LOCAL GOVERNMENT PENSION SCHEME

EARLY RETIREMENT - REGULATION 30

1. **Purpose**. Regulation 30 of the Local Government Pension Scheme (Scotland) Regulations 1998 (SI No 366 of 1998) makes provision for members of the Local Government Pension Scheme to elect to retire early on reduced benefits. In accordance with Regulation 30(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 30(4). This note has been prepared by the Government Actuary's Department at the request of the Scottish Office Pensions Agency, and is issued to them for onward transmission to the administering authorities and local government employers.

2. **Early Leavers**. Under Regulation 30(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 30, 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 30(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.

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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 35(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 65(1)(d) and 65(5), the retirement pension in respect of this transfer credit should first be reduced in accordance with Regulation 65(7), and then further reduced in accordance with Regulation 30(4), if the member does not satisfy the rule of 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 65(7).

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 30(4)

Percentage Reduction in Accrued Retirement Benefits
(Elections applicable immediately on cessation of service)

Years Early	*Pension Reduction (%)* *Males*	*Females*	*Lump Sum Reduction All Members %*
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 30(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 (if any) 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 30
(CASES WHERE THERE IS A GAP BETWEEN LEAVING SERVICE AND ELECTION FOR EARLY PAYMENT)

1. **Purpose** Regulation 30(4) of the Local Government Pension Scheme (Scotland) Regulations (SI No. 366 of 1998) 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 30. A note was prepared by the Government Actuary's Department ("GAD") at the request of the Scottish Office Pensions Agency ("SOPA") and issued to them on 4 March 1999 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 SOPA 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 30(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 30(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 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 pension and as 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.

MEMBERS AGED 55 AND OVER

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 30 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 pa 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 pa 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 pa (= 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 35(5)) and the potential impact of the Guaranteed Minimum Pension. There would be a further lump sum payment early in April 1999, which would be £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 when 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 30 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
Pensions Increase Reduction (PIR)	8
Basic Lump Sum Reduction (BLSR)	14
Pensions Increase Lump Sum Reduction (PILSR)	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:

$$A = 0.759$$
$$B = 0.682$$

(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:

$$\frac{(1 - 37/100) + (1.5149 - 1) \times (1 - 8/100) \times 0.759}{1 + (1.5149 - 1) \times 0.759}$$

$$= \frac{0.63 + (0.5149 \times 0.92 \times 0.759)}{1 + (0.5149 \times 0.759)} = 0.7115$$

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

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

$$\frac{(1 - 14/100) + (1.5149 - 1) \times (1 - 2/100) \times 0.682}{1 + (1.5149 - 1) \times 0.682}$$

$$= \frac{0.86 + (0.5149 \times 0.98 \times 0.682)}{1 + (0.5149 \times 0.682)} = 0.8912$$

giving a Combined Lump Sum Reduction of 10.88% (i.e. 100 x (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 <u>not</u> at age 55. This gives a benefit of £2,064.95, which is derived from the calculation (1.5149 - 1) x 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 x 4,010.40 x .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.

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 65(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 65(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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LOCAL GOVERNMENT PENSION SCHEME

EARLY RETIREMENT UNDER REGULATION 30(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 30(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 30(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.