

Rule of 85

An explanation of the Rule of 85 and the protections
under the Local Government Pension Scheme
Regulations



The Rule of 85 3
 What is the Rule of 85? 3
 What reductions apply to a benefit? 3
 Normal Pension Age (NPA) 4
 Explanation of Terms in the Table: 4
 Example Calculations 6
 Example 1 – Group 1 member retiring on or after age 60 6
 Example 2 – Group 1 member retiring between age 55 and 60 7
 Example 3 – Group 2 member retiring on or after age 60 7
 Example 4 – Group 2 member retiring between age 55 and 60 9
 Example 5 – Group 3 member retiring on or after age 60 10
 Example 6 – Group 3 member retiring between age 55 and 60 11
 Regulation changes 12
 Further information 12

The Rule of 85

The Rule of 85 was removed from the Local Government Pension Scheme (LGPS) with effect from 1st October 2006 and does not apply to anyone who joined the scheme after that date. For those who built up pension benefits before 30th September 2006 there are varying levels of protection, which this set of notes will explain.

What is the Rule of 85?

The Rule of 85 is used to work out whether or not a member's pension benefits (retirement pension and retirement grant) will be reduced if a member retires before their Normal Pension Age (NPA). It is not used to decide when a member can retire or as a reason for leaving.

When a member retires under certain circumstances, where the sum of their age plus the calendar length of their membership of the scheme (both in whole years) is equal to or greater than 85, then all or part of their pension will be unreduced.

What reductions apply to a benefit?

The reductions which apply to pension benefits paid before NPA are calculated in accordance with a set of factors issued by the Government Actuary's Department and are based on the how long before the NPA a member retires. The factors were re-issued by the Government Actuaries Department on 3 July 2023. The factors are now uni-sex (i.e. the same factors apply to both men and women).

The current reduction factors are set out below:

Years Early	Pension Reduction (%)	Retirement Grant 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*

*Because automatic Retirement Grants were removed from the scheme on 1st April 2008, and due to the protections in place regarding NPA, a Retirement Grant can only be paid a maximum of 10 years early.

Normal Pension Age (NPA)

The current Normal Pension Age (NPA), which is the age at which benefits are due to be paid without a reduction mirrors the State Pension Age (see separate State Pension Age notes), although there is a minimum of age 65.

Where a female member has a State Pension Age between 60 and 65, their NPA in the LGPS will be age 65.

Prior to 31st March 2014, the NPA was 65 for all members, however, where the member was in the scheme on 30th September 2006, an assessment could be made under the Rule of 85 and, subject to the protections laid out below, if a member met the Rule of 85, their benefits could be paid without a reduction.

Explanation of Terms in the Table:

Critical Retirement Age (CRA) means the date at which the Rule of 85 would have been met. However, where a member takes Voluntary Early Retirement between age 55 and 60, CRA becomes the later of either the date at which the Rule of 85 would have been met or age 60, although an employer may agree that the Rule of 85 should apply in full.

NPA means the later of either State Pension Age or age 65.

Taper means that a partial reduction will apply to the pension built up during Part B1, B2 and C service periods. Details of how a Tapered Reduction is calculated are set out in the example calculations at the end of the document.

The table below sets out the Rule of 85 protections and shows when a member's benefit would become payable without a reduction.

→ Group ↓ Service period	Group 1	Group 2	Group 3	Group 4
Part A	CRA	CRA	CRA	65
Part B1	CRA	Taper	65	65
Part B2	CRA	Taper	NPA	NPA
Part C	NPA	Taper	NPA	NPA
Part D1	NPA	NPA	NPA	NPA
Part D2	65	65	65	65

In the table overleaf the Groups have the following meanings:

Group Number	Definition
1	Member of the scheme before 30 th September 2006 and date of birth before 31 st March 1956
2	Member of the scheme before 30 th September 2006 and date of birth between 1 st April 1956 and 31 st March 1960 and would meet the Rule of 85 before 31 st March 2020
3	Member of the scheme before 30 th September 2006 and is not a Group 1 or 2 member*
4	Member of the scheme who commenced membership after 1 October 2006

*Where a member of the scheme would fall into Group 2 due to their age and membership of the scheme, but would not have met the Rule of 85 until on or after 1st April 2020, they become a Group 3 member.

