

PERSONNEL COMMITTEE

7 March 2005

PENSION POLICY

REPORT OF DIRECTOR OF PERSONNEL

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

Amendments to regulations governing the Local Government Pension Scheme, which have been implemented between 1998 and 2004, allow employers to exercise certain discretionary powers to improve benefits for its employees. To ensure that these discretionary powers are exercised in a fair and consistent manner, the Council is required to publish a policy explaining how the Council will exercise these powers.

The Council's policy on the application of the discretionary powers was agreed in 1998 when the original discretionary powers were awarded. There was agreement at this time to regularly review the use of these discretionary powers.

Further discretionary powers have since been granted, the latest in 2004 which relates to the right to combine preserved pension benefits.

This report reviews the discretionary powers granted by the 1998 amendments, sets out the financial implications of each and makes recommendation as to which of these discretionary powers should be retained. A further recommendation is made on the adoption of the discretionary power granted by the 2004 amendments.

The report also takes into account changes to the Pension Scheme due to be implemented on 1 April 2005.

RECOMMENDATIONS:

- 1 That the recommendations as set out in section 4 and appendix 1 of this report be accepted.
- 2 That the Director of Personnel be authorised to implement the changes to the policy subject to consultation with Unison.

## PERSONNEL COMMITTEE

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### PENSION POLICY

#### REPORT OF DIRECTOR OF PERSONNEL

##### DETAIL:

#### 1 Introduction

- 1.1 In 1998, new arrangements came into force regarding the Local Government Pension Scheme allowing employers to exercise certain discretionary powers to improve benefits for its employees. These powers have since been enhanced by changes to the scheme regulations in 2000 and again in 2004.
- 1.2 To ensure that these discretionary powers are exercised in a fair and consistent manner, the Council is required to publish a policy explaining how the Council will exercise these powers.

#### 2. Council Policy

- 2.1 The Council's current policy which was agreed at the time of the amendments, and which has been reviewed in subsequent years, sets out the discretionary powers adopted by the Council as allowed under the 1998 amendments to the Regulations. The recent amendments to the Pension Regulations build on the discretionary powers identified within that policy. It is therefore proposed that this policy be expanded to encompass the new discretionary powers that the changes have given to Local Authorities.
- 2.2 Hampshire County Council has a published policy which encompasses some of the amendments and it is proposed that, where there are no considerable financial implications, the Council policy mirrors that of Hampshire County Council.

#### 3. Summary of Amendments to Regulations

- 3.1 Under the arrangements which came into force in April 1998, Council's were given the discretion to:
- i) award extra periods of LGPS membership when a person is recruited or retired.
  - ii) establish a shared cost additional voluntary contributions arrangement
  - iii) reduce an employee's contribution after 40 years of actual LGPS membership
  - iv) count a woman's service before 6 April 1988 towards the calculation of a widower's pension
  - v) consent to immediate payment of benefits to a person who retires voluntarily or has preserved benefits between ages 50 and 60

- vi) consent to paying an ex-employee's benefits after age 50 on compassionate grounds without reductions.

3.2 The discretions allowed under points iv) and v) were adopted.

3.3 The Local Government Discretionary Payments Regulations 1996 which were amended in 2000 allow Council's the discretion to:

- i) calculate redundancy pay based on continuous local government service and actual week's pay.
- ii) consider the award of added years to pensionable service as compensation for premature retirement on the grounds of efficiency of service providing the employee is over 50 with at least 5 years service

3.5. The Council policy currently exercises the discretions allowed under point ii) but redundancy payments are made based on the statutory maximum redundancy pay amount (currently £270 per week). It is recommended that any changes to redundancy pay be considered as part of the work undertaken in the coming year to develop a Severance Strategy for the Council, which will include a review of the Redundancy Policy and will incorporate the provisions of the Retirement Policy. It is therefore not recommended that changes are made at this time.

3.4 The amendments which came into force in 2004 relate to the right to allow a former member of the LGPS scheme, who rejoins the scheme, to opt for either combined or separate benefits on leaving the scheme for a second time. The amendments set a time limit on the right to opt to combine benefits but allow the new employer the discretion to extend that deadline.

