

Strain quotation warning

The early retirement strain cost quoted is provided as an illustration only and the actual strain cost charged at the point of retirement may be more or less than the figure quoted. The Ministry of Housing, Communities and Local Government (“MHCLG”) is currently consulting on new Regulations which will amend the Local Government Pension Scheme Regulations 2013 (the “LGPS Regulations”) in respect of employers who are subject to The Restriction of Public Sector Exit Payments Regulations 2020 (the “Exit Payments Regulations”).

Based on the current draft Regulations, individual funds within the LGPS will have to move to using a standard methodology and factors set by the Government Actuary’s Department (“GAD”) for employers who are subject to the Exit Payments Regulations.

As part of the MHCLG consultation, GAD have issued draft Guidance containing the methodology and factors to be used to calculate the pension strain for all exits subject to the Exit Payments Regulations. However, this draft GAD Guidance is subject to the outcome of the consultation and will not come into effect until the LGPS Regulations are formally amended. We do not know when this will take place yet, especially in light of pending judicial review cases, although this is unlikely to be before April 2021.

The Shropshire County Pension Fund has not yet adopted the draft GAD Guidance and is still using its own Fund-specific methodology but has adopted the unisex GAD capitalisation factors with no change to the early retirement factors. The Fund may decide to adopt the draft GAD Guidance before the LGPS Regulations are formally amended, although no decision on this point has yet been made (or on whether to apply that GAD Guidance to other employers within the Fund). Therefore, depending on when a redundancy/termination actually takes place, the strain cost could be more or less than the figure quoted above.

It should also be noted that the proposed amendments to the LGPS Regulations will fundamentally change the way that redundancy/business efficiency triggered early retirement benefits under regulation 30(7) are calculated for all LGPS active members who are employed by employers subject to the Exit Payments Regulations. This will be the case irrespective of whether a member’s total exit payments exceed the exit cap.

Based on our current understanding of the draft Regulations:

a) strain costs relating to the immediate payment of early retirement benefits under regulation 30(7) (early leavers on grounds of redundancy or business efficiency) of the LGPS Regulations will be reduced by the value of the member's statutory redundancy payment. The member's benefits will then be reduced accordingly unless the member decides to pay an amount equal to the statutory redundancy payment to the Fund. This also applies to regulation 30(5) (early retirement) and 30(6) (flexible retirement) although statutory redundancy payments may not be applicable in these circumstances; and

b) in addition, in respect of members whose total exit payments (including the strain cost) exceed the exit cap, they will have an option to take a deferred pension, to take immediate payment of actuarially reduced LGPS benefits or to pay some or all of the strain cost (above the exit cap) from their own finances and receive either unreduced benefits or benefits with a lower actuarial reduction.

The figures quoted do not take these proposed changes to the LGPS Regulations into account. If a retirement takes place after the LGPS Regulations have been amended, then a new quotation (based on the new LGPS benefit structure and member options) will be required. As noted above, we do not currently know when the LGPS Regulations will be amended although this is unlikely to be before April 2021.

If you have any queries, please contact the Pensions Team on 01743 252130 or email pensions@shropshire.gov.uk