In the table overleaf the Service Periods have the following meaning:

Part of Membership	Definition
Part A	Membership built up before 31 st March 2008
Part B1	Membership built up between 1 st April 2008 and 31 st March 2014
Part B2	Membership built up between 1 st April 2014 and 31 st March 2016
Part C	Membership built up between 1 st April 2016 and 31 st March 2020
Part D1	Membership built up after 1 st April 2020 and pension not related to actual service (includes transfers received after 1 April 2014 and Additional Pension bought by paying Additional Pension Contributions contracts started after 1 st April 2014)
Part D2	Membership (and pension) not related to actual service (includes Purchases started after 1 st October 2006, Pension from Additional Regular Contributions contracts started between 1 st April 2008 and 31 st March 2014 and transfers received between 1 st April 2008 and 31 st March 2014)

Example Calculations

The following example calculations are simplified examples looking only at the reductions that would apply. No calculations of pension benefits are included.

Example 1 – Group 1 member retiring on or after age 60

Details:

Date of Birth	01/09/1955
State Pension Age (NPA)	Age 66 (01/09/2021)
Joined LGPS	01/12/1986
Date of Retirement	31/10/2018

Membership

Part A	21 years 121 days
Part B1	6 years
Part B2	2 years
Part C	2 years 214 days
Total	31 years 335 days

At retirement date the member is age 63 and has 31 completed years membership. $31 + 61 = 94$. As this is over 85, the member would meet the Rule of 85 on retirement.

The benefits based on the member's Part A, B1 and B2 membership are **not** reduced at retirement.

However, the benefit based on the member's Part C membership **is** reduced at retirement as follows:

Unreduced benefits are payable at NPA.

Distance from Retirement to NPA:

01/11/2018 – 31/08/2021 = 2 years 304 days

To calculate the reduction, we need to interpolate between the factors for 2 years early and 3 years early.

Reduction Factors:

Years Early	Pension
2	9.3
3	13.5

Reduction to apply to pension: $13.5 - 9.3 = 4.2$

$4.2 \times 304 / 365 = 3.4981$

$9.3 + 3.4981 = 12.7981\%$

The reduction which will apply to the pension built up between 1st April 2016 and retirement is 12.7981%

As there is no automatic lump sum build up after 31st March 2008, there is no reduction to lump sum.

Example 2 – Group 1 member retiring between age 55 and 60

Details:

Date of Birth	01/12/1955
State Pension Age (NPA)	Age 66 (01/12/2021)
Joined LGPS	01/04/1988
Date of Retirement	30/11/2014 (age 59)

Membership

Part A	20 years
Part B1	6 years
Part B2	0 years 244 days
Total	26 years 244 days

At retirement date the member is age 59 and has 26 completed years membership. $26 + 59 = 85$. However, even though this is over 85, as the member is retiring before age 60, the CRA becomes the later of the date the Rule of 85 is met or age 60.

The benefit **is** therefore reduced at retirement as follows:

Unreduced benefits are payable at age 60.

Distance from Retirement to 60:

$01/12/2014 - 30/11/2015 = 1 \text{ year}$

Reduction Factors:

Years Early	Pension	Retirement Grant
1	4.9	1.7

The whole of the member's Pension will be reduced by 4.9% and the whole of the Retirement Grant is reduced by 1.7%

Example 3 – Group 2 member retiring on or after age 60

Details:

Date of Birth	01/09/1956
State Pension Age (Protected NPA)	Age 66 01/09/2022 (Age 65 01/09/2021)
Joined LGPS	01/12/1987
Date of Retirement	31/08/2016 (age 60)

Membership

Part A	20 years 121 days
Part B1	6 years
Part B2	2 years
Part C	0 years 153 days
Total	28 years 274 days

At age 60, the member has 28 completed years membership. $28 + 60 = 88$. As this is over 85, the member would meet the Rule of 85 on retirement. The benefit **is** therefore reduced at retirement as follows:

The benefits based on the member's Part A membership are **not** reduced at age 60.

