

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:** **FLINTSHIRE COUNTY COUNCIL**

**DATE:** **WEDNESDAY, 30 APRIL 2014**

**REPORT BY:** **HEAD OF HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT**

**SUBJECT:** **LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2014 - REVIEW OF THE COUNCIL'S EMPLOYMENT POLICIES FOR EARLY RETIREMENT**

**1.00 PURPOSE OF REPORT**

- 1.01 To advise members of the main changes to the Local Government Pension Scheme (LGPS) regulations for 2014.
- 1.02 To recommend a revised Early Retirement Policy, setting out how the Council will apply the new 2014 discretions for employees.

**2.00 BACKGROUND**

- 2.01 Following recommendations made by the Public Service Pension Commission, the UK Government has reformed the Local Government Pension Scheme (LGPS), along with other public service schemes. (Further background information on Pensions Reform can be found at Appendix 1 of this report).
- 2.02 From 1 April 2014, 'normal pension age' for the purposes of the LGPS is linked to 'state pension age' and will not normally be before age 65. Under the new scheme, employees can opt to retire at aged 55 without the consent of their employer, and can gain access to their LGPS pension. The pension will be reduced by a set amount depending on how many years before 'normal pension age' an employee wishes to retire (known as an actuarial reduction). The reduction in pension will be equivalent to the cost of early payment of the pension and lump sum before 'normal pension age'. There is an option for the employer to waive all or part of the actuarial reduction as set out below.
- 2.03 The new scheme will be based on 'career average re-valued earnings' (CARE) from 1 April 2014. All previous contributions built up before April 2014 will be protected and will still be based on final salary at retirement and the current 'normal pension age'.
- 2.04 The introduction of the new LGPS also requires scheme employers to review their existing discretionary pension policy arrangements and

set out how the new discretions will be applied in relation to specific provisions in the scheme. These discretions are set out under section 3 of this report. There are no changes to provisions in relation to Early Retirement on the Grounds of Redundancy or Early Retirement in the Interests of Efficiency which are normally initiated by the organisation / employer.

- 2.05 Under the regulations, all scheme employers must agree and publish their new pension policies by 30 June 2014. The new policies must be published and copied to the administering authority (Clwyd Pension Fund) within one month of the date of the change in policy and can only be implemented from that date. This means that subject to the approval of the new Early Retirement Policy at County Council, Flintshire Council will be able to apply the new policy provisions from 1 June 2014.

### **3.00 CONSIDERATIONS**

- 3.01 Under the 2013 regulations, the discretions are set out in four categories. All these discretions are ones that would be initiated by a request from the employee. These are:

- a. Award of additional pension (at whole cost to the employer);
- b. Voluntary funding of additional pension via a Shared Cost Additional Pension Contribution (SCAPC) contract either by regular ongoing contribution or one-off sum;
- c. Flexible Retirement;
- d. Waiving all or part of any actuarial reduction (linked to circumstances described in paragraph 2.02 only).

- 3.02 Discretions a. (Award of additional pension) and b. (Voluntary funding of additional pension via a Shared Cost Additional Pension Contribution) are both discretions that have been available under the previous LGPS regulations and have been replaced with identical or similar provisions under the 2014 scheme. Previously, the Council have made the decision not to apply either of these discretions on the basis of affordability. The intention would be that this original decision stands and that these discretions are not applied.

- 3.03 In relation to Discretion c. (Flexible Retirement), the Council already operates a Flexible Retirement policy. The intention would be to continue to operate a similar policy in future, subject to a set criteria being met prior to approval. It is proposed that some modifications are made to the existing policy that ensure that flexible retirements are only approved where (1) there is at least a 20% reduction in working hours with no backfill and (2) future full retirement plans are discussed so that there is a planned transition including the transfer of knowledge and skills. This will be considered by Cabinet in June 2014.

