A Scheme Employers’ Guide to Retirement and Estimates under the Local Government Pension Scheme Regulations

For Local Government Pension Scheme employers

Please note that external links within this document are not updated by Peninsula Pensions and are provided for reference purposes only. Practitioners should ensure that they are referring to up-to-date information within any external links.

The information contained in this guide is based upon on a standard Local Government Pension Scheme member and may not be fully relevant to those members who have moved from other organisations, such as NHS, with Pension protections. Employers should contact Peninsula Pensions if they are unsure.
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1. Types of retirement

Under the Local Government Pension Scheme (LGPS) 2014, the normal retirement age for members is their state pension age or age 65, whichever is later. A minority of employees may have slightly earlier retirement ages through various protections. As these protections are only applicable to a minority of members, which will reduce further over time, this guide will assume that normal retirement age is state pension age.

The LGPS offers six types of retirement, which can be described as either ‘employee driven’ or ‘employer driven’ (where the employer must give some sort of consent):

Employer driven
- Flexible retirement
- Redundancy/efficiency
- Ill health retirement

Employee driven
- Normal age retirement
- Late retirement
- Early voluntary retirement (however, if the employer is intending to waive any actuarial reduction or switch on the 85 year rule protection, then it becomes employer driven).

In any case of potential employer driven retirement, the employer is advised to obtain an estimate of benefits from Peninsula Pensions to determine any ‘strain cost’ that the employer would need to pay. This will avoid any unnecessary shock to the employer when they are suddenly sent an invoice requesting payment. **Employees cannot request an estimate for employer driven retirements.**

The leaver’s process

Once an employee notifies their employer they are leaving, or the employer notifies the employee that their contract is being terminated, a [leaver’s form](#) should be sent to Peninsula Pensions at the earliest opportunity.

Under the Peninsula Pensions Admin Strategy, employers are requested to provide the leaver’s data a month before the employee retires. Where this is not possible, it must be provided within five days of the employee’s final payday. Peninsula Pensions have the right to charge additional costs on employers who do not meet this timescale.

Before sending the [leaver’s form](#), the employer should check the employee’s pension record through employer self service, to ensure that the pension record holds the correct hours for the member. Where the hours are incorrect the employer should send a [change of hours form](#) along with the leaver’s form.

The leaver’s form will show the reason for leaving, along with the relevant pay details that will allow Peninsula Pensions to calculate the pension benefits, to be paid either straight away if the member is retiring, or preserved if they are not eligible for retirement benefits at that time.
If the reason for leaving is an employer driven retirement, then any relevant paperwork, such as ill health certificates or authorisation forms will need to be sent with the leaver’s form (if not already sent). Peninsula Pensions will not be able to process any benefits without the correct paperwork.

2. Flexible Retirement

Under the regulations, once an employee reaches age 55, they may remain in employment and draw their retirement benefits. However, there are certain conditions that must be met:

- The employer must agree to the release of the pension.
- The employee must reduce either their hours, and/or their grade. The specific reduction required is not set out in the regulations, but instead must be determined by the employer, whom must specify the requirements within their flexible retirement policy (please see the guidance notes on the employer discretions policy on our website).

If the member takes flexible retirement at their normal retirement age then the benefits are paid without reduction, however, as most employees take flexible retirement before their normal retirement age, the benefits to be paid will be actuarially reduced. The employer has the option of waiving this reduction, but this would result in a ‘strain cost’.

If benefits are paid before age 65, the benefits are to be reduced in accordance with guidance issued by the Government Actuary. However, the regulations allow employers to choose to waive any reduction in whole or in part in the case of flexible retirement. This is different to ordinary early retirements where the employer can waive any reduction on compassionate grounds but only has the power to waive all of the reduction (so the employer cannot waive only part of the reduction).

If, in the case of a flexible retirement, the employer chooses to waive a reduction in whole or in part, the cost of doing so has to be paid to the Fund and is to be calculated by Peninsula Pensions in accordance with guidance from the fund’s actuary.

If the flexible retirement occurs on or after age 60 there will be no strain cost to be met by the employer because the person will either have met the 85 year rule / attained their normal retirement age or, if they haven’t, the actuarial reduction will be applied based on the period between the date of flexible retirement and the date the member attains the 85 year rule or the date they attain normal retirement age if earlier.

If the flexible retirement occurs before age 60 and the person does not meet the 85 year rule until age 60 or later again there will be no strain cost to be met by the employer.

It is advisable for employers to obtain an estimate of benefits from Peninsula Pensions to determine any ‘strain cost’ that would be payable by the employer before flexible retirement is agreed.

