

Agenda Item

Executive Board

26 March 2008

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New Local Government Pension Scheme

Summary

This report gives a summary of the new look Local Government Pension Scheme (LGPS) that comes into effect 1 April 2008. The scheme has a number of significant changes from the current scheme and these affect the Council's employees in both the level of contributions they make and the benefits that are paid.

Changes have also been made to the payment of pension benefits for members of the pension scheme who are retired under ill health. In addition the Council previously approved its Adopted Discretionary Powers Policy and changes to the scheme mean there are additional discretions Members need to consider.

Recommendation

Members note the key changes to the Local Government Pension Scheme.

Members approve the additional adopted discretionary powers recommended in this report.

- a) **Reasons for Recommendation**
This is a statutory scheme and the changes have been highlighted for Members to note.
 - b) **Alternative Options**
This is a statutory scheme.
 - c) **Risk Considerations**
There are no risk considerations.
 - d) **Policy and Budgetary Considerations**
A review will be undertaken to ensure that the Council's current Redundancy and LGPS discretionary policies reflect any changes to the pension scheme.
 - e) **Date for Review of Decision**
Not applicable.
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The New Look Local Government Pension Scheme (LGPS)

1. Introduction

- 1.1 The purpose of this report is to outline the changes to the LGPS that come into effect 1 April 2008. The LGPS is a statutory scheme regulated by parliament and whilst the Council has some discretion over some aspects of awarding benefits to employees, in the main there is little flexibility. These changes are significant and affect Council employees, their contributions and the benefits they receive at retirement. These changes may also have an impact on the employers' level of contribution which is set every three years.
- 1.2 Changes have also been made that affect the level of benefits an employee may receive if they retire early under an ill health retirement or a redundancy retirement.

2. Key Changes

Current Scheme to 31 March 2008	New Scheme effective 1 April 2008
Final salary 1/80 th scheme with automatic 3 x pension paid as a tax free lump sum.	Final salary 1/60 th scheme with no automatic lump sum, but option to convert up to 25% of final pension into a lump sum at a rate of £1 pension buys £12 tax free lump sum.
All employees including casual are allowed to join the scheme between ages 16 and 75 years. Earliest retirement age from when benefits are paid is 50 years.	Casual employees where there is no obligation to offer employment or for them to accept work offered are now exempt from membership of the scheme. Earliest retirement age from when benefits can be paid is age 55 years with effect from April 2010.
Contribution rates are set at 6% for all employees (5% for some employees previously classed as manual workers). One rate applies regardless of how many jobs the employee holds. Part time employees pay 6% of their actual pensionable pay.	Contribution rates now based upon an earnings table with rates from 5.5% to 7.5%. Majority of employees will see their rate increase to 6.5% or more. Employees paying 5% will have their rate increased annually over 3 years to align with the same rates as other employees. Different rates may apply to different jobs as they are pensionable earnings based. Part time employees will have their rate of contribution determined by the full time equivalent pay band, then applied to their actual pay.
Death in service benefits of 2 x pensionable pay.	Death in service benefits increased to 3 x pensionable pay.

Payment of benefits restricted to married and civil partners only.	Scheme will now pay benefits to married, civil and co-habiting partners including same sex partners. Evidence of living as a couple for 2 or more years must be provided.
Employer can award up to a maximum of 6 2/3 rd years of LGPS membership in cases of retirement under redundancy.	Employer can award up to 10 years membership of LGPS for redundancy/efficiency retirements. EDDC has allowed up to 6 2/3 rd years in its redundancy policy and no other service enhancements apply. Scheme allows for the awarding of additional pension at retirement of up to £5000 per annum either in place of or in addition to the awarding of additional service.
Awards of additional service must be made prior to the employee leaving employment.	Awards of additional service can be made up to 6 months after the date of the employee leaving employment.
Employees can purchase additional years membership up to a maximum of 6 2/3 rd years. This increases final benefits.	Employees can no longer purchase additional membership in years. Additional pension benefit is purchased in increments of £250 up to a maximum of £5000.
Certificates of Protection are issued to employees who suffer reduced benefits through no decision on their part. This can come as a result in change of legislation, contractual conditions or grade of their post. These certificates allow for the employee to have previous higher pensionable pay to be automatically used to determine their benefits over the previous 10 years from the date of change.	Certificates are no longer valid or issued. Employees pensionable pay now calculated: ➤ Best of last 3 years from date of leaving (normally the final year of service is the best year). Or ➤ The best average 3 consecutive years ending 31 March within the last 10 years.

- 2.1 The above is a summary of the key changes to the scheme. Employees will automatically be transferred into the new scheme with effect from 1 April 2008. The scheme changes have been communicated to employees both in written format and through a series of sessions held in the Council Chamber.
- 2.2 Payroll Services will continually check that employees are in the correct contribution rate banding as permanent changes are made to their pay. Failure to ensure that this is done could impact on the employers' rate through a shortfall on the pension fund due to lower than required employee contributions.
- 2.3 Members previously approved a number of discretionary adopted powers that the LGPS regulations require employing authorities to formally make. These are contained within the LGPS Adopted Discretionary Powers Policy. With the introduction of the new scheme there are a number of additional discretions Members are required to consider:

(a) Employee Contributions

The regulations stipulate that the contribution rate is set based upon the pensionable pay as at 1 April annually. The employer is required to adopt a policy of when the employee rate is reviewed, if at all outside of this date.