- 3.04 Discretion d. (Waiving all or part of any actuarial reduction), will result in a change being required in the Council's Early Retirement Policy. As set out in 2.02 of this report, employees will be able to opt to retire with their pension benefits at age 55 without the employer's agreement but will see a reduction in their pension benefits. However there are discretions available to the Council to waive all or part of any actuarial reduction. In such case the cost of any amount waived would be a direct cost to the Council

Under this discretion, employees who are eligible can request that the employer applies the '85 Year Rule' (i.e. where the employee's age, together with their pensionable service, equates to 85 years or more). Requests would be considered where it would lead to an organisational efficiency, for example, improved performance and productivity, the requirement for new skills or the need to work differently. The discretion would be applied on a 'case by case' basis.

The '85 Year Rule' no longer forms part of the LGPS provisions but for longer standing members of the scheme, there is an on-going protection under the current arrangements. The option to apply this discretion could be helpful in the context of on-going organisational change where an employee wished to leave but where there were no other exit options available (for example, redundancy). This discretion would apply to a diminishing number of employees.

- 3.05 Discretion d. would also apply to other employees who do not meet the '85 Year Rule' but who request the employer to waive the actuarial reduction. Requests would be considered on the same grounds as above.
- 3.06 Under Discretion d., the Council's current policy allows early payment of pension benefits to former employees where there is no cost to the Council. Under the new scheme, the Council can decide to continue to adopt a discretionary provision where former employees may request the early release of pension benefits from their 50<sup>th</sup> or 55<sup>th</sup> birthday (depending on which LGPS regulations they are governed by) and onwards and request the Council to waive the actuarial reduction on their pension benefits.
- 3.07 The Council has only approved one or two such cases over the last few years, for example, where the former employee is experiencing extreme ill health and is suffering extreme financial hardship. Any future requests would only be considered in exceptional circumstances, on a 'case by case' basis.
- 3.08 In the scenarios described in paragraphs 3.04 to 3.06, the Council would have the option under the new discretions to consider waiving the actuarial reduction in full or in part depending on the circumstances of the case. In all cases, requests would be considered corporately prior to any final decisions being made, ensuring that

outcomes were fair, consistent and justifiable and represented a cost effective approach for the Council.

#### **4.00 RECOMMENDATIONS**

- 4.01 That members note the changes to the Local Government Pension Scheme (LGPS) regulations for 2014.
- 4.02 That members note and approve the Council's intended approach to the discretions under the LGPS 2014 and the revised Early Retirement Policy attached at Appendix 2.
- 4.03 That members endorse the Council's intention to revise the current Flexible Retirement policy as described in paragraph 3.03 which will be considered by Cabinet in June 2014.

#### **5.00 FINANCIAL IMPLICATIONS**

- 5.01 The approval of all early and flexible retirements will be undertaken corporately following careful consideration of the financial implications and affordability. In all cases, the expectation would be that there is a resultant efficiency and that any costs are met within a three year period.

#### **6.00 ANTI POVERTY IMPACT**

- 6.01 The LGPS 2014 provisions are designed to be fairer and more accessible for lower paid employees with the introduction of a 50/50 option where employees can make partial contributions at 50% if they wish but can gain the benefits of an occupational pension. All employees are now entitled to join the pension scheme if they have a contract for three months or more and will be enrolled automatically.

#### **7.00 ENVIRONMENTAL IMPACT**

- 7.01 None arising from this report.

#### **8.00 EQUALITIES IMPACT**

- 8.01 All decisions relating to early retirements and the application of discretionary provisions will be made transparently and fairly, in accordance with the Council's policy, and a clear audit trail kept. A detailed Equality Impact Assessment has already been undertaken of the LGPS 2014 regulation changes.

#### **9.00 PERSONNEL IMPLICATIONS**

- 9.01 The Clwyd Pension Fund will ensure that all employees who are members of the LGPS are fully informed of the 2014 changes. Flintshire Council's Early Retirement Policy will be widely circulated across the Council once agreed. Managers will have access to 'user

friendly' guidance material on the new regulations and on the Council's revised policy to address employee enquiries.

**10.00 CONSULTATION REQUIRED**

10.01 Please see below.

**11.00 CONSULTATION UNDERTAKEN**

11.01 Trade Union colleagues have been consulted on the changes and application of the new LGPS discretions.

**12.00 APPENDICES**

- 12.01
- Background guidance on Pension Reform attached at Appendix 1.
  - Early Retirement Policy 2014 attached at Appendix 2.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985  
BACKGROUND DOCUMENTS**

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