The Local Government Pension Scheme (Scotland)

Early Payment of Pension

New Important Addendum Issued 11 March 2014

Date: 28 March 2012

Author: Ken Kneller

Local Government Pension Scheme (Scotland)
Early Payment of Pension (effective from 28 March 2012)

Table of Contents

1   Introduction

1.1   Under Regulation 18(3) and 30(4) of the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 ("the Benefit Regulations") (SSI 2008/230) the Scheme Actuary is required to issue guidance to determine the appropriate amounts by which a member's retirement pension should be reduced in respect of early payment. Regulation 14(3) also requires the Scheme 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   Under Regulation 3(2)(b) of the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008 (SSI 2008/229) ("the Transitional Regulations") any benefits accrued before 1 April 2009 are reduced in line with guidance issued by the Scheme Actuary where benefits become payable under Regulation 18 or 30 of the Benefit Regulations.

1.3   A member may also have a transfer credit that was awarded under protected regulation 65(8) of the Local Government Pension Scheme (Scotland) Regulations 1998 ("the 1998 Regulations") (SI 1998/366) protected by virtue of Schedule 1 of the Transitional Regulations. This guidance also applies for reductions applied in respect of those transfer credits.

1.4   Under Regulation 95(7) of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (SSI 2008/228) ("the Administration Regulations") Pension Credit benefits may be paid before normal benefit age, however the benefits paid must be reduced in line with guidance issued by the Government Actuary's Department.

1.5   The purpose of this guidance note is to provide the guidance referred to in Regulations 14(3), 18(3) and 30(4) of the Benefits Regulations, Regulation 95(7) of the Administration Regulations, Regulation 3(2)(b) of the Transitional Regulations and Regulation 65(8) of the 1998 Regulations. This note has been prepared by the Government Actuary's Department (GAD) for the Scottish Public Pensions Agency (SPPA) for onward transmission to administering authorities in order to provide the guidance required.

Implementation and Review

1.6   The factors and guidance contained in this note should be followed with immediate effect.

1.7   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 (Scotland).

1.8   This guidance replaces the previous guidance dated 25 February 2009.

Limitations

1.9 This guidance note should not be used for any purpose other than to determine benefits on early retirement.

1.10 This guidance note should not be used in cases where a member elects below age 55. Any such cases should be referred to SPPA for onward transmission to GAD.

1.11 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.

1.12 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.

1.13 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 is not relevant for members who are entitled to unreduced benefits because of retirement on ill-health grounds, or for reasons of redundancy.

1.14 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   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 (at the effective date of the election) from 65 or the 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 (definitions of the terms used in this section can be found in Appendix B).

2.2   The pension following early retirement is calculated as follows:

Pension at early retirement = Accrued pension x 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.

2.3   If a member is aged less than 60 at the effective date of an election under Regulation 30(1) of the Benefits 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), 16B(3), 16C(3) or 16D(3) of the Benefits Regulations). If such consent is granted to Group 1 or 2 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 member's 60th birthday. Any member who wishes to make an election under Regulation 18(1) requires the employing authority to give consent to the early payment.

2.4   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) or age 65.

2.5   SPPA 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.

Civil Servants transferred to the Scottish Environment Protection Agency and Former Members of NHS Superannuation Scheme for Scotland

2.6   Members covered under Regulations 13 and 14 of the Transitional Provisions are entitled to unreduced benefits from age 60. The reduction factors applied to pensions taken before normal retirement age by such members should be applied with reference to age 60 rather than CRA or age 65, as appropriate.

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, since she was born before 31 March 1960. The next step is to calculate the *relevant date* for this member (under paragraph 2 of Schedule 2 of the Transitional Regulations). On 31 March 2020 she will be aged 65 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 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 she 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 4.000 years (62 years less 58 years). (If the member had commenced service 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 37(2) of the Administration Regulations).

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

Pre-2009 Pension = 16 / 80 x £18,000   = £3,600.00 pa
Post-2009 Pension = (3 + 184/365) / 60 x £18,000   = £1,051.23 pa
Total Pension   = £4,651.23 pa

Pre-2009 Retirement Grant = 3 x £3,600.00   = £10,800.00

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

- P_{CRA} 20%
- RG_{CRA} 11%

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

ERPension......£4,651.23 x (1 - 0.20)   = £3,720.98 pa
ERCash..........£10,800.00 x (1 – 0.11) = £9,612.00

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 37(2) of the Administration Regulations. The employer may waive all or part of 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.

