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Local Government Division

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Finance Circular No. 7/2010

By email:

To: Local Authority Chief Executives
Local Authority Directors of Finance

Copy to: COSLA
Audit Scotland
LASAAC
CIPFA

Our ref: B3625387
17 March 2010

Dear Chief Executive/Director of Finance,

CONSENT TO BORROW UNDER PARA 1 (2) OF SCHEDULE 3 OF THE LOCAL GOVERNMENT (SCOTLAND) ACT 1975 – EARLY RETIREMENT OF TEACHERS

Earlier this year Ministers agreed to consider introducing a scheme to allow local authorities to borrow to help them manage the cost of early retirement for teachers to free up posts for post probationer teachers. Following discussions with COSLA and the Association of Directors of Education in Scotland (ADES) a draft scheme was prepared. After consideration by HM Treasury and Mr Swinney, the Cabinet Secretary for Finance and Sustainable Growth, the scheme was issued for consultation.

A number of responses were received in response to the consultation expressing a range of views. All the comments submitted were carefully considered and as a result some changes have been made to the scheme and the guidance accompanying it to provide some additional flexibility and greater clarity on the operation of the scheme. In particular you should note the following points:

- As a result of concerns over the time available to complete a separate round of applications for 2009-10, it has been decided that the scheme will apply only to costs incurred in 2010-11. Applications must only address expenditure falling in 2010-11. The total level of consents available remains unchanged at £10 million.

- The scheme relates equally to full and part time employment. All teacher numbers are to be calculated on a full time equivalence basis.

- The scheme relates only to the financing of early retirement costs, not to the terms of severance offered by Local Authorities. The terms of severance offered by local authorities to individuals need not match the criteria for costs to be eligible for borrowing under the scheme. Local authorities will determine the terms offered to early retirees to reflect local requirements. The early retirement costs eligible for borrowing will be as described in the scheme. For example a local authority may offer conditions equating to more than 2 years enhanced service, but only the costs relating to the equivalent of 2 years enhanced service will be eligible for borrowing under this scheme.

- The scheme requires that the outgoing teacher must be replaced by a qualified teacher who is not currently in the permanent employ of the council as a teacher. This eligibility criterion relates to the eligibility of the costs to be included in the assessment of the level of borrowing under the scheme. The recruitment and selection procedures used by local authorities should not be affected by this scheme.

- As temporary staff, and individuals in teaching support roles are not "currently in the permanent employ of the council as a teacher" their recruitment to replace an outgoing teacher falls within the scope of this scheme.

- The performance against the affordability tests described in the scheme will be used as a measure of the need to borrow, but all the information included in the applications will be taken into account in determining whether to grant a consent.

Local authorities are now invited to submit applications in accordance with the scheme attached by 30 April 2010. Details of the information that needs to be included in the accompanying business case are provided in the annex to the scheme.

Simon P Stone
Deputy Team Leader (Capital)
Local Government Division

The Scottish Government

REVENUE EXPENDITURE FUNDED FROM CAPITAL RESOURCES UNDER STATUTE

Consent to borrow to finance the costs of the early retirement of teachers

Policy and Procedures 2010-11

A guidance note issued by the Scottish Government

B3625387

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INTRODUCTION AND GENERAL POLICY

1. The Local Government (Scotland) Act 1975 (the 1975 Act) sets out the statutory powers of a local authority to borrow. The Act effectively limits Scottish local authority borrowing to support capital expenditure. However, the 1975 Act provides Scottish Ministers with the power to consent to a local authority borrowing to meet costs that they would not otherwise be able to meet from borrowing. In providing any consent under this power, the Scottish Ministers are required to be satisfied that the expenses are of such a nature that they should be met from borrowing. In providing consent, Ministers may apply such terms and conditions as they consider appropriate.

2. Permitting local authorities to fund revenue expenditure from capital resources such as borrowing raises concerns at the macroeconomic level by facilitating a practice which threatens long-standing fiscal rules. For that reason, it is appropriate that the Scottish Government should control and monitor the use of capital resources used in this way and applies strict criteria in permitting such use.

