Guide to Scheme Employer LGPS discretionary policies

Under the Local Government Pension Scheme Regulations, there are a large number of discretions that can be exercised by each Scheme Employer. It is a requirement for Scheme Employers to formulate, publish and keep under review a policy statement in relation to the exercise of some of these discretions under the LGPS.

All Scheme Employers must have a policy on the following discretions:

Discretions from 1 April 2014 in relation to post 31 March 2014 active members and post 31 March 2014 leavers

(1) Whether, how much, and in what circumstances to contribute to a shared cost additional pension contribution scheme;
(2) Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement);
(3) Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement;
(4) Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age;
(5) Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before 60;
(6) Whether to waive any actuarial reduction on pre and/or post April 2014 benefits;
(7) Whether to grant additional pension to an active member or within six months of ceasing to be an active member by reason of redundancy or business efficiency (by up to £6,675 per annum).

Discretions in relation to scheme members who ceased active membership on or after 1 April 2007 and before 1 April 2014[1]

(8) Whether, for a member leaving on the grounds of redundancy or business efficiency on or before 31 March 2014, to augment membership (by up to 10 years). This discretion is spent entirely after 30 September 2014;

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[1] Scheme Employers should, prior to 1 April 2014, already have prepared and published a policy regarding these discretions.

(9) Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;

(10) Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;

Discretions in relation to scheme members who ceased active membership on or after 01 April 1998 and before 1 April 2008[2]

(11) Whether to grant application from a post 31 March 1998 pre 1 April 2008 leaver for early payment of benefits on or after age 50/55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;

(12) Whether, for pre 1 April 2008 employee optant outs to get benefits paid from NRD if employer agrees;

In addition to these 12 discretions there are additional discretions that Employers may wish to have a policy on. The full list is available from the LGPS Regs website

What Scheme Employers should consider when setting a policy on discretions

The Administering Authority may have provided you with an example discretions policy, however, this policy will be specific to the Administering Authority and another Scheme Employer will have a range of considerations unique to its organisation. It may not therefore be appropriate for individual Scheme Employers to adopt the discretions policy of the Administering Authority completely.

Pension strain

It is important to appreciate that the early payment of pension benefits places a ‘strain’ on the pension funds. This strain must either be met by a voluntary actuarial reduction in pension benefits accepted by the member concerned or by a lump sum payment made by the Scheme Employer to the Surrey Pension Fund. Pension strain created by early retirement in the case of redundancy or efficiency must be paid by the Scheme Employer.

[2] Scheme Employers should, prior to 1 April 2014, already have prepared and published a policy regarding these discretions.

Waiving actuarial reductions by the Scheme Employer

If the payment of benefits occurs before the members normal pension age the benefits will be reduced in accordance with factors issued the Government Actuarial Department (GAD). The Scheme Employer has the power to waive this actuarial reduction. If the Scheme Employer opts to waive the actuarial reduction it will be required to pay a pension strain cost to the Surrey Pension Fund.

Guidance on the discretions

Below we have gone into greater detail on certain earlier discretions

(1) Whether, how much, and in what circumstances to contribute to a shared cost additional pension contribution (SCAPC) scheme

Please note that this discretion does not relate to cases where a member has a period of authorised unpaid leave of absence and elects within 30 days of return to work to pay a SCAPC to cover the amount of pension ‘lost’ during that period of absence. That is because, in those cases, the employer must contribute 2/3rds of the cost of a SCAPC.

(2) Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement)

Scheme Employers will, prior to 1 April 2014, already have prepared and published a policy on flexible retirement and whether to waive actuarial reductions on benefits paid under the 2008 Scheme. Scheme Employers may therefore, wish to simply carry forward their basic existing policy, but, amend it for post 31 March 2014 flexible retirements.

If flexible retirements is agreed for a Scheme member aged 55 or over, but, under age 60 who, at the date of flexible retirement has either met the 85 year rule or would have met the rule before age 60, there will be a strain on fund cost to be met by the Scheme Employer in respect of the pension benefits following flexible retirement.

Where flexible retirement is agreed for an employee aged 55 or over, but, under normal pension age the cost of waving any actuarial reduction, in whole or in part, would have to be met by the Scheme Employer.

If a Scheme Employer formulates their discretion policy entirely based on costs it should be careful not to be guilty of indirect age discrimination.

(5) Whether to 'switch on' the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60

If the Scheme Employer agrees to 'switch on' the 85 year rule, the employer will have to meet the cost of any pension strain.

Switching the 85 year rule on might be an option for Scheme Employers who wish to encourage members to retire early. Exercising their discretion to switch on the 85 year rule and meet the costs of the pension strain could be less expensive that a redundancy exercise.

(7) Whether to grant additional pension to an active member or within 6 months of ceasing to be an active member by reason of redundancy or business efficiency (by up to £6,500 per annum).

Scheme Employers will, prior to 1 April 2014, already have prepared and published a policy on whether to grant additional pension to an active scheme member of up to £5,000 per annum. Scheme Employers may therefore, wish to simply carry forward their basic existing policy, but, amend it to reflect the increase to £6,675 per annum maximum additional pension permitted. It should be noted that any grant of additional pension will be at the cost of the Scheme Employer.

The provision of a discretions policy is a statutory requirement. All Scheme Employers must provide a copy of their discretions policy to the Surrey Pension Fund. Scheme Employers are advised to review their discretionary policy at least every three years.

Discretionary policies should be sent electronically to treasury@surreycc.gov.uk

Surrey Pension Team