

To: Salaries and Wages
Human Resources
Pension Contacts

Circular 10/2023
13 September 2023

At: All Employing Authorities

Dear Colleagues,

**Further Data Collections, Changes in Factors, Voluntary Retirement / Redundancy /
Business Efficiency Exercises, Reminder on New Entrants**

This Circular advises that, due to the proposed increased scope of the McCloud Remedy, NILGOSC will have to carry out further data collection exercises. We are requesting contact details for these exercises.

In addition, the actuary has recently revised the factors for capital strain costs that arise on redundancy and business efficiency. In most cases this will lead to increased costs.

Finally, there is some brief information on redundancies and business efficiency exercises and a reminder of the rules for admitting new members to the Scheme.

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1. Further Data Collections

1.1 Hours and Breaks in Service

Due to the proposed increased scope of the McCloud Remedy, NILGOSC will need to collect details on hours and breaks in service for members who have post-1 April 2015 membership and pre-1 April 2012 membership and have not aggregated their memberships.

In due course, we will be forwarding further spreadsheets to employers listing the information that is required for the period from 1 April 2015 to 31 March 2022 (the underpin period).

Action for employers: Please advise contact details for these spreadsheets by emailing to datacollection@nilgosc.org.uk .

1.2 Age 65 Final Salary Pay

The revised underpin is calculated at age 65 and then adjusted with early or late retirement reductions if the person works past their 65th birthday. At age 65 NILGOSC will need to calculate both the members' potential final salary pension and CARE pension for the underpin period to allow a comparison to be undertaken. We therefore need to collect final salary pay details when a member reaches age 65 i.e. their final salary pay for the previous 365 days up to their 65th birthday or best of last three years, if applicable. NILGOSC is currently developing a calculator to help employers with this additional requirement. Any employers using i-Connect will receive the request for age 65 pays via i-Connect.

Employers who are not currently using i-Connect will be sent a spreadsheet listing the staff for whom age 65 final salary pay details are required. This exercise will be both retrospective to gather age 65 pay details for the 3,500 members who have already reached age 65 and then a regular request going forward as active contributing members reach their 65th birthday.

Action for employers: Please advise contact details for these 'age 65 final salary pay requests' by emailing to datacollection@nilgosc.org.uk .

2. Increased Strain Costs and Reduced Costs for Award of Additional Pension

Following the triennial valuation, the Scheme's actuary revises the factors that they provide to the Scheme for both strain costs arising on payment of pension on redundancy or

business efficiency grounds and employer awards of additional pension. This review takes into account any changes in assumptions as well as the changing proportions of pre and post 2015 pensions and their corresponding different normal retirement ages. This review has now been completed and the revised factors are in the process of being implemented.

The revised strain cost factors will be effective for early retirements from 1 October and they will increase employer payments by approximately 7-11%. The increase in costs is mainly due to an increase in the assumed post 2015 proportion of the pension.

The revised additional pension factors are effective for awards from 1 September and these costs have reduced. This is because the increase in net discount rate has reduced the value placed on £1 per annum of pension payable from retirement age.

3. Voluntary Retirement / Redundancy / Business Efficiency Exercises

If a redundancy/business efficiency retirement applies and the member is aged 55 or over and meets the two-year qualifying period, then the member's benefits are payable from the date of leaving on an unreduced basis. The reductions to pension for early payment are automatically waived and a capital strain cost is charged to the employer. In other words, the employer meets the strain cost of the redundancy/business efficiency in its entirety. Employers now using i-Connect (the employer portal to transmit monthly pay and pensions data) can run indicative strain costs themselves. If not already using this, then quotations would need to be requested for an indication of strain costs.

If redundancy/business efficiency retirement applies to a member aged under 55, then no pension benefits are immediately payable. These pensions would be deferred and are payable at a later date. If the member then chooses to take this pension early (and after the minimum pension age of 55¹) it would be reduced.

If a member retires early voluntarily then the pension is reduced unless the employer exercises its discretion to waive all, some or none of the actuarial reductions. This means that the pension strain costs can be reduced to whatever is deemed affordable but still offer an enhanced package to the retiring member. There are conditions that apply to the reductions that can be waived and some can only be waived on compassionate grounds.

¹ Increases to age 57 from 6 April 2028

The [LGS 13 form](#) sets out which reductions can be waived and where compassionate grounds apply. Employers also have discretion to turn on the Rule of 85.

Ahead of any exercise we recommend that employers review their Employer Policy Discretions to ensure that they are up to date. More information and template policy and guidance notes are available

<https://nilgosc.org.uk/employers/administering-the-scheme/discretions/>.

4. Reminder about new entrants to the Scheme

Irrespective of automatic enrolment rules, all new employees are brought into the Scheme from the first day of their employment, if they have a contract of three months or more and are under age 75. This is known as contractual enrolment. There is no option not to join the Scheme for these employees; however, they may subsequently opt out if they wish. A few employers operate the Scheme on a 'closed' basis, which means that new employees are not eligible to join the Scheme. In these cases, employers will have made other pension arrangements for their new employees.

If a new employee has a contract of employment of less than three months they may elect to join the Scheme from the start of the next pay period, or be enrolled from the automatic enrolment date if they meet separate criteria as defined under Automatic Enrolment legislation. When an employee with a short-term contract has it extended beyond three months, you must bring them into the Scheme from the start of the next pay period after the extension is agreed, or from the start of the first pay period after three months has been completed.

You should issue our NILGOSC Pension Guide to all new employees as part of their joining process. This booklet explains the benefits of the Scheme. Send an email to info@nilgosc.org.uk if you need additional copies of this booklet.

Action for employers: Please ensure that you are admitting new members correctly depending on the length of their contract.

If you have any questions regarding the content of this Circular, please contact either myself or any member of the Pensions Development team.

Yours sincerely,

Zena Kee
Head of Pensions Policy