3. Borrowing to meet revenue costs runs counter to the principles of prudent financial management. Scottish Ministers will only consider issuing a local authority with consent to borrow to fund revenue expenditure for one-off payments or lump sum payments and not indefinitely continuing payments. It would be imprudent to allow a local authority to borrow to fund on-going costs.

4. Borrowing does not solve the financial difficulties of the local authority but simply allows the costs to be spread over time. The costs of borrowing undertaken to meet revenue costs will have to be met from revenue resources over several years. Borrowing for revenue costs is therefore likely to impact on the level of capital investment for service delivery. In making an application to Scottish Ministers to use borrowing to meet teachers' early retirement costs, local authorities should consider these issues.

5. In exercising their statutory powers, Scottish Ministers are required to give consideration to the UK Government (HM Treasury) role in managing the economy and finances. Scottish Ministers have consulted with HM Treasury on a scheme to allow teachers early retirement costs to be met from borrowing. HM Treasury require this scheme to operate independently from any scheme to address equal pay costs. This guidance sets out the details of the scheme for teachers' early retirement costs.

CONSENT TO BORROW FOR TEACHERS EARLY RETIREMENT COSTS

6. The number of teachers coming out of training is exceeding current demand. Consequently several hundred trained teachers are currently under-employed or unemployed. On the other hand, across Scotland several hundred teachers are approaching retirement age.

7. A number of local authorities are already acting to address this issue by bringing forward early retirement arrangements for their staff, and filling the resultant vacancies from the ranks of new fully registered teachers. However not all

authorities have sufficient revenue resources to address the issues in this way. As a result there is a mounting problem of unemployment for new fully registered teachers, and of senior teachers coming to the end of their working careers but for whom no arrangements exist to support early retirement.

8. The costs of early retirement schemes are front-loaded, with savings being realised over future years. Allowing those councils with insufficient revenue resources to borrow to fund these costs would enable councils to match the costs of the scheme to the cost savings over a period of years.

9. To assist councils in this position the Cabinet Secretary for Education and Lifelong Learning announced, on 25 November 2009, that the Scottish Government would introduce a consent to borrow scheme for costs associated with the early retirement of teachers. This means that councils will be allowed to effectively capitalise certain costs of early retirement packages and spread the cost over a number of years.

10. In-line with general policy, decisions as to whether to provide a consent to individual councils will be based on financial need. Each application for a consent to borrow for teachers early retirement costs will need to be accompanied by a business case which makes clear the need to borrow to fund the up front costs of the retirement scheme. Details of the information that should be included in the business case are at Annex A.

ELIGIBLE COSTS AND CRITERIA TO ALLOW BORROWING FOR ADDITIONAL COSTS OF TEACHERS' EARLY RETIREMENT

11. In addition to the requirement to demonstrate the need to borrow to fund the costs of teachers' early retirement, there are limits to the early retirement costs that will be eligible for consideration under this scheme.

> 11.1 There are currently two early retirement options permitted under the teachers' Superannuation (Scotland) Regulations 2005 (as amended). These are Premature Retirement (PRC) and Actuarially Reduced Benefits (ARP). Either option may be utilised. The ARP option may include the purchase of additional pension.
>
> 11.2 Local authorities are expected to demonstrate value for money. Borrowing will be limited to the actual expenditure incurred, and to the lower of PRC or ARP (with pension purchase).
>
> 11.3 If the ARP (with pension purchase) route is chosen the costs eligible for borrowing will be limited to those associated with the purchase of the lump sum equivalent of 2 years additional reckonable service. Annex B provides details of the two pension options and how to calculate the appropriate costs for comparison. When the cost of the additional pension falls in between the blocks of £250, authorities have the option of either rounding up or down to the nearest £250.

11.4 The outgoing teacher must be replaced by a qualified teacher who is not currently in the permanent employ of the council as a teacher. To count towards this scheme the replacement must be effected by 31 March 2011. For clarification, this does not require a replacement in the same post, but requires the employment of replacements within the Council, equal to the number being released early. Teacher numbers, both departing and being employed, are to be counted on a full time equivalence (FTE) basis. Replacement teachers may be recruited from those currently employed on a temporary basis.