Ken Kneller
Fellow of the Institute and Faculty of Actuaries
Government Actuary's Department

Appendix A – Factors

Table 1: Factors to use after age 55

(To be used in the calculation of reduced benefits)

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 or 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, 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.

Appendix B – Transitional Provisions and Savings

In general terms, this note aims to provide guidance on the appropriate determination of P_{65}, RG_{65}, P_{CRA} and RG_{CRA} where:

- 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;
- 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;
- correspondingly for P_{CRA} and RG_{CRA} – 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).

Schedule 2 of The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SSI 2008/229) ("the Transitional Schedule") impacts on the way in which the reductions under Regulation 30(4) of the Benefit Regulations 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 a member prior to 1 December 2006, and born on 31 March 1960 or earlier;

- Group 2: A member who was a member prior to 1 December 2006, and born on or after 1 April 1960; and

- Group 3: A member who was not a member prior to 1 December 2006.

The age of the member at the earliest of:

- the member's pre 1st December 2006 Normal Retirement Date (under Regulation 24 of the 1998 regulations, prior to being amended by SSI 2006/514);
- 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). The CRA of a member in Group 3 is 65. Note that by this definition, which is used throughout, a member's CRA can be below age 60.

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

- Part A: Membership up to and including 31 March 2008

- Part B: Membership from 1 April 2008 to 31 March 2009

- Part C: Membership from 1 April 2009 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.

Membership type	Member category		
	Group 1	Group 2	Group 3
Part A	CRA	CRA	65
Part B	CRA	65	65
Part C	CRA	65	65
Part D	65	65	65

Membership credited under Regulation 79 of the Administration Regulations or equivalent previous Regulations (transferred-in membership) in respect of Group 1 or 2 members should be treated as Part A Membership if the member was an active member immediately before 1st April 2008 or if the transfer occurred before 1 April 2008. Other Membership under Regulation 79 should be treated as Part D Membership, except for Group 3 members who joined between 1 December 2006 and 31 March 2009, for whom it should be treated as Part A or Part B membership as appropriate.

Membership credited under Regulation 54 of the 1998 Regulations or equivalent previous Regulations (Added Years) should be treated as Part A Membership if the election was before 1st December 2006. Other Membership under Regulation 54 should be treated as Part D Membership.

Membership credited under Regulation 36 of the Administration Regulations or equivalent previous Regulations (Employer Augmented Membership) in respect of Group 1 or 2 members should be treated as Part A Membership if it was credited before 1st April 2008. Other Membership under Regulation 36 should be treated as Part D Membership, except for Group 3 members who joined between 1 December 2006 and 31 March 2009, for whom it should be treated as Part A or Part B membership as appropriate.

A transfer credit awarded under protected regulation 65(5) of the 1998 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 25 October 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.

Pension awarded under Regulation 20 of the Administration Regulations (Added Pension) should be treated as if it is payable unreduced from age 65.

The Local Government Pension Scheme (Scotland)
Early Payment of Pension

1   Addendum

1.1   The Government Actuary's Department ("GAD") released guidance relating to early retirement in the Scottish Local Government Pension Scheme ("LGPS") on 28 March 2012. This included factors detailing how pensions should be reduced in the event of being taken early.

1.2   Following on from the recent scheme reform process for the LGPS, GAD have reviewed the actuarial factors that apply to LGPS Scotland and have determined that revised early retirement factors are required.

1.3   At the request of the Scottish Public Pension Agency ("SPPA") GAD have produced this addendum containing revised early retirement factors.

1.4   With the exception of the early retirement factors contained in the Appendix to this addendum, the guidance note of 28 March 2012 'Early payment of pension' still applies and should be read in conjunction with this addendum

1.5   The revised early retirement factors are contained in the Appendix to this addendum, these replace the factors contained in Appendix A of the guidance note of 28 March 2012 'Early payment of pension'. The revised factors apply with immediate effect.

1.6   The example contained in section 3 of the guidance note of 28 March 2012 'Early payment of pension' is still relevant, but is based on the outdated factors that were in force at the time that guidance note was written. Therefore the methods outlined in the examples are still valid, but should be applied using the factors contained in this addendum.

Government Actuary's Department

11 March 2014

Appendix A – Factors

Table 1: Factors to use after age 55

(To be used in the calculation of reduced benefits)

Years Early	Pension Reduction (%)		Retirement Grant Reduction All Members %
	Males	Females	
0	0	0	0
1	6	6	3
2	11	11	6
3	16	15	8
4	21	20	11
5	25	24	14
6	29	28	16
7	33	31	19
8	36	35	21
9	39	38	23
10	42	41	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 or 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, 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.