Any benefits paid as a result of flexible retirement shall not be subject to abatement under the administering authority’s abatement policy during such time as the person remains in the
employment of the employer who employed him / her at the date the member elected to receive benefits.

Members would have to draw:

• all of their pre 1 April 2008 benefits, plus
• all, some or none of their 1 April 2008 to 31 March 2014 benefits, plus
• all, some or none of their post 31 March 2014 benefits, plus
• any ‘additional benefits’ in accordance with actuarial guidance issued by the Secretary of State.

‘Additional benefits’ are:

• added years purchased by the member,
• Additional Voluntary Contributions (if the member chooses to draw them),
• additional pension bought by Additional Pension Contributions (APC’s)/Shared Cost Additional Pension Contributions (SCAPC’s),
• additional pension bought by Additional Regular Contributions (ARC’s),
• and additional pension awarded by the employer.

Employers should make sure that they have a policy in place to cover flexible retirement. Peninsula Pensions is unable to process flexible retirements where no policy exists.
3. Redundancy/Efficiency Retirement

Under the Local Government Pension Scheme (LGPS) regulations, if an employee’s employment ceases due to redundancy or efficiency, or the employment is terminated by mutual consent on grounds of business efficiency, and the employee is age 55 or over, and they have at least 2 years’ service, the member is entitled to and must take their pension benefits immediately without any actuarial reduction.

The member must also take their pension benefits from additional pension contributions although the amount will be reduced on redundancy / efficiency retirement.

In most cases of redundancy/efficiency, there will be a ‘strain cost’ to the employer. Therefore the employer should always ask for an estimate in any cases where the member would be age 55 or over at the date of employment ceasing.

Meaning of ‘business efficiency’ grounds for retirement
The scheme regulations themselves do not include a definition of ‘business efficiency’ and there isn’t a general law definition that the employer could rely on either. It will therefore be each employer’s responsibility to interpret what is meant by ‘business efficiency’ within their organisation.

When considering this, an employer needs to bear in mind that, if an employee over age 55 is dismissed or their employment terminated by mutual consent and the employer determines that it is not a redundancy or business efficiency situation, the employer could be challenged by the individual on this matter and take their case to the Pensions Ombudsman who may take a different view.
4. Ill Health Retirement

Active Employees

A member can be retired on ill-health grounds if they’re medically certified as being ‘permanently incapable of discharging efficiently the duties of his or her current employment’.

The LGPS provides three levels of ill-health retirement benefits; depending on how likely it is that the member will be able to find work again before retirement age. These three levels are known as Tier 1, Tier 2 and Tier 3.

The employer decides if a member qualifies for ill-health retirement and which tier applies; but in doing so, must have regard to the advice of a doctor qualified in occupational health medicine. This decision should be made only on medical considerations, based on a doctor’s certificate. Economic considerations (such as the availability of work) should not be taken into account.

Ill health retirements do not incur a ‘strain cost’, as the cost is built into the employers’ contribution rate as part of the triennial valuation.

If a potential ill-health retirement arises, please complete the front page of our ill health retirement certificate (Form IHCURR1) and arrange for the approved occupational health doctor to complete the rest of it and return it to you.

Based on the doctor’s certificate, you will need to complete the ill-health decision form (IHCURR2). Please send it to us with the doctor’s certificate (Form IHCURR1) and leaver’s form. We will then process the member’s benefits.

**Tier 1** - This tier applies to the more serious cases of ill health, where the member has little prospect of obtaining gainful employment before age 65. Immediate benefits would be payable. In calculating them, the member’s scheme membership would be made up to their normal retirement age.

There is no further action for employers once Tier 1 benefits have started to be paid. The pension is not reviewed and not time-limited.

**Tier 2** - This tier applies to members who have little prospect of obtaining gainful employment within the next three years but are likely to be able to do so before their normal retirement age. Immediate benefits would be payable. In calculating them, the member’s scheme membership would be made up by 25% of their remaining service to their normal retirement age.

As with Tier 1, there is no further action for employers once Tier 2 benefits start to be paid. The pension is not reviewed and not time limited.
**Tier 3** - This tier applies to members who have little prospect of obtaining gainful employment straight away but are likely to be able to do so within the next three years. Immediate benefits would be payable but there would be no award of extra membership. This award must be reviewed after 18 months and must terminate after a maximum of three years.

If a member is granted Tier 3 ill health benefits the employer needs to provide the employee with the following information:

- The pension will cease in three years at the latest.
- If still being paid, the pension will be reviewed after 18 months to confirm any change to the medical assessment.
- The member must inform the previous employer if they obtain gainful employment (30 hours or more per week for a period of not less than 12 months) as the pension will cease.