#### 4. Future Amendments

4.1 The Government has recently undertaken a review of public sector pension schemes, as part of the need to deal with increased life expectancy, changing demographics and rising pension costs. As a result of this review, further changes to the LGPS will be implemented from 1 April 2005. These changes will:

- i) Remove the 85 year rule

*The 85 year rule is:* - if the persons age in whole years plus the period of scheme membership (in whole years) totals 85 years or more at the time of retirement then pension benefits will be paid without reductions. If the total is less than 85 then pension benefits will be reduced – under the new regulations this rule only applies to people who will be age 60 by 31<sup>st</sup> March 2013. In all other cases, benefits will be reduced for retirements before age 65.

- ii) Increase the earliest retirement age to 55

4.2 There are some exceptions to the above and some protection offered for existing members of the LGPS which are outlined in the briefing paper provided by Pension Services and which is shown at appendix 2.

4.3 Any proposed amendments to the Council's Pension Policy must take these changes into account.

## 5. Proposed Amendments to Council Policy

5.1 As explained in 2.1 and 2.2 above, it is proposed that the Council's current Retirement Policy be expanded to incorporate some of the discretions allowed by the recent changes in the regulations and that these discretions, where there are no significant financial implications, mirror those exercised by Hampshire County Council. A summary of the powers granted under the Pension Regulations, together with the financial implications and whether it is proposed that the Council exercise these powers is contained in appendix 1.

5.2 Therefore, it is proposed to amend the Council's policy to include the following additional discretionary powers:

- i) To waive an employee's basic pension contribution providing that 40 years total membership of the LGPS in local government employment has been achieved, and no further benefits are accruing to the employee.

Whilst this discretion would be waiving the pension contributions from the individual, the employer's contributions would still be payable and this would therefore not represent a cost saving to the Council. In addition, the County Council could certify an extra charge for the small liability arising from the loss of income to the pension fund but have stated that this is unlikely.

Given the infrequency of this arising and the commitment to local government that would have been demonstrated by individuals who become eligible, the application of this discretionary power could be considered a form of 'reward' for long service which incurs no additional cost to the Council.

Whilst Members previously decided not to adopt this discretionary power, it would appear that the benefit in terms of reward to employees, in allowing further reward, at no additional cost to the Council, for long service over and above the current 25 years given under the Long Service Award Scheme, coupled with the infrequency of the situation currently occurring outweighs the cost of continuing to pay employers contributions for that employee (which would happen regardless of whether this discretion was adopted or not). The frequency of such requests will further diminish in the future due to the changing nature of the employment market, ie the likelihood of an individual remaining in the same pension scheme in local government employment for 40 years is rare.

It is recommended that the Council adopt this course of action.

- ii) To extend the deadline for employees to opt to combine benefits on leaving the pension scheme for a second time, except for employees who wish to transfer when under notice of redundancy or early retirement.

A former contributor to the LGPS who rejoins the LGPS in a new employment, may have preserved pension benefits within the pension scheme. Upon rejoining, the individual has the option to transfer the benefits from the old to the new employment.

Individuals with preserved benefits who rejoined before 1 April 2004 currently have until 31 March 2005 to decide about transferring their rights to the new job. Other people with preserved benefits have 12 months from rejoining to

decide. However, the regulations allow employers to agree to extend this deadline allowing individuals to delay this decision until leaving the new employment.

Taking the decision to extend this deadline may put extra strain on the Pension Fund, possibly leading to higher contribution rates or charges in the future. The County Council has agreed to extend the deadline for employees, except for those employees under notice of redundancy or early retirement. This may assist in recruiting employees who have previous preserved membership of the LGPS scheme. It is proposed to follow the County Council ruling that this will not apply to those who wish to transfer when under notice of redundancy or early retirement. These exceptions are made because allowing employee's to transfer under these circumstances could considerably increase the costs to the Council, and it is possible that the level of these costs would not be known until the point the employment is terminated.

This option does not extend to individuals with preserved benefits under another pension scheme covered by the Modification Order.

