

Employer cost of early release of benefits at age 55

Introduction

We have been requested by Jeff Houston to estimate the strain cost arising from the early retirement of an LGPS member at age 55.

For the purposes of our calculations, we have used a dummy male LGPS member with a date of birth of 31 March 1962 (i.e. will retire at age 55 on 31 March 2017).

These figures are purely for illustration purposes - they are based on the assumptions summarised below.

In particular, the figures give a general idea of the combination of length of service and salary that will lead to a member's early retirement being affected by the proposed £95k cap on public sector exit payments.

Method

For the purposes of our calculations, we have generated a set of example augmentation and early retirement cost factors, based on an "average" LGPS member.

These factors have been generated on a unisex basis and are based on the assumptions below.

Assuming full time continuous employment up to the date of early retirement, we have estimated the LGPS benefits payable to the dummy member and the strain arising from early payment at age 55.

Assumptions

| | |
|-------------------|--|
| Discount rate | 5.0% |
| Salary increases | 3.8% |
| Pension increases | 2.0% |
| Mortality: | S1PA tables, CMI 2013 with 1.5% p.a. long term rate of improvement |

Results

Strain cost arising

| Service Yrs | Pay | | | | | | | | | |
|-------------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|
| | £10,000 | £15,000 | £20,000 | £25,000 | £30,000 | £40,000 | £50,000 | £75,000 | £100,000 | £150,000 |
| 2 | £2,864 | £4,295 | £5,727 | £7,159 | £8,591 | £11,454 | £14,318 | £21,477 | £28,636 | £42,954 |
| 5 | £6,334 | £9,501 | £12,668 | £15,835 | £19,002 | £25,336 | £31,670 | £47,505 | £63,340 | £95,010 |
| 10 | £11,235 | £16,852 | £22,470 | £28,087 | £33,704 | £44,939 | £56,174 | £84,261 | £112,348 | £168,521 |
| 15 | £14,561 | £21,841 | £29,122 | £36,402 | £43,682 | £58,243 | £72,804 | £109,206 | £145,608 | £218,412 |
| 20 | £15,563 | £23,344 | £31,126 | £38,907 | £46,688 | £62,251 | £77,814 | £116,721 | £155,628 | £233,442 |
| 25 | £17,904 | £26,857 | £35,809 | £44,761 | £53,713 | £71,618 | £89,522 | £134,283 | £179,044 | £268,566 |
| 30 | £20,246 | £30,369 | £40,492 | £50,615 | £60,738 | £80,984 | £101,230 | £151,845 | £202,460 | £303,690 |
| 35 | £22,588 | £33,881 | £45,175 | £56,469 | £67,763 | £90,350 | £112,938 | £169,407 | £225,876 | £338,814 |

As shown in the table above, the higher the length of service and the higher the salary, the more likely an early retirement strain will exceed the proposed £95k exit payment cap.

Please note that these results are based on the assumptions as set out above and are for illustrative purposes only.

We would be happy to answer any questions.

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