The benefits based on the member's Part B1, B2 and C membership **are** subject to a **Tapered reduction**, calculated as follows:

Element 1 of calculation – Tapered Interpolation Factor (TIF)

The TIF is calculated by taking the calendar length of the difference between 1st April 2016 and the first date the member would be **both** age 60 and meet the Rule of 85 and dividing this by 4.

Member is **both** age 60 and met the Rule of 85 on 31st August 2016.

01/04/2016 – 31/08/2016 = 0 years 153 days

$TIF = (153 / 365) / 4 = 0.1048$

Element 2 of the calculation – Reduction Amounts

A Tapered Reduction (P^{TAPER}) is calculated from 2 separate Reduction amounts:

1. Reduction between Retirement and Critical Retirement Age (P^{CRA})
2. Reduction between Retirement and Protected NPA (age 65) (P^{65})

P^{CRA} – in this case there is no reduction, as the member meets the Rule of 85 at retirement

P^{65} – in this case the reduction is for the distance between age 60 and age 65

Reduction Factors:

Years Early	Pension
5	20.9

Calculation

$$\begin{aligned}
 P^{TAPER} &= (P^{65} \times TIF) + (P^{CRA} \times (1 - TIF)) \\
 &= (20.9 \times 0.1048) + (0 \times 0.8952) \\
 &= (2.1903) + (0) \\
 &= 2.1903\%
 \end{aligned}$$

The reduction which will apply to the pension built up between 1st April 2008 and retirement is 2.1903%. As there is no automatic lump sum build up after 31st March 2008, there is no reduction to lump sum.

Example 4 – Group 2 member retiring between age 55 and 60

Details:

Date of Birth	17/05/1957
State Pension Age (Protected NPA)	Age 66 17/05/2023 (Age 65 17/05/2022)
Joined LGPS	01/01/1985
Date of Retirement	16/05/2015 (age 58)

Membership

Part A	23 years 90 days
Part B1	6 years
Part B2	1 year 46 days
Total	30 years 136 days

At age 58, the member has 30 completed years membership. $30 + 58 = 88$. However, even though this is over 85, as the member is retiring before age 60, the CRA becomes the later of the date the Rule of 85 is met or age 60.

The benefits based on the member's Part A membership are reduced by the distance from Retirement to 60:

$$17/05/2015 - 16/05/2017 = 2 \text{ years}$$

Reduction Factors:

Years Early	Pension	Retirement Grant
2	9.3	3.3

The part of the member's Pension relating to membership before 31/03/2008 will be reduced by 9.3% and the whole of the Retirement Grant is reduced by 3.3%

The benefits based on the member's Part B1, B2 and C membership **are** subject to a **Tapered reduction**, calculated as follows:

Element 1 of calculation – Tapered Interpolation Factor (TIF)

The TIF is calculated by taking the calendar length of the difference between 1st April 2016 and the first date the member would be **both** age 60 and meet the Rule of 85 and dividing this by 4.

Member is **both** age 60 and met the Rule of 85 on 16th May 2017.

$$01/04/2016 - 16/05/2017 = 1 \text{ year } 46 \text{ days}$$

$$\text{TIF} = (1 + (46 / 365)) / 4 = 0.2815$$

Element 2 of the calculation – Reduction Amounts

A Tapered Reduction (P^{TAPER}) is calculated from 2 separate Reduction amounts:

1. Reduction between Retirement and Critical Retirement Age (P^{CRA})
2. Reduction between Retirement and Protected NPA (age 65) (P^{65})

P^{CRA} – in this case the reduction is for the distance between retirement and age 60

Reduction Factors:

