

Report To: Full Council

Date of Meeting: 10th June, 2014

Lead Member / Officer: Councillor Barbara Smith

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Title: Local Government Pension Scheme Discretions Policy

1. What is the report about?

This report outlines the legislation changes to the Local Government Pension Scheme, 2014, and the changes required to the Council's policies.

2. What is the reason for making this report?

A decision is required on the Local Government Pension Scheme Discretion Policy (copy attached in Appendix A) and the amendments outlined in the following report.

Background

The cost of providing public sector pension schemes has been steadily increasing over many years and the previous Government was concerned about their long term sustainability. As a result the Government appointed Lord Hutton to chair an independent Public Services Pensions Commission to undertake a fundamental review of public sector pension provision.

The present Government accepted the Commission's recommendations and government departments negotiated with the relevant employer representatives and trade unions, and as a result the new LGPS Regulations came into force on 1st April, 2014.

The new regulations require all scheme employers to review their existing discretionary pension policy statements and publish new statements effective from 1st April, 2014. It is a requirement that the discretion policy statement is agreed and published by 1st July, 2014.

The main changes to the LGPS scheme from April are summarised below:-

- To change from final salary pension schemes to a career average re-evaluated earnings scheme.
- Scheme retirement ages should be the same as state retirement pension ages
- There should be a cost sharing mechanism where members would share the increasing costs and not just the employers with 9 contribution bands resulting in greater contributions from members.

- Benefits accrued at 1/49th of pensionable pay in each year
- Members can opt to for 50/50 and pay half contributions for half benefits (1/98th accrual) for an unlimited period of time.
- Members can opt to take voluntary payment of benefits from age 55
- A new definition of pensionable pay to include hours worked including non-contractual overtime and additional hours for part time workers.
- Vesting period of 2 years rather than the previous 3 months (i.e. members may request a refund within 2 years)
- Existing rights of current scheme members should be protected

The four specific matters on which employers needs to declare their local policies are as follows:-

a) Discretion of employer to award additional pension

An employer may increase a member's benefits by awarding additional pension up to a maximum of £6,500 per annum from April, 2014.

Prior to the new regulations employers were able to award an additional £5000 per annum to a scheme member. Denbighshire County Council did not use its discretion to award additional pension under the previous regulations.

The provision of awarding additional pension would be substantial and once awarded the pension could not be taken away. The recommendation under the new regulations:-

- *there should be no change to the Council's existing policy on this and therefore the council will not award additional pension*

b) Flexible Retirement

This provision enables an employer to grant permission for an employee who is age 55 or over to receive payment of their pension benefits and continue working for the council on a lower level pay.

The Council's current policy is to allow flexible retirement provided permission is granted by the Flexible Retirement Panel and the employee has a permanent reduction in pay or hours of at least 20% and retires fully within 2 years of flexibly retiring. This was recently agreed and adopted by Full Council.

The recommendation under the new regulations is:-

- *there should be no change to the council's existing policy on this provision*
- *that the existing policy should be readopted under the new scheme.*

c) Early Payment of Pension Benefits

From April 2014 a current member of the pension scheme aged 55 or over can elect to receive immediate payment of their retirement benefits, without their employers permission, however the pension benefits payable will be subject to an actuarial reduction so there will be no cost to the council.

Employees age 55 and over can request immediate payment of their retirement benefits subject to the employer agreeing to waive actuarial reductions. Under the LGPS regulations actuarial reductions are automatically waived in the case of

efficiency or redundancy retirements. The Council's current policy is to refer applications from employees to the Head of Service and Head of Finance to determine the financial viability of the request, with the ability to waive any actuarial reduction.

In cases of deferred members (former employees) applications to access retirement benefits are considered on a case by case basis. Early payment of pension to deferred members is allowed when there is no cost to the council or where the circumstances are exceptional and the criteria for compassionate grounds is demonstrated.

The new regulations allow the employer the discretion to activate the "85 year rule", where a member's age and length of service equal 85 (before the age of 65) for individual employees prior to age 60 in the case of Early Retirement. Any cost of this can be borne in whole or in part by the employer.

The recommendation is that the policy should be adopted as follows:-

- *for current employees voluntarily retiring from age 55 before normal pension age who request payment of their pension benefits should receive their benefits actuarially reduced so there is no cost to the council.*
- *In exceptional circumstances, for deferred members the reduction can be waived on compassionate grounds in accordance with the criteria and approval procedures in the council's early termination of employment scheme.*
- *The Council will approve activating the 85 year rule in all cases where there is no cost to the employer, allowing the member to take their benefits early with some actuarial reductions.*
- *For current employees the Council may consider waiving actuarial reductions in part or in full and will consider each case on its own merits with a full business case which is to be approved by the Head of Service, Head of Finance and the Head of HR.*

d) Additional Pension Contributions (APC's)

The new regulations allow a member to request to pay additional pension contributions to cover a period of authorised unpaid leave within 30 days, but allows the employer to extend that period. The employer is required to fund 2/3rds of the cost if purchase is made within 30 days.

A member of the local pension fund can apply to make additional pension contributions by regular contribution or lump sum to cover a period of unpaid absence due to trade dispute. The cost of this will be met in full by the member.

A member of the local pension fund can also apply to make regular additional pension contributions to boost their pension. This regulation allows the employer, if it wishes, to fund in whole or in part, this cost. The administering authority, if it wishes, can require a medical report from the applicant to show that he/she is in good health.

The recommendation is that:-

- *Under the regulations the employer must fund 2/3rd's of the cost where the member purchases the lost pension contribution within 30 days for authorised absence. The employer will not fund any other Additional Pension Contributions (A.P.C's)*

3. What are the Recommendations?

The pension regulations require the scheme employer to make a decision on each of the five 'Employer Discretions'. The Policy must be agreed and published by the 1st July, 2014.

It is recommended that the discretions detailed above and in the attached policy are adopted by Full Council.

4. How does the decision contribute to the Corporate Priorities?

It is a legal requirement for Denbighshire County Council to agree and publish a Local Government Pension Scheme Discretions Policy, in accordance with the Local Government Pension Regulations 2013.

5. What will it cost and how will it affect other services?

There are no additional costs associated with the adoption of the above discretions.

6. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report.

An EqIA has been completed (copy attached in Appendix B) and an ongoing action has been acknowledged to ensure that the "85 Year Rule" is being applied fairly and consistently. To ensure this a business case must be completed, and decisions made by the Head of HR and the Head of Finance should be consistent.

7. What risks are there and is there anything we can do to reduce them?

There are no specific risks associated with the adoption of the above discretions.

8. What consultations have been carried out with Scrutiny and others?

The policy has been submitted to LJCC on the 4th June 2014 with a recommendation that the policy be adopted by Full Council. The outcome of LJCC will be communicated verbally at the meeting.

9. Power to make the Decision

Power to make the decision is s112 Local Government Act 1972