11.5 The post filled by a replacement must be a permanent post, and may be part or full time.

11.6 The retirement scheme must demonstrate that costs associated with the early retirement arrangements will be met by savings over time i.e. be cost-neutral for councils and council tax-payers.

11.7 Costs which relate to the administration of the introduction or operation of the early retirement scheme are not eligible for borrowing.

APPLICATIONS FOR CONSENT TO BORROW

12. Local authorities should apply for consent to borrow for teachers' retirement costs by 30 April 2010. The Scottish Government intends to issue the consent to borrow by 1 June 2010.

13. Applications may be made for costs to be incurred in 2010-11.

14. In order to consider applications as fairly as possible, the Scottish Government will be seeking a range of information. This is provided as a checklist at Annex A.

15. Applications should be in the form of a business case and present the required information as fully as possible. Please include any additional information you wish to be considered. Failure to provide all the required information may result in consideration of the application being delayed whilst the Scottish Government seeks clarification. In the event of the local authority not providing that clarification the application will not be considered.

16. Applications for consent to borrow for teachers' early retirement should be made electronically to simon.stone@scotland.gsi.gov.uk. All applications will be acknowledged by an email response. If no acknowledgement is received please call Simon Stone on 0131 244 7950.

17. Applications received after the closing date may be considered at the discretion of the Scottish Government. The Scottish Government will take into consideration the lateness of the application, the strength of the business case and the value of any other consents already issued.

ASSESSMENT OF APPLICATIONS

18. Applications will be considered against the eligibility criteria for teachers' early retirement costs as set out in paragraph 11 above. In addition, affordability and need will be assessed.

19. Where a consent to borrow has already been awarded, this will be taken into account when considering the application.

20. The business case must demonstrate value for money and we would expect the cheaper of ARP (with pension purchase) or PRC to form the basis of the offers to be made.

21. The business case must identify the anticipated pay-back period of the early retirement costs subject to borrowing under this scheme, and demonstrate how this has been calculated. This information will be used to inform the repayment period of any consented borrowing.

22. Affordability will be considered against two criteria: available reserves and levels of budgeted expenditure

23. The affordability test to be applied is that the costs to be capitalised should exceed both (a) 5% of available reserves (plus any provisions held for teachers early retirement) at 31 March 2010; and (b) 0.25% of budgeted General Fund expenditure for 2010-11. Applications which do not meet these criteria may be considered at the discretion of the Scottish Government. The Scottish Government will take into consideration the strength of the business case and the value of any other consent already issued or applied for.

- Available reserves include both unallocated and earmarked revenue reserves as at 31 March of the financial year to which the application applies. Available Reserves exclude reserves that reflect the differences in timing between accounting recognition requirements and statutory recognition requirements. Available reserves also exclude the insurance reserve and Housing Revenue Account (HRA). Local authorities may make a case for excluding any earmarked reserves, and where a strong enough case can be made the value of reserves may be reduced before applying the affordability test.

- Budgeted expenditure equates to the Total Expenditure figure for 2010-11 reported on the POBE 2010, adjusted for any proposed transfers to/from reserves, contingency, and revenue contributions to capital. Councils may update this information with known changes, but must provide explanations of any revisions.

CONSENT TO BORROW - CONDITIONS

24. Any consent to borrow issued does not attract any Scottish Government loan charge support. The local authority is responsible for ensuring that use of this

borrowing consent is in accordance with the prudential indicators set by the authority and that the borrowing is both affordable and sustainable.

25. For each individual retirement an assessment must be undertaken to assess the costs of ARP (with pension purchase) against the costs of PRC arrangements. The consent to borrow may only be utilised to meet the cheaper of ARP (with pension purchase) or PRC arrangements, with any pension purchase limited to the lump sum equivalent of two years additional service.

