

Croydon Council

For General Release

REPORT TO:	Local Pension Board 14 January 2021
SUBJECT:	Exit Payment Cap
LEAD OFFICER:	Vicki Richardson Head of HR & Finance Service Centre

1. RECOMMENDATIONS

The Board is asked to:

Note the recommendations agreed by Pension Committee on 8 December 2020.

2. EXECUTIVE SUMMARY

- 2.1 This report relates to the implementation of the Public Sector Exit Payments Regulations 2020 and the impact on the Local Government Pension Scheme.

3. DETAIL

- 3.1 The Restriction of Public Sector Exit Payments Regulations 2020 implementing the £95k cap on exit payments came into force on 4th November 2020. An exit payment includes redundancy payments (including statutory redundancy payments), severance payments, pension strain costs that arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age, and other payments made as a result of termination of employment.
- 3.2 The Ministry of Housing, Communities & Local Government (MHCLG) has launched a consultation on changes to the LGPS and Discretionary Compensation Regulations. The consultation covers the required changes to compensation and pension regulations to comply with the £95K exit payment cap, which closes on 18 December 2020.
- 3.3 As the required changes to the LGPS regulations are still subject to consultation there is a conflict between the exit cap regulations and the LGPS regulations if the cap is breached when an LGPS member aged 55 or over exits. The LGPS regulations still entitle the member to receive and require them to take immediate payment of an unreduced pension, but the exit cap regulations prevent the employer from paying the full strain cost.
- 3.4 The Croydon Pension Fund (the fund), as an administering authority needed to decide whether to pay an unreduced pension in line with The Local

Government Pension Scheme Regulations 2013 regulation 30(7) or provide the option of either a deferred pension under regulation 6(1) or an immediate reduced pension under regulation 30(5) in line with the Government's recommendations.

- 3.5 To assist administering authorities with this decision, the Scheme Advisory Board (SAB) has obtained legal advice. Following that advice the Scheme Advisory Board has expressed opinion that the course of action presenting the least risk to both LGPS administering authorities and scheme employers is for the;
- LGPS administering authority to offer the member the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5)
 - Scheme employer to delay the payment of a cash alternative under regulation 8 of the Exit Cap Regulations
- 3.6 MHCLG also wrote to LGPS administering authorities on 28 October 2020 advising the recommended course of action for an administering authority to act consistently with its legal duties is that the provisions of Regulation 30(7) are subject to the cap and so the provisions of Regulation 8 of the 2020 Regulations and Regulation 30(5) of the LGPS 2013 Regulations should be engaged. The Government's view is that LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost.
- 3.7 The fund also needed to consider what factors to use when calculating strain costs. Until now, local factors supplied by the funds actuary have been used to calculate strain costs.
- 3.8 The options were presented to the Pension Committee on 8 December 2020 who agreed the recommendations that whilst there is a conflict between the exit cap regulations and the LGPS regulations the funds policy will be to:
- i. offer scheme members the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS regulation 30(5) if the cap is breached when an LGPS member aged 55 or over exits, whilst there is a conflict between the exit cap regulations and the LGPS regulations.
 - ii. adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors.

4. DATA PROTECTION IMPLICATIONS

4.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

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BACKGROUND DOCUMENTS:

[Pension Committee 8 December - Agenda Item 13. Exit Payment Cap](#)

APPENDICES: None