

TECHNICAL BULLETIN

NO.23

April 2008



TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

Redundancy/Efficiency Retirement and Strain on the Fund Costs

An important notice to all scheme employers

The purpose of this Technical Bulletin is to:

- remind employers of the significant impact of Strain on the Fund costs;
- streamline the process so that a separate employer authorisation and confirmation of payment option in each case would no longer be required; and
- advise employers of SPFO's intention to consider charging Strain on retirals over, as well as under, age 60.

Background

Redundancy / Efficiency Retirement and Strain on the Fund costs

Where the employment of an active member of the Local Government Pension Scheme is terminated on grounds of redundancy or efficiency, that member is entitled to immediate payment of unreduced retirement benefits providing they are age fifty or over and have two years pensionable service or more (Regulation 25). The entitlement to immediate payment of unreduced retirement benefits applies regardless of whether the redundancy or efficiency retirement is compulsory or voluntary.

Any early payment of retirement benefits for members age fifty or over and under age 60 generates a "Strain on the Fund" cost which Strathclyde Pension Fund will recover from the scheme employer (Regulation 79 (5)). In broad terms, this reimburses the Fund for the loss of employer and employee contributions and investment income which results from the member retiring early.

It is important that all employers are aware of the Strain costs associated with early retirement on redundancy or efficiency grounds, which can often be a very significant sum.

Employers should also be aware that a case of terminating a member's employment under "voluntary severance" and disputing the member's right to immediate payment of unreduced pension benefits has already been successfully challenged through the Internal Disputes Resolution Procedure (IDRP). As a result of the determination in

that case the member received immediate payment of pension benefits thereby generating an unexpected Strain cost which was charged to the employer.

Administration of Charging Strain costs to Employers

The administration arrangements for charging Strain on the Fund costs to employers are being changed with immediate effect.

In future any employer granting a retiral, or exercising a discretion that results in a Strain cost will be deemed to be implicitly accepting responsibility for the associated Strain costs. It will no longer be necessary for employers to sign a separate declaration to that effect.

In addition, the requirement for an employer to specify the method by which Strain costs are to be charged is revised. At present when completing the retirement paperwork for a member, the employer is required to specify on a separate document whether Strain costs are to be paid as a single lump sum or by instalments.

Under the new arrangements SPFO will assume that Strain costs are to be deducted as a single lump sum, and an invoice for payment in full will be issued in the October following the member's date of retirement. The practice of raising invoices for Strain costs annually in October will not change, but in future it will be the responsibility of the scheme employer to notify SPFO if payment by instalments is preferred, in which case appropriate arrangements will then be made.

This revised process should be more efficient for both SPFO and employers.

Retirement Over age 60

SPFO is currently considering extending the recovery of Strain on the Fund costs to members over age 60 retiring on redundancy or efficiency grounds. The Strain cost for these members is currently borne by the Fund, but it is common practice for other Local Government Pension Scheme funds to charge this on to the employer. For members over age 60 retiring on grounds other than redundancy or efficiency the Strain cost is met through an actuarial reduction of benefits (albeit this is currently largely offset by transitional protections introduced when the Rule of 85 was removed). This change will be considered further in the course of the actuarial valuation as at 31st March 2008 and the associated review of the Fund's Funding Strategy Statement. All scheme employers will be notified of the outcome in due course.

If you have any questions or require any further information on the contents of this bulletin please contact Sarah Mallon on 0141 287 7348

The Regulations referred to in this bulletin are Regulations 25 and 79 (5) of the Local Government Pension Scheme (Scotland) Regulations 1998 (as amended). The Local Government Pension Scheme Regulations in their entirety can be accessed via http://www.sppa.gov.uk/local_gov/regs.htm