



Early retirement

Retirement benefits become payable in full when a member reaches Normal Pension Age (NPA), providing the member has at least 2 years membership of the LGPS or has transferred in rights from another pension scheme or arrangement. Members aged 55 and over can elect to retire early (this will change to age 57 from 6th April 2028).

Will a member's pension be reduced if they voluntarily retire before their NPA?

If they choose to retire before their Normal Pension Age their benefits that would have been payable from NPA will be reduced to take account of being paid for longer. The reduction is based on the length of time that they retire early – i.e., the period between the date their benefits are paid and their NPA. The earlier they retire, the greater the reduction.

They can reduce or avoid the reductions by not taking immediate payment of their benefits on early retirement, i.e. by delaying payment until a later date.

As a guide, the percentage reductions (effective from 8 January 2019) for retirements up to 13 years early are shown in the table on page 2. Where the number of years is not exact, the reduction percentages are interpolated using years and days.

Note: Employees do not need the consent of their employers to request early retirement from the Scheme.

Number of years paid early	Pension reduction	Lump sum reduction
0	0.0%	0.0%
1	4.9%	1.7%
2	9.3%	3.3%
3	13.5%	4.9%
4	17.4%	6.5%
5	20.9%	8.1%
6	24.3%	9.6%
7	27.4%	11.1%
8	30.3%	12.6%
9	33.0%	14.1%
10	35.6%	15.5%
11	39.5%	N/A
12	41.8%	N/A
13	43.9%	N/A

Example

Stan is 64 when he decides to retire. His normal pension age is age 65.

His benefits are: 1) Pension = £4,000 a year, 2) Lump sum = £11,500

As he is retiring 1 year early, his benefits are reduced. The benefits he will be paid are:

Pension = £3,804 a year (a 4.9% reduction)

Lump sum = £11,304.50 (a 1.7% reduction)

Early retirement with unreduced pension entitlement

As well as those employees who take voluntary early retirement there may be other circumstances whereby employees take early retirement with unreduced benefits paid.

An unreduced pension is payable immediately on leaving employment if the member satisfies the 'vesting period' and is aged at least 55, and the employer terminates employment due to:

Redundancy, or business efficiency

Please note we have a separate toolkit article on Redundancy/efficiency.

Early unreduced payment of pension benefits could result in a shortfall in the pension funding. This shortfall is also known as the hidden cost or pension strain. The value of the 'hidden cost' is paid by the employer representing the loss of investment return and contributions as well as the cost of paying the pension for more years than the calculation of the employer contribution. The employer must pay East Sussex Pension Fund the value of the hidden cost.

Employer costs may also be incurred by using their discretion to waive percentage reductions following a member's request for voluntary early retirement or by 'switching on' the 85-year rule protection. A flexible retirement may also incur hidden costs – depending on the individual's age and membership details.

We suggest you contact our administration team if the above circumstances apply to your employee's early retirement. They can then advise you about the effects of those protections and your costs.

After the employer has authorised the early payment of a pension or waived a percentage reduction, and a hidden cost or pension strain is identified, East Sussex Pension Fund will set up the recovery for the cost (unless the employer pays an additional percentage through their contributions to cover strain costs).

Note: If the member is paying any additional pension contributions, additional regular contributions, added years, Additional Voluntary Contributions, or has a transfer pending, there could be an increase to the hidden cost.

The information provided is a very brief overview of the process. Our administration team will of course provide employers and members with all information pertaining to their individual circumstances.

The role of the employer

Step 1

When early retirement is being considered you should first request an estimate from our administration team. For cases involving early retirement due to redundancy or business efficiency or where you are using discretion to provide unreduced benefits it is preferable to start this process as early as possible, so that our administration team can provide an estimate of costs.

You can request an estimate by completing the form LGPS RET1.

Standard form - [access form here](#)

Editable form - [access form here](#)

On receipt of this form, we send an estimate of pension directly to the employer within 15 working days.

Step 2

You should share the information provided with your employee so they can look at the options available to them and decide on whether to go ahead with their retirement.

Step 3

Once retirement has been agreed you need to send us a further form – LGPS RET2.

Standard form - [access form here](#)

Editable form - [access form here](#)

The details will be used to provide, direct to the employee's home address, a provisional estimate of benefits and a pre-retirement pack giving details of the options available. We provide this information within 7 working days. The employee needs to complete the claim form and send this straight to us, so we know how they want to proceed.

Step 4

Finally, once you have liaised with our employee and retirement is confirmed, you should complete the LGPS 9A form. You must provide final pay figures as this is what we will use to process the retirement.

Standard form - [access form here](#)

Editable form - [access form here](#)

We have 5 working days to complete the retirement process once all documentation has been received from both the employer and employee. Please note that we cannot process the retirement until the early retirement date has been reached.

Step 5

For early retirement cases paid without reduction, a strain cost will be payable by the employer. We will issue an invoice to the employer after we have finalised the early retirement claim (you will be asked to provide your PO number).

Further support

Email: employer.engagement@eastsussex.gov.uk

This factsheet is one of a series put together by East Sussex Pension Fund to help support employers with processing key tasks.



You can view the full employer toolkit at:

<https://www.eastsussexpensionfund.org/about-the-scheme/employers/employer-toolkit/>