Years Early	Pension
2	9.3

P^{65} – in this case the reduction is for the distance between retirement and age 65

Reduction Factors:

Years Early	Pension
7	27.4

Calculation

$$\begin{aligned}
 P^{TAPER} &= (P^{65} \times TIF) + (P^{CRA} \times (1 - TIF)) \\
 &= (27.4 \times 0.2815) + (9.3 \times 0.7185) \\
 &= (7.7131) + (6.6821) \\
 &= 14.3952\%
 \end{aligned}$$

The reduction which will apply to the pension built up between 1st April 2008 and retirement is 14.3952%

Example 5 – Group 3 member retiring on or after age 60

Details:

Date of Birth	14/04/1961
State Pension Age (NPA)	Age 67 14/04/2028
Joined LGPS	01/12/1999
Date of Retirement	13/04/2023 (age 62)

Membership

Part A	8 years 121 days
Part B1	6 years
Part B2	2 years
Part C	4 years
Part D1	3 years 13 days
Total	23 years 134 days

At age 62, the member has 23 completed years membership. $23 + 62 = 85$. The CRA in this case is age 62.

The benefits based on the member's Part A membership are **not** reduced at age 62.

The benefits based on the member's Part B1 member are reduced by the distance between Retirement and age 65.

Reduction Factors:

Years Early	Pension
3	13.5

The benefits based on the member's Part B2, C and D1 membership are reduced by the distance between Retirement and NPA (age 67).

Reduction Factors:

Years Early	Pension
5	20.9

Example 6 – Group 3 member retiring between age 55 and 60

Details:

Date of Birth	16/12/1970
State Pension Age (NPA)	Age 67 16/12/2037
Joined LGPS	01/07/1990
Date of Retirement	15/12/2025 (age 55)

Membership

Part A	17 years 274 days
Part B1	6 years
Part B2	2 years
Part C	4 years
Part D1	5 years 259 days
Total	35 years 168 days

At age 55, the member has 35 completed years membership. $35 + 55 = 90$. However, even though this is over 85, as the member is retiring before age 60, the CRA becomes the later of the date the Rule of 85 is met or age 60.

The benefits based on the member's Part A membership are reduced by the distance from Retirement to 60:

$$16/12/2025 - 15/12/2030 = 5 \text{ years}$$

Reduction Factors:

Years Early	Pension	Retirement Grant
5	20.9	8.1

The benefits based on the member's Part B1 membership are reduced by the distance between Retirement and age 65.

Reduction Factors:

Years Early	Pension
10	35.6

The benefits based on the member's Part B2, C and D1 membership are reduced by the distance between Retirement and NPA (age 67).

Reduction Factors:

Years Early	Pension
12	41.8

Regulation changes

Previously, it was only possible for those members who were a member of the 2014 Local Government Pension Scheme (i.e. those who paid contributions to the scheme after 1 April 2014) to take payment of their benefits between age 55 and 60. Those who were members of the previous schemes (i.e. those who left before 31 March 2014) could access their benefits from age 60 and were only able to have payment of any Deferred Benefits in the scheme if their employer agreed to the early release.

On 14 May 2018 an overriding amendment was made to all previous Local Government Pension Scheme Regulations (subsequently reamended on 10 January 2019 to correct some drafting errors), which allows those members who left before 31 March 2014 to access their pension benefits voluntarily between age 55 and 60 in the same way as anyone who was a member after 1 April 2014.

For these members, if they would have met the Rule of 85 before age 60, the CRA moves to age 60.

Further information

If you require further information about the areas covered by these notes, you can get in touch as follows:

Website: www.staffspf.org.uk

Email: pensions.enquiries@staffordshire.gov.uk

By Post: Staffordshire Pension Fund, 2 Staffordshire Place, Tipping Street, Stafford, ST16 2DH

By Phone: 01785 278222

If a copy of this information is needed in large print, Braille, another language or on cassette or disc, please contact Pensions Services.

PEN R85 V6.0 July 2023