It is recommended that the Council adopt the same policy as the County Council.

- 5.3 Whilst Members have the option to adopt any of the discretionary powers outlined in section 3, changes are not recommended that other than those detailed in 4.2 above, for the reasons given in the summary information included in appendix 1,

## 6. Implications

- 6.1 A summary of the financial implications of implementing the changes detailed above are set out in appendix 1.

## 7. Future Reviews

- 7.1 This policy will be reviewed, in consultation with Unison every three years, subject to changes in legislation or the Pension Scheme, as part of a programme of policy review.

- 7.2 Further work will be undertaken to develop a corporate Severance Strategy, Recruitment and Retention Strategy and Pay and Reward Strategy and it is anticipated that, in the future, this policy will be incorporated into these documents.

## OTHER CONSIDERATIONS:

### 8. CORPORATE STRATEGY (RELEVANCE TO):

- 8.1 The policy is linked to the need to continuously improve services and to ensure that the staffing resources within the Council meet business needs through the contribution to the recruitment, retention and motivation of staff.

### 9. RESOURCE IMPLICATIONS:

- 9.1 As set out in appendix 1

BACKGROUND DOCUMENTS:

Held within Personnel Department.

APPENDICES:

Appendix 1 Summary of Discretionary Powers

Appendix 2 Briefing Paper

Appendix 3 Pension Policy

Appendix 1Summary of Discretionary Powers

Discretionary Power	Award extra periods of LGPS membership when a person is recruited
Requirements	<p>An employer may decide to grant a new scheme member aged under 59 an extra period of membership in LGPS</p> <p>Decision must be made within 6 months of recruitment</p> <p>Maximum period that can be granted is prescribed by Regulations and is dependent on age and benefit earned in previous pension schemes</p>
Financial Implications	<p>Employer required to reimburse pension fund for increase in LGPS benefits paid by pension fund when person retires.</p> <p>Cost estimated of individual basis. Eg. awarding 1 year in scheme to person aged 55 earning £20,000 would cost approx £5000</p>
Proposed to Adopt	<p><b>No.</b> – no change</p> <p>Potential for use as recruitment incentive but would need to be carefully assessed to ensure no age discrimination and to assess benefit as recruitment tool against cost.</p>

Discretionary Power	Award extra periods of LGPS membership when a person is retired
Requirements	<p>An employer may decide to grant a retiring scheme member aged 55 (or age 50 where protected after 1.4.05) or over an extra period of membership in the LGPS. (This discretion cannot be used in addition to the existing power to award Compensatory Added Years under another discretionary power)</p> <p>Decision must be made up to 1 month before and 6 months after retirement.</p> <p>Maximum period that can be granted is prescribed by Regulations and is dependent on age at retirement LGPS benefits with an upper limit of 6 2/3 years</p>
Financial Implications	<p>Employer required to agree how to reimburse pension fund within 1 month for increase in LGPS benefits paid by pension fund when person retires</p> <p>Cost estimated of individual basis. Eg. awarding 1 year in scheme to person aged 55 earning £20,000 would cost approx £5000</p>
Proposed to Adopt	<p><b>No</b> – no change</p> <p>Discretion already covered by ability to award CAYs. May be further investigated as part of Pay and Reward strategy</p>

<b>Discretionary Power</b>	<b>Establish a shared cost additional voluntary contributions arrangement</b>
Requirements	<p>Employees AVCs paid &amp; invested. AVC fund may be used at retirement to purchase annuity to supplement LGPS benefits.</p> <p>Employer may pay share of AVCs with combined AVC &amp; LCPS contributions limited to 15% of pensionable pay per tax year.</p> <p>Must state which categories of employees are eligible</p>
Financial Implications	<p>Employer responsible for remitting payments which may incur administrative costs</p> <p>Increase in employers contributions dependent on take up</p>
Proposed to Adopt	<p><b>No</b> – no change</p> <p>Potential for use as recruitment and retention incentive but would need to undertake careful cost/benefit analysis</p>