Unlike Tier 1 and Tier 2 benefits, the employer’s responsibility continues with a Tier 3 benefit. The employer must do the following once a Tier 3 pension is in payment:

- Review the medical condition of the member after 18 months on pension, by referring them to the IRMP for re-assessment (*Form IH3RW1*).
- Inform Peninsula Pensions that the third tier conditions still apply (*Form IH3RW2*).
- Inform Peninsula Pensions at anytime when the pension must cease (such as on obtaining gainful employment or medical re-assessment) (*Form IH3RW2*).
- Inform the member in writing when the pension is ceasing.
- Inform Peninsula Pensions if they need to recover an overpayment of pension (*Form IH3RW2*).
- Inform Peninsula Pensions if the member has to be re-assessed to a Tier 2 ill-health pension (*Form IH3RW2*). A copy of the IRMP medical certificate is required. (*Form IH3RW1*).

To assist the employer, Peninsula Pensions will:

- Issue a pay advice to the member each month with a message explaining that they must notify their previous employer if they obtain gainful employment. This may not be possible every month as other statutory messages maybe be required instead.
- Inform the employer when the member has been on pension for nearly 18 months and confirm the member’s current home address held on the payroll record.
- Inform the employer when the member has been on pension for nearly 36 months and confirm the member’s current home address held on the payroll record. This letter will confirm that Peninsula Pensions will cease the pension at 36 months.
- Recover any overpayment as instructed by the employer.
PROTECTIONS

- Employees who were members of the 1997 scheme and aged 45 or older on 31 March 2008 would receive the membership increase that would have been awarded under the 1997 scheme if this would be greater than the 2008 scheme award. The extra benefits, however, would be based on the 2008 scheme rates.

- If a member is purchasing added years under the 1997 regulations then for their added years to be ‘paid up’ they will need to satisfy the ill-health conditions under 1997 regulations. It is possible for a member to satisfy the old ill-health conditions but not the new 2008 conditions and vice versa, which could mean that their added years is ‘paid up’ but they are not entitled to an ill-health benefit or they are entitled to an ill-health benefit but their added years is not ‘paid up’ and will be apportioned.

Deferred/Preserved members

An ex-employee, with an entitlement to preserved benefits can ask their previous employer to release their pension on the grounds of a permanent breakdown in health.

The process is very much the same as an active member; however, the benefits and conditions for eligibility, along with the correct certificate, will depend on the date at which the member became entitled to the preserved benefits (leaving date).

- Employee left on or after 1st April 2014 – complete form IHDB1D
- Employee left on or after 1st April 2008 and before 1st April 2014 – complete form IHDB1A
- Employee left on or after 1st April 1998 and before 1st April 2008 – complete form IHDB1B
- Employee left before 1st April 1998 – complete form IHDB1C
- In all cases you would need to complete form IHDB2 to notify Peninsula Pensions of your decision.

For full guidance on ill health retirements, please see our guidance document on the website.

Useful ill health links

Third Tier Ill-Health Benefits – Q & A paper (DCLG – May 2009)

Circular 221 – Ill-Health Certificates (LGE – July 08)

Guidance on new ill health retirement provision – Regulation 20 & 31 of Benefit Regulations (DCLG – June 08)

Question to DCLG about third tier ill-health ceasing

CLG Statutory Guidance on ill-health retirement (November 2008)
5. Early Voluntary Retirement

The earliest age at which benefits can be paid from pension schemes, other than ill health, is age 55. Therefore, once an employee reaches age 55, they can simply resign from their employment and start drawing their pension benefits. However, if they have not reached their normal retirement age under the scheme, then the benefits would be actuarially reduced.

There is not normally any strain cost associated with this type of retirement. However, should the employer decide to waive the actuarial reduction there would be a strain cost payable to the fund.

In addition, if the member is aged between 55 and 60, it is possible that they have ‘85 year rule protections’. Unfortunately, as the 85 year rule was removed from the scheme at the point where the earliest voluntary retirement age was 60, the protections do not automatically apply between age 55 and 60. Again there would be an actuarial reduction to the benefits. The employer does however have the option of switching on the protections, but this would incur a strain cost.

Employers must have a policy in place on whether they will consider waiving reductions and switching on the ‘85 year rule’ (please see the guidance notes on the employer discretions policy on our website).

