

## Warwickshire Pension Fund

### Early Retirement Cost “Ready Reckoner”

The purpose of this report is to provide a "Ready Reckoner" to Employers within the Warwickshire County Council Pension Fund, “the Fund”, with regard to the potential Early Retirement costs that may arise under different service and retirement age scenarios. The following notes should be read in conjunction with the "Ready Reckoner" tables provided:

- The actual Early Retirement costs arising on retirement will still need to be calculated by the Administering Authority. The purpose of this report is to simply provide an illustration to employers of the potential costs. The factors previously provided by Mercer, the previous actuaries to the Fund, were reviewed by Hymans Robertson in February 2014 to assess their suitability following the 2013 formal valuation. The results of this analysis concluded that the factors are still suitable for use.
- Any redundancy payments made to the retiring members will need to be added to the figures below.
- It is recommended that these figures are reassessed following the 2016 formal valuation of the Fund or if there is a change to the underlying methodology.

#### Early Retirement

- The costs shown provide the Employer with an indicative figure that may arise based on critical retirement ages (CRAs) of 60 and 65 and are applicable to service accrued before April 2008, between April 2008 and April 2014 and after April 2014.
- The figures in the table on the next page are based on a 50/50 average of male/female strain costs and are calculated per £10,000 of final salary and one year of service. These figures therefore need to be multiplied by the member's service and scaled salary figure (i.e. multiple of £10,000) to obtain the actual cost emerging (see examples).

#### Determining the Critical Retirement Age (CRA)

In practice, some members may have a differing CRA for pre 2008, 2008-2014 and post 2014 service. In these cases, different CRAs should be applied to each tranche of service when calculating the indicative cost figure.

Where the CRA is not known, this can be obtained from Pensions Services. Alternatively, the following high level guidelines could be followed to determine the CRA that is likely to apply:

- Members joining the LGPS before 1 October 2006 will have an CRA in the range 60 to 65:
  - Members joining the LGPS before age 35 will typically have a CRA of 60.
  - Members joining the LGPS after age 45 will typically have a CRA of 65.
- Members joining the LGPS after 1 October 2006 will have a CRA of 65.

Further details can be found in note 6 in the Early Retirement Ready Reckoner spreadsheet.

The above guide to CRAs is very broad brush and is intended to give a rough approximation. There are other factors to take into account when considering a member's CRA, such as ‘tapering’ and the introduction of State Pension Age as a retirement age for benefits accrued from 1 April 2014 for most employees. For the purpose of this ready reckoner, it is assumed that the maximum CRA is 65. It is strongly recommended that actual CRAs are obtained and used for the purpose of obtaining an indicative cost figure.

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In cases where the member's CRA falls between 60 and 65, then the estimated cost will similarly fall in between the costs assuming CRA 60 and 65. If required, an estimate of the costs for intermediate CRAs can be obtained by interpolation (see example 2).

The Early Retirement costs are based on the assumption that the member will retire on unreduced benefits. Any reductions applied to the member's benefits will serve to reduce the cost, or even remove the cost entirely.

**Table of Early Retirement Cost Factors**

Critical Retirement Age 65		Critical Retirement Age 60	
Retirement Age (rounded to nearest year)	ER Cost per Year of Service per £10,000 of Final Salary (£)	Retirement Age (rounded to nearest year)	ER Cost per Year of Service per £10,000 of Final Salary (£)
55	950	55	550
56	850	56	450
57	800	57	350
56	700	58	200
59	600	59	100
60	500	Not applicable as CRA 60, i.e. zero cost.	
61	400		
62	300		
63	200		
64	100		

**Example 1**

Member aged 55 retiring with 20 years of service with a Final Salary of £50,000 p.a.. Service and CRAs as below:

Service Tranche	Service	CRA
Pre 1 April 2008	13 years	60
1 April 2008 – 31 March 2014	6 years	65
Post 1 April 2014	1 year	65

From the table:

- the cost for CRA 60 would be £550 x 13 years service x  $\frac{£50,000}{£10,000} = £35,750$
- the cost for CRA 65 would be £950 x 7 years service x  $\frac{£50,000}{£10,000} = £33,250$
- the total early retirement strain cost = £35,750 + £33,250 = £69,000**

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**Example 2**

Member aged 57 retiring with 15 years of service with a Final Salary of £45,000 p.a.. Service and CRAs as below:

Service Tranche	Service	CRA
Pre 1 April 2008	8 years	63
1 April 2008 – 31 March 2014	6 years	65
Post 1 April 2014	1 year	65

From the table:

- the Cost Factor for CRA 63 can be obtained by interpolation as follows:

$$\begin{aligned} & \text{Cost Factor using CRA 60} + (\text{Cost Factor CRA 65} - \text{Cost Factor CRA 60}) \times \frac{(\text{Actual CRA} - 60)}{5} \\ & = £350 + (£800 - £350) \times \frac{(63 - 60)}{5} \\ & = £620 \end{aligned}$$

$$\text{Therefore, the cost for CRA 63 would be } £620 \times 8 \text{ years} \times \frac{£45,000}{£10,000} = £22,320$$

- the cost for CRA 65 would be  $£800 \times 7 \text{ years} \times \frac{£45,000}{£10,000} = £25,200$
- the total early retirement strain cost = £22,320 + £25,200 = £47,520**

**Summary**

The above "Ready Reckoner" table have been prepared for the Administering Authority to assist employers within the Warwickshire Pension Fund. It is only designed to provide indicative Early Retirement costs. The actual costs emerging will need to be calculated by the Administering Authority as and when required.

**Reliances and Limitations**

This advice is addressed to Warwickshire County Council as Administering Authority to the Warwickshire Pension Fund. It has been prepared in my capacity as Actuary to the Fund and is solely for the purpose of providing a 'Ready Reckoner' to Employers within the Warwickshire Pension Fund. This document may be shared with employers in the Warwickshire Pension Fund. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without my prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

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The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

- TAS R – Reporting; and
- Pensions TAS.

Prepared by:-



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For and on behalf of Hymans Robertson LLP