

PENSIONS COMMITTEE - 8 JUNE 2005

LOCAL GOVERNMENT PENSION SCHEME AUGMENTATION OF MEMBERSHIP

SUMMARY

This report considers the augmentation of pension membership for eight employees to make good the shortfall in pensionable service following their transfer to the Council in January 2004.

OPTIONS

The Committee has the following options:

- i) Not to augment membership.
- ii) To augment membership subject to the affected employees making a contribution towards the increase in pensionable service. The negotiation of detailed terms to be delegated to the Director of Finance and Business Services.

INSTRUCTIONS ARE REQUESTED

1. Introduction

The Local Government Pension Scheme (LGPS) 1997 regulations allow the Council to augment (or to increase) pension membership of an active member provided the Council meets the cost.

2. Case for Augmentation

The payroll service was returned to an in-house service provision in January 2004 in order to support a fully integrated Human Resources system, the service having been provided by a contractor for the previous nine years. As a consequence, fourteen payroll staff transferred from the Contractor to the Council pursuant to the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). Of the fourteen transferred staff eight had been members of the Contractor's final salary pension scheme. The remaining six employees were either not in the Contractor's pensions scheme or had contributed to a money purchase scheme.

The remainder of this report considers the case of the 8 employees.

Following the transfer back to the Council the eight transferred employees who had been members of the Contractor's final salary pension scheme, expressed a wish to transfer the pensionable service they had built up from the contractor's scheme to the Council.

The value of the accrued service is assessed using actuarial methodology to calculate a transfer value. An amount of money is then paid to the Council's scheme to meet the cost of the accrued pensionable service. Where transfers take place within local government, this is usually sufficient to pay for the accrued service. However, transfer values from the private sector whilst following industry practice are not always adequate. Consequently, transferred staff who should be receiving 9 years pensionable service are only receiving between 2.87 and 8.59 years depending on age. Appendix 1 shows the pensionable service for each employee.

Officers sought the advice of Mercers, the Council's Actuary, who had advised that the methodology used by the Contractor to calculate the transfer value reflected industry practice. They advised that there were several reasons why the pensionable service was lower than the actual service. The main reasons are:

- Differences in benefits between the two schemes for example, the contractor's scheme required employees to contribute 5% of earnings, compared to the Council's 6%. Also an amount equivalent to a single person's tax allowance was excluded from the calculation of pensionable pay.
- The transfer value from the contractor's scheme assumes that pension liability increase in line with inflation. It does not therefore allow for future salary growth which can be between 1½ and 2% per annum higher.

Mercers have advised that the Council could use the augmented membership provision in the LGPS regulations to address the problem should the Council wish to do so.

3. Guidance and Previous Experience

(a) Guidance

Much of government guidance addresses the issue of staff transferring from the public sector to the private sector. Acknowledged best practice for such transfers requires local authorities to seek broadly comparable pension schemes and to honour accrued pensionable service where staff wish to transfer their existing service to the new contractor.

(b) Outsourced contracts returning in house

The Council has no previous experience of an outsourced contract returning to an in house provision, where the employees had previous LGPS membership. However, the Council's practice in protecting pension rights when transferring employees to the private sector is of relevance. The Council has included contractual clauses which require

contractors not only to provide a broadly comparable pension scheme but also to honour accrued pension service.

(c) Augmentation

There has been one previous case of augmenting membership. This came before the Corporate Services Sub-Committee in March 1999 and related to the restructuring of the Personnel Department, the early payment of pension benefits and the augmentation of membership for the Remuneration and Staffing Manager. The Sub-Committee approved the case.

4. Summary of Financial Implications

Using the standard local government pension scheme methodology the transfer values do not themselves buy year for year pensionable service in the Council's scheme. However, it is proposed to require those affected employees to make a contribution to reflect the fact that they have been contributing 5% of earnings (as opposed to 6%) and an amount equivalent to a pension contribution on approximately £4,700 per annum which has not previously been treated as pensionable pay. In effect, this reinstates the employees to the position they would have been in had they not been transferred to a contractor. This in turn will increase the amount of money available to the Pension Fund. Using this combined 'pot' (transfer value plus additional employee contribution) and the Council's Actuary's predictions for salary growth and investment returns (as used in the latest actuarial review of the Bexley Pension Fund), government life expectancy tables and an assumed retirement age of sixty-two and a half years, it would broadly cover the cost of augmented service.

Though it is not possible to predict the financial impact or strain on the Fund with certainty, should the actuarial assessment of investment returns be achieved, there is unlikely to be an impact.

5. Summary of Other Implications

The transferred staff are obviously concerned with the situation and are seeking resolution of this issue.

6. Legal Issues

There is no legal requirement to augment service in these circumstances. However, the Council has adopted government guidance in protecting pension entitlement when transferring staff to the private sector.

7. Conclusion

The Council when transferring employees to either the private or voluntary sectors has sought to protect employee pension rights. It would be inconsistent for the Council, itself, not to honour pension rights when

employees are transferring from a contractor to the Council. The shortfall on pension service largely arises as a result of Actuaries using different assumptions going forward. Using the assumptions included in the last Actuarial review, the financial impact on the fund is largely neutral.

Should Members' decide to award augmented membership and require employees to make a contribution it is suggested that delegated authority be given to the Director of Finance and Business Services to agree terms with the employees.

Local Government Act 1972 – section 100d

List of background documents

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**LOCAL GOVERNMENT PENSION SCHEME
AUGMENTATION OF MEMBERSHIP**

Employee	Original Bexley Start Date	LG Transfer Out Date (Contractor)	Transfer In Date (Bexley)	Years Service (Contractor)	Service Credit
1	09.03.1970	01.01.1995	01.01.2004	9.00	8.59
2	14.08.1989	01.01.1995	01.01.2004	9.00	2.87
3	31.03.1980	01.01.1995	01.01.2004	9.00	4.67
4	13.08.1979	01.01.1995	01.01.2004	9.00	5.44
5	17.11.1986	01.01.1995	01.01.2004	9.00	4.35
6*	N/A	1993	01.01.2004	6.75	5.50
7	04.03.1974	01.01.1995	01.01.2004	9.00	7.85
8	06.07.1981	01.01.1995	01.01.2004	9.00	4.16

* local government service with another London borough. Transfer to Contractor in 1993 and worked on Bexley payroll service for the last six and three-quarter years.