26. The consent to borrow for teachers' early retirement costs may only be applied to actual expenditure incurred. It may be applied to accrued teachers' early retirement costs but may NOT be applied to any accounting provision made for such costs. For clarification, authorities may apply for a consent to borrow before actual costs are incurred, but will not be able to use the consent to undertake borrowing until the expenditure is actually incurred.

27. The consent to borrow is valid only for the financial year for which it is issued. Unless otherwise specified in the conditions accompanying the consent, any consents that are not used will lapse and may not be carried forward to future years.

28. Within three months of each financial year end the Director of Finance, or equivalent, shall advise the Scottish Government of the actual borrowing undertaken relying on any consent to borrow, and the numbers of teachers released and employed in relation to this scheme. The local authority must confirm that such borrowing has been used only for the expenditure as detailed in the consent letter. The Scottish Government requires this information to monitor the borrowing position and enable us to share the information with HM Treasury.

29. Where borrowing is undertaken using the consent to borrow an advance from the loans fund shall be made and such advance shall be identifiable as the teachers' early retirement advance in the loans fund.

30. The repayment period of the advance from the loans fund will be based on the business case but may not exceed 10 years.

31. There is no requirement to apply capital receipts to redeem the teachers early retirement debt. However, capital receipts may be used to meet the cost of the principal element of the loans fund advance made in reliance of this consent to borrow. The receipt must be applied to the total teachers early retirement loans fund advance outstanding and may not be used to meet just the annual statutory repayment of this advance. If the application of the capital receipt does not extinguish the total teachers' early retirement advance outstanding the local authority is required to revise all the remaining annual statutory repayments for that advance. This revision should reflect that the capital receipt was applied to produce a proportionate reduction to all future annual statutory repayments for the teachers' early retirement advance. Should an authority choose to apply capital receipts to the repayment of the loan principal these conditions apply.

32. With the exception of PPP/PFI lifecycle replacement costs which are met from the unitary payment and required by statutory guidance to be charged to the General

Fund as ’Capital expenditure charged to the General Fund balance’, the local authority may not utilise this borrowing consent in the same year as revenue contributions to the capital programme exist either directly from the General Fund or through in-year contributions to their capital programmes or Capital Fund. Revenue resources should be used to fund the teachers early retirement revenue costs in the first instance. This does not prevent the use of revenue resources to support capital expenditure during the repayment period of the consented borrowing, just the year in which the borrowing is undertaken.

33. The local authority is required to keep appropriate records of any borrowing incurred under this consent for audit purposes, and to provide such information as may be necessary to demonstrate that the conditions of the scheme have been met.

ACCOUNTING FOR ANY CONSENTS GRANTED

34. Expenditure, for which consent is provided, shall be accounted for in accordance with the local authority Accounting Code of Practice. This requires the expenditure to be charged to the Income and Expenditure account. This consent to borrow permits the revenue expenditure to be neutralised for council tax purposes with the Capital Adjustment Account being debited (and the General Fund credited). This will increase the capital financing requirement under the prudential framework by the amount of the expenditure effectively being capitalised.

35. A statutory provision for the repayment of debt shall be made each financial year in accordance with the conditions of this consent.

Scottish Government
Local Government Division
March 2010

ANNEX A

INFORMATION REQUIRED IN SUPPORT OF A CONSENT TO BORROW FOR TEACHERS' EARLY RETIREMENT

General information

1. Name and address of the local authority

2. Contact name and details
   - Name
   - Direct telephone number
   - Email address

3. Director of Finance or equivalent
   - Name
   - Direct telephone number
   - Email address

Background and overview

4. Provide details of what actions the local authority has taken to address the issue of under-employed or unemployed teachers.

Demonstration of need

5. The business case should set out the financial circumstances of the local authority which supports the need to borrow. This should include, as a minimum, consideration of the following:

   5.1 Provide details of the local authority's approach to teachers' early retirement costs in terms of budgeting and reserves. Provide details of options considered and rejected, with reasons, and why an application to borrow to meet all or part of the costs has been made.

