

What's New

Government confirms introduction of public sector exit payment cap

Who does the exit payment cap apply to?

The cap will apply to all public sector workers including employees of councils (whether metropolitan, county, district, borough or parish), police and fire authorities and academies.

When will the exit payment cap come into force?

The exit cap came into force on 4th November 2020 and covers all exits that occur past that date.

What is the value of the exit payment cap and what payments does the cap include?

The exit payment cap is set at a total of £95,000. Exit payments include redundancy payments (including statutory redundancy payments), severance payments, pension strain costs - which arise when a Local Government Pension Scheme (LGPS) benefit is paid unreduced before a member's normal pension age - and other payments made as a consequence of termination of employment. The cap applies to all exit payments that arise within a 28-day period and the regulations cover the process to follow if an individual has multiple exits from public sector employment within 28 days. The cap will only apply to those individuals where the combined total value of their exit payments (including pension strain costs) is greater than the £95,000 limit. Where it does apply then the value of the exit payments will have to be reduced to the point where the total value of all exit payments is no greater than £95,000.

What is the pension strain cost and who pays the pension strain cost?

Under the rules of the LGPS, if you choose to receive your local government pension before your normal retirement date, then your pension would normally be reduced, to take into account the fact that you are receiving your pension earlier than your normal retirement date.

However, if you are over age 55 and your employer terminates your contract of employment on grounds of redundancy or efficiency, you are entitled to receive an immediate payment of your pension benefits relating to that employment unreduced. This will mean that your employer will need to pay an amount of money into the Warwickshire Pension Fund, so that you can receive your full pension, up to the date of leaving, without any reduction in your pension because it has been paid early. The amount of money your employer pays into the Pension Fund, so that you can receive an unreduced pension is called the pension strain cost.

To qualify for LGPS pension benefits, you must pay into the LGPS for at least two years, or transfer pension benefits from another scheme into the LGPS. If you leave the scheme with less than two years' membership, you may not qualify for LGPS pension benefits and will usually be able to choose to have a refund of your contribution.

How can I find out if my exit payments exceed the £95,000 cap?

If you are currently 55 or over and serving a notice period under redundancy, or you and your employer have entered into a redundancy consultation period, your employer should already have (or will be in the process of obtaining) the amount of the pension strain cost. When they have this, they will be able to establish if the pension strain cost when added to other termination payments you are entitled to receive, exceed the £95,000 cap.

What happens now?

Further to the government introducing the Restriction of Public Sector Exit Payments regulations which came into force on 4/11/2020 people that leave with a cost of less than £95,000 will not be affected by the changes.

People that leave with a cost of higher than £95,000 will be offered the option of either taking a fully reduced pension or their deferred benefit.

What happens next? – subject to the government approval

Further to the government introducing the Restriction of Public Sector Exit Payments regulations there will be further reform when the LGPS regulations are amended in early 2021, we understand that other possible options could be that:

- receive payment of a reduced pension and lump sum, but keep the redundancy or other exit payments (limited to the £95,000 cap)
- give up some or all of their redundancy payment or other exit payments to receive an unreduced pension, or limit the amount of the reduction to the retirement benefits
- choose a mixture of the two options above, which will mean giving up some of their redundancy pay to remove some (but not all) of the reduction on their pension and lump sum
- receive a deferred pension benefit rather than a partially reduced pensions, but keep the redundancy or other exit payments (limited to the £95,000 cap)

As we understand it currently, there will be no transitional period and pension scheme members will be subject to Local Government Pension Scheme rules that apply on the date of leaving.

Further information

If you do have any further questions about how the £95,000 exit payment cap may affect you, then please speak directly to your employer