Senior Management Update

Appendix 2 – Guidance on Redundancy Calculations and Local Government Pension Scheme Regulations

1. Calculating Redundancy Payments

1.1 Redundancy is calculated based on the relevant post holder's age, length of continuous service (in full years) and weekly salary.

1.2 Statutory redundancy pay is capped at £544 per week in England from April 2021 (and likely to increase in April 2022), however under the Council's Managing Organisational Change Policy and Procedures any redundancy payments are based on an employee's actual weekly pay and not subject to the statutory limits. Therefore the calculation referred to in the main body of the report has been based on the post holder's actual weekly salary.

2. Local Government Pension Scheme Regulations

2.1 The LGPS Pension is payable in full from an individuals' 'normal retirement age' which is linked to their 'state pension age' (but with a minimum of age 65).

2.2 If an individual chooses to take their pension before their 'normal retirement age' it will normally be reduced as it is being paid earlier and will potentially be paid for longer. How much it is reduced by depends on how early the individual is accessing their pension.

2.3 If an individual is obliged to retire because of redundancy, business efficiency or permanent ill health, the LGPS regulations provide for an immediate retirement pension. Provided the individual is aged 55 or over their main benefits are payable immediately without any early retirement reductions. These costs are met by the employer.

2.4 Pension regulations (current and past) have an impact on how the cost calculations are made – 85 year rule provides some protection against reductions to qualifying members, regulations up to April 2008, between 2008 & 2014, between 2014 & 2021, and since 2022 all come into consideration.

2.5 In order to calculate a reduction, numerous factors set by the Government's Actuary Department (GAD) are applied including age, length of time in the scheme, previously transferred pensions and the relevant regulations in force throughout the individuals pension contribution period. Therefore every calculation can be different and neither the LGPS nor the employer have any control over the calculation of costs.

2.6 The funding of the LGPS is based on all members retiring at their 'normal retirement age' and receiving their benefits for a certain number of years. If benefits are paid before they are expected to be, the pension fund suffers a detriment resulting in a ‘strain’ on the pension fund.

2.7 Example illustration:

Assuming the LGPS uses a ‘normal retirement age’ of 67 for an individual with an expected age at which a member will die being 90, the scheme is therefore expecting to pay the pension out for 23 years.

If the member retires at 60 by way of redundancy then the assumption is that the pension is going to have to be paid for 30 years, 7 years longer than planned and therefore there will be a shortfall of monies in the fund.

As the employer is making the employee redundant by deleting their post, additional money needs to be paid into the pension fund by the employer to allow the pension to be paid for that longer period and to make up the shortfall.

2.8 Up until 2021, there was an option to pay the shortfall over 3 or 4 years (depending on the sum involved) however interest would be added to the costs, resulting in an increase of approximately 20%. Therefore, a lump sum of £80,000 could ultimately end up costing the employer £100,000 if paid in instalments.

However, from 2022 any shortfall now has to be paid by the employer in one lump sum to the pension fund.