   5.2 Details of reserves held. Include details of all usable statutory revenue reserves with the exception of the Insurance Reserve and the Housing Revenue Account. Provide the opening reserve balance as at 1 April 2010, details (reasons) of all proposed transfers to or from these reserves in 2010-11, and the anticipated balance at 31 March 2011. Local authorities often earmark General Fund reserves. Except for any earmarked HRA balances within the General Fund a strong case must be made to the Scottish Government if you wish any part of the General Fund or other usable revenue reserve balance to be disregarded when your application is considered.

   5.3 The value of any anticipated provision for teachers' early retirement costs as at 31 March 2010 should be provided and reflected in any consideration of funds available to meet the costs of the teachers' early retirement scheme.

5.4 Any budget provision made for teachers' early retirement scheme costs in 2010-11.

5.5 Budgeted net revenue expenditure for the council in 2010-11. These values must be based on the POBE. Local authorities may amend these values but must provide an explanation for that adjustment.

5.6 Details of any previously granted consents to borrow.

Details of teachers' early retirement costs and savings for which the application to borrow applies

6. The details required are:

6.1 The anticipated total cost of the teachers retirement scheme which is the subject of this application. This should show the anticipated costs for 2010-11 and the anticipated costs of borrowing in future years.

6.2 The anticipated savings to be generated in 2010-11 and future years in relation to this scheme.

6.3 The amount you wish to borrow in 2010-11, and the period over which you plan to repay the borrowing. This should link to the break-even period within which the additional costs will be recouped from the savings generated.

6.4 There are currently two early retirement options permitted under the teachers' Superannuation (Scotland) Regulations 2005 (as amended). These are Premature Retirement (PRC) and Actuarially Reduced benefits (ARP). The consent to borrow scheme permits either option to be utilised. The business case should set out the approach to be adopted by the local authority. The local authority will need to demonstrate value for money. The business case should demonstrate that the planned scheme is based upon the cheapest option being utilised, or provide an explanation where this is not the case.

6.5 The business case should provide information on the total number of teachers to be retired and replaced (based on FTE), together with details as to how the total scheme cost has been calculated, including where any assumptions have been made in these calculations. For the purposes of the consent to borrow scheme, borrowing will be limited to the cheaper of ARP (with pension purchase) or PRC, with the pension purchase limited to the lump sum equivalent of purchasing two years additional service.

6.6 If funding is available to meet some of the costs, provide details of what funding is available. This should include any reserves or provisions already made for a teachers' early retiral scheme.

Statutory repayment of debt

7. The costs associated with the early retirement arrangements will be met by savings over time i.e. be cost-neutral for councils and council tax-payers. The business case should set out the loan repayment period the local authority considers appropriate based on this time period, and should demonstrate, with values, that the repayment period requested is less than, or equal to the break-even period of the proposed retirement scheme.

Other details to be provided

8. The application must include confirmation that the early retirement costs which are the subject of the application for a consent to borrow meet the eligibility requirements as set out by the Scottish Government:

> 8.1 The outgoing teacher must be replaced by a qualified teacher who is not currently in the permanent employ of the council,
>
> 8.2 The post filled must be a permanent post,
>
> 8.3 The application covers only the lower of PRC and ARP (with pension purchase), where the pension purchase is limited to the lump sum purchase equivalent to two additional years service, and;
>
> 8.4 The application must confirm that the application does not contain any values which relate to the administration of the introduction or operation of the early retirement scheme.

ANNEX B

Options for Early Retirement

There are currently two early retirement provisions permitted under the Teachers' Superannuation (Scotland) Regulations 2005 (as amended). These are:

Premature retirement (PRC) – regulation E6(6)

Payment of pension and lump sum is split between SPPA and employer. The employer must pay mandatory compensation and may at their discretion credit the member with additional years service under the PRC regulations. SPPA can pay mandatory compensation and any discretionary compensation in return for a one-off capitalised lump sum payable to SPPA by employer.

Note: from 6 April 2010 teachers must be over the age of 55 to be awarded Premature retirement.

