

Bulletin 17



Important information regarding pensions processes following the exit cap legislation

Stuart Wells, Pensions Section

The restriction of public sector exit payments regulations 2020 (“the exit cap”)

- Came into force 4th November 2020
- Limits ‘exit payments’ to public sector employees to £95,000
- Exit payments include redundancy payments and pension strain costs (or capital costs) payable when LGPS members retire on redundancy or efficiency
- Where the exit payments are capped, there will be an impact on pension benefits
- LGPS regulations have not yet been amended to take into account the new overarching legislation, leading to uncertainty around what can be paid in these circumstances
- Employers are responsible for establishing whether they are affected and should seek out LGA guidance document – link in the bulletin

Wider reform to follow

- Further changes expected in the new year
- Will likely impact on LGPS benefits for scheme members of affected employers, **regardless** of whether cap is breached – this will impact on estimates that can provided (more on this later)

What is the current position?

- Strain Costs
- Estimates
- Retirements

Pension strain costs (capital costs)

- The factors and methodology used in the calculation of these costs has changed
- Strain cost information provided prior to December likely to be out of date
- The pensions administration system has not yet been updated with the new approach
- We have purchased a strain cost calculator which works fine for single calculations, but still working through issues with the provision of bulk calculations

Estimates

- Before estimated redundancy (or efficiency) figures can be provided to scheme members employers must confirm whether they are affected by the exit cap legislation and whether the cap has been breached
- **As a result we will no longer provide retirement figures directly to scheme members – all requests must come from employers**

Employers unaffected by the exit cap:

- Their scheme members will continue to receive estimates as normal;

Estimates (continued)

Employers affected by the exit cap:

- Where the exit cap is not breached, we will provide estimates up to 30th June 2021 only, based on current scheme rules. The letter will warn members that the figures will only apply if the current regulations remain unchanged before their leaving date, or if their leaving date is after the current regulations change that an agreement is in place with their employer that they can retire on these grounds
- Where the exit cap is breached, we will provide figures based on voluntary retirement terms only

Payment of benefits for LGPS members

Employers unaffected by the exit cap legislation:

- Retirement benefits can continue to be paid as normal

Employers affected by the exit cap legislation:

- Where the LGPS member total exit payments are under £95,000, retirement benefits can currently be paid as normal

Payment of benefits for LGPS members (continued)

- Where an LGPS member total exit payments exceed £95,000, the exit cap legislation prevents employer paying full pension strain costs that would normally be payable meaning that there would be a shortfall in the fund
- After taking legal advice the current Leicestershire position is to follow LGA guidance and offer a fully reduced or deferred pension only to those members where the exit cap is breached
- This conflicts with the LGPS regulations and is likely to result in appeals
- Exit Cap legislation requires employers to make a cash alternative payment in circumstances where only reduced pensions are offered
- Current SAB guidance is for employers to defer offering a cash alternative, but employers may wish to seek their own legal advice

Summary



- Can do strain costs but not in bulk
- Estimates for members must come via employers
- Use the new forms
- Estimates up to 30th June 2021 currently
- Where there is a breach of the cap, figures will be based on voluntary retirement, i.e. reduced not unreduced
- Employers should consider whether to pay a cash alternative
- Further information in LGA guide for employers
- Position will change again when LGPS regs are updated in 1st quarter of 2021