- Options: (1) To ignore changes to pensionable pay which occur during the year and set the rate as at 1 April.
- (2) To make a change the rate at a permanent pay change.

Implications: If contributions do not reflect employees pensionable pay then any shortfall on the fund will have to be met by EDDC via its contribution rate.

Recommendation: Option 2 is adopted to ensure that employees contributions reflect their pensionable pay with effect from the change in pay.

(b) Awarding Additional Years

Employers option to award additional service of up to 10 years. Current policy allows service to be awarded up to 6 2/3rd years and is restricted to redundancy retirements only.

Implications: Increasing the length of the additional service will significantly increase redundancy pension costs in the majority of cases as the Council must pay for any benefit enhancements derived from the additional service awarded up front and for the life of the pensioner (and surviving partner).

Recommendation: The current policy of awarding up to 6 2/3rd years service in line with the current table in the redundancy policy is continued.

(c) Awarding of additional pension

Employers option to award additional pension (not service) to scheme members up to £5000 per year. This additional pension may be awarded in addition to any extra service that has been awarded.

Implications: Increasing the employees pension benefits in this way will significantly increase pension costs for redundancy (as this is what it would be used for) as the Council must pay for any benefit increases up front and for the life of the pensioner (and surviving partner).

Recommendation: That NO additional pension be awarded under any circumstances, on the basis that the Council will give additional service for a redundancy retirement under the current policy.

(d) Former members request for early release of pension benefits

Former members of the scheme who are aged 50 (age 55 from 2010) and over may make an application to have their deferred benefits released before age 60.

Implications: The Council would incur the costs to the pension fund of releasing the pension early (called the strain payment) in the same way as it would to allow an early retirement under the "Employers Consent" rule.

Recommendation: Benefits will not be released to former members of the scheme before they reach aged 60.

3.0 Ill Health Retirement changes.

Ill Health Retirement - Current	Ill Health Retirement – Effective 1 April 2008
<p>Ill Health retirement rules – Main points are:</p> <ul style="list-style-type: none"> ➤ Pension benefits <u>paid immediately</u> regardless of age (if certified by the Council's appointed medical practitioner that the employee is permanently unable (until 65th birthday) to do their job, or a comparable job with the Council, because of ill health or infirmity of body or mind. ➤ Benefits are increased subject to length of pensionable service, up to a maximum of 6 2/3rd years. ➤ The employee must have at least 3 months pensionable service. ➤ Annual pension can be commuted to a lump sum at rate of 5 x pension for serious ill health cases (certified with less than a year to live by the medical practitioner). ➤ Up to 5 years pension payable if death occurs within first 5 years. <p>Costs of awarded service and release of benefits early are born by the fund NOT the employer up front and reflected via the employers' contribution rate.</p>	<p>Revised Ill Health retirement rules effective 1 April 2008 are:</p> <ul style="list-style-type: none"> ➤ Benefits <u>paid immediately</u> regardless of age. ➤ New 2 tier system used to determine level of benefits paid. There is a 3rd tier which is under consultation. ➤ Benefits payable (and enhancements) determined by level of ill health and whether employee would be able to work. These are determined in tiers as follows: <ul style="list-style-type: none"> Tier 1: there is <u>NO</u> reasonable prospect of getting gainful employment anywhere before age 65. 100% enhanced benefits to age 65. Tier 2: work at <u>some point</u> before age 65. 25% enhanced benefits to age 65, but must be age 45+. Tier 3 (proposed): able to work <u>immediately</u> with another employer. No enhancement of benefits. ➤ Occupational Health is required to make the determination as to the tier that applies. ➤ Gainful employment means paid employment for <u>not less than 30 hours</u> per week. ➤ Protection arrangements for members aged 45 years as at 31 March 2008 will ensure members will receive the same level of benefits that they would have under the old scheme. ➤ No commutation (conversion of annual pension) for serious ill health cases available. ➤ Increase in benefits up to 10 years pension payable if death occurs within first 10 years of retirement. <p>Costs are reflected via the employers' contribution rate with costs of awarded service and release of benefits early born by the pension fund, not the employer up front.</p>

- 3.1 The proposed 3rd Tier is under consultation with employers at present as there are implications in respect to the payment of benefits and how these can be stopped if the recipient of the pension benefits should commence employment. There are implications to employer pension funds as it is estimated that 35% of ill health retirements would fall into this category.

Legal Implications

No legal implications have been identified.

Financial Implications

None

Consultation on Reports to the Executive

Nil.

Background Papers

Local Government pensions Scheme Regulations 1997 and Administration Regulations 2008.

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