Actuarially reduced benefits – regulation E6(7)

Payment of pension and lump sum is actuarially reduced and paid by SPPA. There is no cost to local authority.

Ways of enhancing ARP

In the current economic climate, for many employers the costs of PRC are prohibitive because they must pay the difference between the total accrued pension and the actuarially reduced pension paid by SPPA. Under the terms of the STSS employers can however purchase additional pension on a teacher's behalf as an enhancement for people taking early retirement on actuarially reduced terms. There are two options when purchasing additional pension, these are where only the teacher benefits and this ceases when the teacher dies or the spouse can receive a half of this after the teachers death. Costs differ dependent on the option required. This does not include a lump sum but the pension can be commuted up to the permitted maximum in order to provide a lump sum at retirement.

The amount of pension purchased must be in multiples of £250 and the cost of the pension purchase has to be paid as a one-off sum. Importantly, however, the teacher must be in employment when the pension purchase occurs. SPPA must have payment cleared for the purchase of additional pension prior to processing an ARP award.

If using the pension purchase provision employers must ensure that they get a signed undertaking from the employee that they are voluntarily retiring through the ARP route prior to purchasing the additional pension on their behalf. Equally employers must ensure that employees are aware that any pension purchased will be on an actuarially reduced basis and should therefore take their own personal financial advice. Employers wishing to avail of this flexibility in the STSS should contact SPPA for further advice.

Below are examples for illustrative purposes only of costs involved for both PRC and pension purchase with ARP.

Using average pensionable salary of £40,000 and entry age of 21 and normal pension age of 60. Cost to employer shown below.

(1) Age	(2) Reckonable Service in STSS	(3) ARP factor = SPPA share of total pension	(4) SPPA's share of pension (ie scheme pays)	(5) SPPA's share of lump sum (ie scheme pays)	(6) Employer's share of pension (mandatory compensation)	(7) Employer's share of lump sum (mandatory compensation)	(8) Capitalisation Factor (for female teachers)	(9) Total capitalised Amount to nearest £ (includes lump sum in column 7)	(10) Capitalisation Factor (for male teachers)	(11) Total Capitalised Amount to nearest £ (includes lump sum in column 7)
55	34	0.773	£13141.00	£39423.00	£3859.00	£11577.00	19.61	£87252.00	18.70	£83740.00
56	35	0.813	£14227.50	£42682.50	£3272.50	£9817.50	19.29	£72944.00	18.35	£69868.00
57	36	0.855	£15390.00	£46170.00	£2610.00	£7830.00	18.96	£57316.00	17.99	£54784.00
58	37	0.900	£16650.00	£49950.00	£1850.00	£5550.00	18.63	£40016.00	17.62	£38147.00
59	38	0.948	£18012.00	£54036.00	£988.00	£2964.00	18.28	£21025.00	17.24	£19997.00
60	39	none	£19500.00	£58500.00	Nil	Nil				
60+	40	none	£20000.00	£60000.00	Nil	Nil				

(1) Cost to employer shown in columns (6) and (7) ie mandatory compensation. No mandatory compensation cost to employer when teacher attains age 60. Capitalisation factor for females used as this is slightly greater than those for males. No cost shown for discretionary compensation but this would simply be x years/80 x £40k for pension and 3 times pension = lump sum.

(2) If teacher opts for actuarially reduced benefits then pension and lump sum are shown in columns (4) and (5). No cost to employer. Employer cannot award discretionary compensation (ie cannot purchase added years) but could purchase additional pension by lump sum up to a maximum of £5,000. This would, however, be actuarially reduced by the same amount as the main STSS pension.

Pension Enhancement Under ARP

The table below compares the costs to the Employer of retiring a 55 year old teacher with 34 years reckonable service, personal and dependents, and a pensionable salary of £40,000 on:

A. premature grounds
B. purchasing additional pension equivalent to 2 years service.
C. Actuarially Reduced Pension with no enhancements.