6. Normal Age & Late Retirement

Once an employee reaches their state pension age, or age 65 if later, they can simply resign from their employment and start drawing their pension benefits. This is simply ‘normal age retirement’, as the member is retiring at their normal retirement age under the pension scheme regulations.

Late retirement is basically the opposite of early voluntary retirement. Where there is an actuarial reduction for early release of benefits, there is an actuarial increase for taking them late. The current increase is 0.014% per day after the normal retirement date.

7. Early Payment of Preserved benefits

Once an ex-employee who has a preserved benefit within the LGPS reaches age 55, they can write to their former employer and request that their pension benefits are released. However, if they have not reached their normal retirement age under the scheme, then the benefits would be actuarially reduced.

The ex-employer can waive the actuarial reduction on compassionate grounds however this would then result in a strain cost.

It is also important to be aware that if the person is aged between 55 and 60, then there may still be a strain cost if they have any protections in place. As these protections are individual-based, employers should obtain an estimate from Peninsula Pension before agreeing to release benefits.

Employers should also ensure that they have a policy in place to cover early release and waiving of reductions (please see the guidance notes on the employer discretions policy on our website).
8. Award by employer of Additional Pension

Subject to their discretions policy, an employer can choose to award up to a maximum of £6500.00* per annum additional pension. This additional pension would be payable in full at the member’s normal retirement age or if retired on grounds of Tier 1 or 2 ill health. The additional pension would, however, be actuarially reduced for early payment in all other cases.

This option is only available to active members of the scheme, or those leaving on redundancy or efficiency. The award can be made up to 6 months after the member has retired on redundancy or efficiency grounds, however for administration purposes, payment must be made by the employer at least four weeks before the member leaves, wherever possible. The employer will have to pay the amount required as an immediate one-off cost.

The pension bought by the employer isn’t reduced when bought into payment if the member is retiring on redundancy or efficiency grounds, so incurs an additional strain cost.

There are no survivors’ benefits attached to the award.

* figure increases in accordance with the Consumer Price Index each year in April.

9. Requesting Estimates

If an employer is considering terminating an employee’s employment for any of the above employer driven retirements, then the employer should first request an estimate from Peninsula Pensions, using the estimate request form available on the website. This will enable the employer to determine whether there are any strain costs.

In the case of employee driven retirements, the employee should contact Peninsula Pensions themselves.

No estimates in relation to employer driven retirements can be requested by the employee, and no estimates will be sent to the employee. Employer driven retirement estimates can only be requested by the employer and any estimates produced will only be returned to the employer. It is then up to the employer whether or not they pass on the benefit figures to the member. Please bear in mind that, in the cases of flexible retirement and voluntary redundancy, the member is likely to want to see the benefits so that they can make a final decision as to whether they wish to proceed with the retirement.

Due to the potential large differences in benefits, if the estimate is in relation to ill health, then the relevant certificate must be provided to Peninsula Pensions as evidence that the correct tier is being used in the estimate. Failure to provide the certificate will mean that Peninsula Pensions will not be able to provide an ill health estimate.

It is also important to remember that the scheme rules and/or Government legislation is subject to change, therefore employers should try to request estimates as close as they can to the potential leaving date. If employers request too far in advance, it could be that the regulations or other legislation changes and the estimate figures could turn out to be completely wrong.
10. Strain Costs

The funding of the scheme is based on all members retiring at their normal retirement age and receiving their benefits for a certain number of years, as well as a few other factors. If benefits are paid before they were expected to be paid, (before the normal pension age of the member, for example) the pension fund suffers a detriment resulting in a ‘strain’ on the pension fund.

Employers will be responsible for covering the cost of the strain for any early release of benefits where the actuary has determined that the pension fund is suffering a detriment (such as redundancy, efficiency, flexible retirement).

The actual strain cost will depend on the individual member as the amount is based on a number of factors, including age and gender.

The example below gives a simplified version of how the strain cost works. It is entirely based on assumptions, not on actual facts. It is only a simplified example and does not explain how the LGPS strain cost actually works:

Let’s assume that the LGPS uses a normal retirement age of 67 and the expected age at which a member will die is 90. The scheme therefore expects to pay out the pension for 23 years. The member’s pension is £10000 per year. Therefore based on this, the fund should have £230000 in it, to pay out £10000 pa for 23 years.

If the member retires at say 60, then the pension is going to have to be paid for 30 years, 7 years longer than planned. Therefore, as the pension will need to be paid out for 30 years at £10000 instead of 23, there will be a shortfall of £70000 from the fund.

This means that either the pension needs to be reduced as we only have £230000 to be paid over 30 years, giving a reduced pension of £7666.66 per year.