<b>Discretionary Power</b>	<b>Reduce an employee's contribution after 40 years of actual LGPS membership</b>
Requirements	<p>Employer may waive pension contributions from employee with at least 40 years actual LGPS membership</p> <p>Service credited on transfer from another scheme ignored for this purpose.</p> <p>Employees who joined LGPS before June 1989 cannot count more than 40 years service at age 60 and 45 years at age 65.</p> <p>Employees who joined LGPS after May 1989 cannot count more than 40 years service at any age.</p>
Financial Implications	<p>Employers contributions still payable.</p> <p>Employee can opt out of scheme to avoid paying contributions but loses life cover and pays full NI. Waiving contributions avoids problems</p> <p>County Council's actuary could certify extra charge for small liability arising but is unlikely.</p> <p>Waived contributions would represent loss of earnings for pension fund. Cases likely to be infrequent with eg £1200 loss per annum for employee earning £20 000</p>
Proposed to Adopt	<p><b>Yes</b></p> <p>Cases likely to be infrequent, offers 'reward' for long service and unlikely to incur additional cost to Council</p>



<b>Discretionary Power</b>	<b>Count a woman's service before 6 April 1988 towards the calculation of a widower's pension</b>
Requirements	Employer can decide to cover all women to avoid each having to elect separately. County Council have indicated they will extend the time limit to allow this. Equalises benefits for spouses of male & female contributions for service back to April 1972
Financial Implications	Estimated cost for LGPS is up to 0.1% of all employees pay but cost to individual councils as yet unknown but will be notified by County Council.
Proposed to Adopt	<b>Yes</b> – no change Part of current policy. Addresses past sex inequalities and brings pension in line with equality legislation

<b>Discretionary Power</b>	<b>Consent to immediate payment of benefits to a person who retires voluntarily or has preserved benefits between ages 55 and 60 (or age 50 where protected rights after 1.4.05)</b>
Requirements	
Financial Implications	Early payment will usually incur extra charge on employer similar to that involved when retired on efficiency or redundancy grounds
Proposed to Adopt	<b>Yes</b> – no change Part of current policy and at management discretion depending on the needs of the service and ability to recoup costs

<b>Discretionary Power</b>	<b>Consent to paying an ex-employee's benefits after age 55 (or age 50 where protected rights after 1.4.05) on compassionate grounds without reductions</b>
Requirements	
Financial Implications	Early payment will usually incur extra charge on employer similar to that involved when retired on efficiency or redundancy grounds
Proposed to Adopt	<b>No</b> - no change

<b>Discretionary Power</b>	<b>Calculate redundancy pay based on continuous local government service and actual week's pay.</b>
Requirements	Redundancy pay can be calculated on actual week's pay rather than the statutory maximum.
Financial Implications	Statutory maximum of £270 per week currently used by WCC. Using actual pay would increase redundancy payments for all posts graded 3 and above with an increase on weekly pay of between £4 and £1362
Proposed to Adopt	<b>No</b> – no change Considerable increase in cost to organisation. Further assessment to be included as part of research into development of Severance Strategy which may result in the future proposal that this position is changed

<b>Discretionary Power</b>	<b>Consider the award of added years to pensionable service as compensation for premature retirement on the grounds of efficiency of service providing the employee is over 55 (or age 50 where protected after 1.4.05) with at least 5 years service</b>
Requirements	
Financial Implications	Will incur extra charge on employer for cost of CAYs and administrative charge
Proposed to Adopt	<b>Yes</b> - no change Part of current policy and at management discretion depending on the needs of the service and ability to recoup costs

<b>Discretionary Power</b>	<b>To extend the deadline for employees to opt to combine benefits on leaving the pension scheme for a second time.</b>
Requirements	People with preserved LGPS benefits who rejoined before 1.4.04 have until 31.3.05 to decide about transferring preserved rights to new job. Other people have 12 months from rejoining to decide. Employer has the discretion to extend the deadline.
Financial Implications	Extending deadline may put extra strain on pension fund and could lead to higher contribution rates Would increase charge if employee retired on efficiency or redundancy grounds.
Proposed to Adopt	<b>Yes</b> With the exception of employees who wish to transfer when under notice of redundancy or early retirement