

## **Report to the Cabinet**

**Report reference: C-120-2007/08.**  
**Date of meeting: 10 March 2008.**



**Epping Forest  
District Council**

**Portfolio: Finance, Performance Management and Corporate Services.**

**Subject: Local Government Pension Scheme.**

**Responsible Officer: Paula Maginnis (01992-56456).**

**Democratic Services Officer: Gary Woodhall (01992-564470).**

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### **Recommendations:**

- (1) That Cabinet agree that after 1 April 2008 the Contribution Rate is assessed when there has been a material change to a Scheme member's Pensionable Pay;**
- (2) That Cabinet agree not to grant additional pension to a scheme member of up to £5000 per annum;**
- (3) That Cabinet agree to adopt a Flexible Retirement Scheme for active Scheme members aged 60 to 65 where the Council is not subject to additional costs on the early release of benefits;**
- (4) That Cabinet agree that an active Scheme member can request Flexible Retirement, on the grounds that;**
  - (a) there has been a permanent reduction to their hours by 25%; and/or**
  - (b) there is a reduction in grade (excluding the results of the job evaluation or redeployment processes); and**
  - (c) the request is made within 3 months of the change;**
- (5) That Cabinet agree that an employee will not be able to exercise a second flexible retirement option; and**
- (6) That Cabinet agree that the Council does not allow Scheme members to transfer-in previous pension rights to the Scheme outside 12 months of joining the Council.**

### **Report:**

1. Members maybe aware that the Local Government Pension Scheme (LGPS) will be amended from 1 April 2008. For information a summary of the main provisions of the new Scheme can be found at Appendix 1. Unfortunately not all the necessary regulations have been made and laid before Parliament, therefore there may be some further additions or clarification required over the coming months.

2. The majority of the Scheme provisions are covered by statutory regulation however, there are four areas where the Council, as the employer, is required to decide on how the provisions are implemented or in some cases whether they are implemented.

3. The four areas for consideration are contribution bands, employers' option for granting additional pension, flexible retirement and dealing with transfer-in requests after 12 months of

joining the Council. These discretions are detailed below.

### **Contribution Bands:**

4. The majority of Scheme members under the current arrangements are required to contribute 6% of their Pensionable Pay. There are some existing manual staff who pay contributions at a protected rate of 5%.

5. Under the new arrangements Scheme members are required to pay a contribution rate according to their Pensionable Pay in accordance with the following table:

<b>Band</b>	<b>Pensionable Pay Range (2008/09)</b>	<b>Contribution Rate %</b>
1	£0 - £12,000	5.5
2	>£12,000 - £14,000	5.8
3	>£14,000 - £18,000	5.9
4	>£18,000 - £30,000	6.5
5	>£30,000 - £40,000	6.8
6	>£40,000 - £75,000	7.2
7	>£75,000	7.5

6. Manual workers who currently pay contributions at the protected 5% contribution rate will be brought into line with all other Scheme members from 1 April 2011 on an incremental basis from 1 April 2008.

7. Existing Scheme members will be assessed on their contractual annual pay, as at the 1 April 2008, new starters will be allocated to a band based on their known starting salary.

8. However, throughout the year there could be amendments to Pensionable Pay, for example, incremental progression, promotion or re-grading (up or down). Therefore, the Scheme provides the Council discretion on how the contribution rate is determined after 1 April 2008. There are three options for members to consider:

(i) Scheme members remain on their Contribution Rate as at 1.4.08 (or for new starters their starting date), throughout their employment with the Council;

(ii) Contribution rates are assessed once a year on 1 April; or

(iii) Contribution rates are assessed where there has been a material change to Pensionable Pay in the course of the financial year, for example, incremental progression, promotion or a reduction in pay has been implemented.

9. Members should be aware that if Scheme members do not contribute the appropriate rate when Pensionable Pay moves into a higher band the Council could be liable for higher employer rates. This is because on retirement the individual's benefits will be based on their higher Pensionable Pay, depending on how the Council assesses the contribution rate the Scheme member could have paid a lower rate therefore the Council would be required to fund the shortfall in contributions.

10. It is therefore recommended that the Council assess contribution rates where there has been a material change to Pensionable Pay.

### **Employers Options to Increase Benefits:**

11. The new Scheme includes provisions to provide active Scheme members the opportunity to request contributions from the Council to increase their benefits. This can be done in three ways:

(i) The Council currently has the ability to increase a member's period of membership

under the LGPS. This provision has been carried forward into the new scheme and is called augmentation. The cost of the additional benefits paid out to a member under this provision will fall to the Council;

(ii) The Council has the discretion to contribute towards a Scheme member's Additional Voluntary Contribution arrangement known as a Shared Cost Additional Voluntary Contribution. This also would be an additional cost to the Council (including both the employers and employees contributions); or

(iii) The Council can grant additional pension to a scheme member of up to £5000 per annum. The Council would be required to make a one-off payment into the pension fund to cover the associated costs.

12. At the Resource Committee in June 1998, members agreed not to implement options (i) and (ii) on the basis of significant cost to the Council, therefore it is recommended that option (iii) is not implemented for that reason.