Or

An extra amount of money needs to be paid into the fund to allow £10000 to be paid for 30 years. Therefore in this case the strain cost would be £70000, the shortfall.

Obviously the LGPS is not as simple as this, as there are still many other factors to take into account, but hopefully this gives some idea of how strain costs work.

Strain costs will always be payable where either the scheme rules say the actuarial reduction cannot apply (redundancy, for example), or where the employer has chosen to waive the actuarial reduction.

Strain costs will sometimes be payable where the member has not reached their normal retirement age, but have some protections under the regulations (the 85 year rule, for example).

It is important to understand that the calculation of strain costs is determined by the Government Actuary, and Peninsula Pensions has no control over this calculation.
Appendix 1 – Retirement Terms

The following is a summary of the various types of retirement available, and the implications of each type from a pension point of view (what Peninsula Pensions will provide/pay if these terms are used, for example). This only applies to the Local Government Pension Scheme (LGPS) and arrangements/policies/costs may be different for members of the Teachers’ Pension Scheme.

Optional/Early Voluntary Retirement
- Where the employee chooses to retire (leaving employment) at or after age 55.
- No employer consent required and no cost to the employer.
- Employee benefits may be reduced for early payment depending on their age and length of service – the employer can waive actuarial reduction and pay the cost of doing so if they wish.
- Employers should have a written policy on whether reductions will be waived.

Ill Health
- No minimum age.
- Must meet criteria set in the regulations as certified by an independent medical practitioner.
- Member receives unreduced benefits and may get enhancement dependent upon the tier they fall into.
- No upfront cost to the employer as already covered within employers’ contributions.
- Tier 3 is a reviewable benefit, payable for a maximum of three years, and the employer must arrange a review after 18 months (see Ill Health Guidance within the employer’s guide).

Redundancy
- Where a job has disappeared and a statutory redundancy payment is due.
- If member is 55 or over immediate payment of unreduced benefits are payable.
- Employer must pay cost of paying pension benefits early (strain cost).

Interests of efficiency
- Where an employee aged 55 or over is retired (leaves employment) on efficiency grounds.
- Unreduced benefits are payable immediately and the employer must pay the costs of paying the pension early.

Flexible Retirement
- Where employee aged 55 or over requests to have their pension benefits paid but continues working for the same employer.
- Employee must reduce hours or grade (or both) from the date pension benefits are paid.
- Employer must pay any costs of paying benefits early.
- Benefits may be reduced for early payment – the employer can waive the actuarial reduction and pay the cost of doing so if they wish.
- All flexible retirement cases must be fully approved, even if the member is over 60/65.
- Member will remain in the scheme and accrue further pension benefits, unless they opt out.
- Employers should have a written policy on whether flexible retirement will be allowed and whether reductions will be waived. Employers may wish to include in their policy a minimum level of reduction that would be acceptable.
### Appendix 2 – Table of Retirement Costs

<table>
<thead>
<tr>
<th>Retirement Type</th>
<th>Minimum Age?</th>
<th>Employers Consent Needed?</th>
<th>Possible upfront Cost to Employer?</th>
<th>Benefits Actuarially reduced for early payment?</th>
<th>Benefits enhanced (additional service provided?)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ill Health</td>
<td>No</td>
<td>Yes (with medical approval)</td>
<td>No (costs built into employer contribution rate)</td>
<td>No</td>
<td>Depends on tier awarded</td>
</tr>
<tr>
<td>Optional/Early Voluntary/Normal</td>
<td>55</td>
<td>No</td>
<td>No</td>
<td>Maybe</td>
<td>Depends on employer policy</td>
</tr>
<tr>
<td>Late</td>
<td>SPA+ to Age 75</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>Flexible</td>
<td>55</td>
<td>Yes (even if over 65)</td>
<td>Yes</td>
<td>Maybe</td>
<td>Depends on employer policy</td>
</tr>
<tr>
<td>Redundancy (voluntary or compulsory)</td>
<td>55</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Depends on employer policy</td>
</tr>
<tr>
<td>Interests of efficiency</td>
<td>55</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Depends on employer policy</td>
</tr>
</tbody>
</table>

1. This column refers only to the costs of paying pension benefits early (strain cost) and does not include any redundancy/compensation payment which may be due under the employer policy. Costs may not be applicable in all cases, depending on the member’s age and their length of service.

2. Whether benefits are reduced for early payment or not depends on the member’s age, service and date joined scheme. Actuarial reductions can be waived by the employer but the employer must pay the costs of doing this.

3. All employers should have a policy on awarding additional service.