

Local Government 2020 Pensions Bulletin



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Important information regarding Pensions processes following the exit cap legislation

I wanted to update you on the latest position regarding the calculation of pension benefits following the introduction of The Restriction of Public Sector Exit Payments 2020 which took effect from 4th November 2020 and introduces the £95,000 exit cap referred to in previous bulletins. The LGA have produced guidance for employers regarding the exit cap, which can be found [here](#). **It is strongly recommended that employers take the time to familiarise themselves with the guidance and establish whether they are affected by this.**

This new legislation is expected to change the level of pension benefits that can be paid to LGPS members when retiring on the grounds of redundancy or efficiency, regardless of whether the exit cap is breached, though because this legislation differs to what is stated in the current LGPS regulations, a period of uncertainty regarding what exactly can be offered to scheme members, currently exists. This will be resolved once the LGPS regulations are updated, which is currently expected to be in the first quarter of 2021.

In response to the legislative changes, our policy regarding the provision of estimates has changed, and also, initially only in cases where the exit cap is breached, the calculations that are provided will be different.

Estimate Policy

Following the introduction of the new legislation it will be the responsibility of employers to confirm whether the employer is subject to the exit cap; whether the member will breach the cap, and if so, whether a waiver has been applied for. This information will need to be provided before we are able to calculate pension figures as it may have an impact on the level of benefits that can be offered.

Therefore, the Fund will no longer be able to accept requests for estimates directly from scheme members where the proposed reason for leaving is redundancy or business efficiency. Requests from members for voluntary retirement estimates will still be accepted, although we do encourage members to use the modeller available on the online portal.

New forms have been developed for employers to complete in relation to the various stages of the process and can be found alongside this bulletin and will shortly be added to the website. Once the website is updated, it is requested that employers do not keep personal copies and always download the latest version of the form from the website. Failure to do so may result in forms being returned for resubmission.

The change of process has been approved by the Fund's Pensions Committee. The process will cover all employers, thereby providing a consistent approach for all employers and scheme members, and also assisting scheme administration.

REDCOST1

To be completed by the employer where they require estimated pension costs to be provided in respect of a scheme member.

REDQUOTE1

To be completed by the employer where they require estimated pension figures to be provided directly to the scheme member.

REDAPPROVE1

To be completed by the employer where approval has been granted for a scheme member aged over 55 to retire on the grounds of redundancy or efficiency.

Note that the forms have been designed to be editable, so you should be able to download to your PC and complete without printing.

Calculation of Strain Costs

The new legislation has also included a change to the way that pension strain costs (also known as capital costs) are calculated. Until the pensions system is updated with these changes we are currently unable to provide these costs in bulk, and any bulk costs previously provided will now be incorrect.

Calculation of Retirement Benefits

Employers who are not affected by the exit cap legislation

Figures will continue to be provided as normal.

Employers who are affected by the exit cap legislation

a) Scheme members who do not breach the exit cap.

Estimated figures will be provided up to and including a retirement date of 30th June 2021 only, based on current scheme rules. In the event that the member is subsequently retired in accordance with the terms of the estimate, the figures will be honoured provided that there was an agreement to retire on those terms between the employer and scheme member in place prior to the date that the amended LGPS regulations came into force and that the leaving date is within the six month protection period that will be included in those regulations. Once the LGPS regulations are finalised, Pensions will adjust the process to reflect this and advise accordingly.

Actual figures will be provided whilst the current scheme rules continue to apply. Once the amended LGPS regulations come into force, Pensions will adjust the process to reflect this and advise accordingly.

b) Scheme members who breach the exit cap.

Estimated and Actual figures will be provided on the basis of voluntary retirement terms only, i.e. either a fully reduced pension or a deferred pension. This decision has been taken after seeking legal advice and has been approved by the Local Pensions Committee. Whilst this is likely to result in appeals, this approach results in the lowest risk to employers and funds and avoids potential overpayments which may have to be reclaimed in the future. Once the amended LGPS regulations come into force, Pensions will adjust the process to reflect this and advise accordingly.

For these cases, the new legislation does allow employers to pay a cash alternative, however it is suggested that employers choose not to do this. When the final regulatory position is clarified employers may be required to pay a pensions strain cost, which would mean that the cash alternative would need to be reclaimed from the scheme member, by the employer.

The position on this subject continues to evolve and when it does, I will be in touch to provide a further update. In the meantime, if you have any queries on this subject, please contact Stuart Wells on 0116 305 6944 or stuart.wells@leics.gov.uk