Option	Description	Cost to Employer	Teacher Pension	Teacher Lump Sum
A	Premature retirement (capitalised cost of mandatory compensation)	**£87,252**	£17,000	£51,000
B	Purchase of additional pension of £1,500 (actuarially reduced value £1159.50 with no lump sum but up to approx 25% can be commuted to provide a lump sum. Commute pension on 1:3 ratio leaving £927.6 extra pension plus £2782.8 extra lump sum)	**£28,200**	£14,068.6	£42,205.8
C	Actuarially reduced pension provision with no enhancements.	**£0**	£13,141	£39,423

Option B is an illustrative example of finding a balance between ARP and PRC. The balance achieved is by offering enough of an enhancement to interest the teacher, but without the potentially prohibitive levels under PRC.

Worth noting is that PRC becomes less expensive the closer the teacher is to 60. As the age approaches 60, the PRC scheme may become less expensive than pension purchase.

Calculation

The Pension Purchase Table per £250

	Male (normal pension age 60)		Female (normal pension age 60)	
Age	Personal	Personal and dependant's	Personal	Personal and dependant's
55	£4,270	£4,650	£4,560	£4,700
56	£4,410	£4,800	£4,700	£4,850
57	£4,560	£4,960	£4,850	£5,000
58	£4,720	£5,130	£5,010	£5,160
59	£4,880	£5,300	£5,170	£5,320

ARP Factors

	Complete months											
	0	1	2	3	4	5	6	7	8	9	10	11
55	0.773	0.776	0.780	0.783	0.786	0.790	0.793	0.796	0.800	0.803	0.806	0.810
56	0.813	0.817	0.820	0.824	0.827	0.831	0.834	0.838	0.841	0.845	0.848	0.852
57	0.855	0.859	0.863	0.866	0.870	0.874	0.878	0.881	0.885	0.889	0.893	0.896
58	0.900	0.904	0.908	0.912	0.916	0.920	0.924	0.928	0.932	0.936	0.940	0.944
59	0.948	0.952	0.957	0.961	0.965	0.970	0.974	0.978	0.983	0.987	0.991	0.996

ARP Pension = 1/80 x Reckonable Service x Salary x ARP Factor
ARP Lump Sum = 3/80 x Reckonable Service x Salary x ARP Factor

Work out what an extra 2 years service would buy:

Extra Pension = 1/80 x 2 years service x Salary
Extra Lump Sum = 3/80 x 2 years service x Salary

Then convert into Pension Purchase:

((Extra Lump Sum/12) +Extra Pension) / ARP Factor = Pension Purchase Needed

If teacher wishes to commute extra pension into lump sum at standard 1:3 ratio

Pension Purchase x ARP Factor x 4/5 = Pension
Pension Purchase x ARP Factor x 12/5 = Lump Sum

Example

55 year old female teacher, 34 years service and a salary of £40,000.

ARP Pension = 1/80 x 34 x 40,000 x 0.773 = £13,141
ARP Lump Sum = 3/80 x 34 x 40,000 x 0.773 = £39,423

For an extra 2 years service:

Extra Pension = 1/80 x 2 x 40,000 = £1000
Extra Lump Sum = 3/80 x 2 x 40,000 = £3000

((3000/12) + 1000) / 0.773 = £1617

Can only purchase multiples of £250.

(A) If £1500 bought:

6 x £250 multiples = £1500
£1500 x ARP Factor = 1500 x 0.773 = £1159.5 extra pension

Commute some to form a lump sum:

1/12 x Amount to commute = Lump Sum

The Offer

£1159.5 x 4/5 = **£927.6 extra pension**
£1159.5 x 12/5 = **£2782.8 extra lump sum**

Cost to the Employer = 6 x £4700 = **£28,200**

(B) If £1750 bought:

7 x £250 multiples = £1750
£1750 x ARP Factor = £1750 x 0.773 = £1352.75 extra pension

Commute some to form a lump sum:

£1352.75 x 4/5 = **£1082.2 extra pension**
£1325.75 x 12/5 = **£3181.8 extra lump sum**

Cost to the Employer = 7 x £4700 = **£32,900**