### **Flexible Retirement:**

13. Since 2006 the Council has had the discretion to allow benefits to be paid to an active Scheme member on flexible retirement arrangements. This provision has been carried forward in to the new Scheme. The Council has not formally considered this provision but it is timely that it should do so with the introduction of the new Scheme.

14. The flexible retirement arrangements allow active members on or after age 50, to request to reduce their hours and/or move to a less senior position (i.e. a grade reduction) and also draw their pension benefits. This provision is employer lead and Scheme members must obtain consent from the Council for both the reduction in working arrangements and the early release of benefits.

15. By adopting a flexible retirement scheme the Council will help retain the knowledge, skills and experience of long serving and valuable employees in the organisation for an extended period of time and offer opportunities for internal promotion or other recruitment possibilities. It also offers the opportunity for staff and the organisation to have a phased period into full retirement.

16. However, there are associated costs to the Council for staff who are aged 50 to 60 due to the early payment of benefits. The Council does have the option to implement actuarial reductions on the employee's entitlements to reduce the costs but there will remain associated costs with the early release of benefits in these circumstances.

17. There are no associated costs for the Council regarding those active Scheme members aged 60 to 65 under these arrangements. In addition, these employees could continue to contribute to the Scheme based on their new contractual arrangements, therefore improving the maturity profile of the Scheme.

18. It should be noted that the Council would not be liable for any costs associated with an actuarial reduction to the Scheme member's pension.

19. If the Council decides to implement a flexible retirement scheme it is proposed that the basis for the Council to consider such requests would be;

(i) where there has been a permanent reduction in hours greater than 25%; and/or

(ii) there is a reduction in grade (but not as a result of the job evaluation or redeployment processes);

(iii) that the application for flexible retirement is received within 3 months of the change in hours and/or grade; and

(iv) where there are no associated costs for the Council.

20. In addition, an employee will not be able to exercise a second flexible retirement option. For example, should an employee wish to change their hours/grade once they are in receipt of their flexible retirement benefits, a second flexible retirement process cannot be requested. Also, there will be no right of appeal to the Council against a refusal to allow a flexible retirement.

21. These arrangements mirror those of the County Council who have had a Flexible Retirement Policy in place for over 12 months.

**Requests to Transfer-in Previous Pension Rights not made within 12 months of joining:**

22. A Scheme member only has the automatic right to a transfer-in of previous pension rights if they make a request within 12 months of joining. If a member requests a transfer-in outside of 12 months from joining there is no automatic right of transfer although the Council does have the discretion to consent.

23. The reason for the discretion is that with any transfer-in the Council is taking on a liability which, although it may be fully funded at the point of the transfer, may increase in the future if the member's Pensionable Pay increases faster than the fund's investments. There are two types of transfer after 12 months liable for different costs:

(a) Transfers from non-LGPS schemes that are usually cost neutral at the date of transfer. Any increase in the Council's liability will depend on how the member's Pensionable Pay increases relative to the fund's investment returns. It is not possible to calculate any potential increase in liability; and

(ii) Transfers from other LGPS funds where the transfer is on a day-to-day basis. There is the possibility of an unfunded liability at the point of transfer if the member's pay is higher with this authority than with the previous authority, i.e. the bigger the increase in pay the bigger the unfunded liability the Council will take if consenting to the late transfer. It may be possible for the fund's Actuary to estimate the immediate increase in liability but the Council would have to pay the Actuary's charges for this work.

24. There are possible liabilities with both options and it is recommended that the Council does not allow Scheme members to transfer-in to the Scheme outside 12 months of joining with the Council.

**Policy Statement:**

25. Once the discretions have been agreed they will form a Policy Statement, which must be kept under review by the Council. It is proposed to bring together all the discretions, including those agreed in 1998, into one Policy Statement. A copy will be forwarded to the Pension Service at Essex County Council, as they are the Administering Authority, for implementation.

**Statement in Support of Recommended Action:**

26. It is fair that Scheme members pay the appropriate contribution rate throughout the year in accordance with their Pensionable Pay. By applying the rates in this way the Council does not become liable for any shortfall in contributions.

27. The discretions for the Council to increase Scheme members' benefits would significantly increase the Council costs. These costs would vary depending on individual circumstances.

28. Flexible retirement provisions would offer an opportunity to retain the skills and knowledge of long-standing and valuable employees for an extended period of time. The employee could, under these arrangements, continue to be an active Scheme member based on their new contractual arrangements, therefore improving the maturity profile of the Scheme.

29. Introducing a flexible retirement scheme for active Scheme members aged 60–65 would be at no cost to the Council. There will be associated costs if the Council decided to adopt a policy for those aged 50 – 60.

30. The proposal for the basis of flexible retirement requests is based on the Essex County model who introduced a Policy in early 2007.

**Other Options for Action:**

31. Cabinet may substitute other arrangements.

**Consultation Undertaken:**

32. No external consultation undertaken.

**Resource Implications:**

**Budget Provision:** N/A.

**Personnel:** As stated in the report.

**Land:** N/A.

**Council Plan 2006-10/BVPP Reference:** N/A.

**Relevant Statutory Powers:** The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

**Background Papers:** N/A.

**Environmental/Human Rights Act/Crime and Disorder Act Implications:** N/A.

**Key Decision Reference (if required):** N/A.