive his retirement benefits immediately under Regulation 31(1), and
- (b) is the date on which the member would be entitled to unreduced benefits (assuming the employer consents to the early payment of benefits for a member under age 60) i.e. the earlier of the date the member satisfies the “Rule of 85” and his NRD.
- (2) The member satisfies the “Rule of 85” if his age (in whole years) plus his total membership (in whole years), plus the period between termination of local government employment and the date he elects, equals 85.
- (3) Where the number of “years early” is not exact, reduction factors should be interpolated for part years.

Appendix 2**LOCAL GOVERNMENT PENSION SCHEME****EARLY RETIREMENT UNDER REGULATION 31(4)****Values of variables in the formulae to be used in the calculation of the reductions for members under age 55 at the date of the election**

The values of the variables in the formulae shown in paragraph 13 of the Guidance Note are as follows.

No. of years to 55th birthday	A (Pension)		B (Lump Sum)
	Males	Females	Males and Females
0	1.000	1.000	1.000
1	0.941	0.945	0.926
2	0.888	0.896	0.858
3	0.840	0.851	0.794
4	0.798	0.811	0.736
5	0.759	0.774	0.682

Note:

Where the number of years between the effective date of the election for early payment of benefits and the 55th birthday is not an exact number of years, values of A and B should be obtained by interpolation.