

LSC Pension Scheme: Taking early retirement in 2022?

Your pension on early retirement

If you retire early (before your normal retirement age) your pension will be reduced to reflect the fact that it is likely to be in payment for a longer period of time. The reduction is applied to your pension when you retire. Your pension at that time will also include inflationary increases which have been applied annually since the date you left active service in the pension scheme. After this, once your pension is in payment, it will increase annually each April, linked to price inflation. (Increases on some of your pension elements may be capped, if you have any 'Guaranteed Minimum Pension', or 'GMP'.)

How does my pension increase prior to retirement?

During the period before you decide to draw your pension, your pension is increasing in line with Consumer Price Inflation ('CPI'), once for every complete year in which you remain unretired. As noted above, when you then come to retire, these inflationary increases will be reflected in your starting pension. This 'revaluation' measure is refreshed annually each January and is linked to the annual increase in CPI up to the preceding September. For example, this would mean the annual pension revaluation for people wishing to retire in 2023 will be linked to the annual increase in CPI measured in September 2022. This measure will be applied for all retirements on or after 1st January 2023.

Current high inflation – what does this mean?

Price inflation is currently significantly higher than it has been in recent years – the September 2022 measure of annual Consumer Price inflation ('CPI') was 10.1%. In line with the mechanism described above, this measure of inflation will only be reflected in the 'revaluation' of pensions for members who wish to retire from 1st January 2023 onwards.

If, for example, you were to defer taking your pension until after 31st December 2022, you would be due a pre-retirement revaluation of your pension which would be more aligned with current inflation levels.

How does this impact my pension increases after I retire?

Once you have retired, your pension will continue to receive increases linked to inflation annually on 1st April. Similar to the mechanism for pension revaluations prior to retirement, the 1st April 2023 pension increase will be based on the 10.1% CPI inflation figure for September 2022. However, if your pension has been in payment for less than one year when the 1st April pension increase is due, the increase will be scaled down to reflect the number of months you have been retired.

What should I do if I'm considering retiring early before the end of 2022?

The rules regarding pension revaluation are complex and the impact will vary depending on when your benefits were built up, and how long it has been since you left active service in the pension scheme. Once your pension comes into payment, changes cannot be made to your retirement options. Therefore please be aware that the decision to retire early before the end of 2022 may impact how the current levels of high inflation are reflected in your pension. You may want to consider taking financial advice regarding your decision.