

## PENSIONS COMMITTEE - 2 JUNE 2004

### LOCAL GOVERNMENT PENSION SCHEME (LGPS) – ANNUAL REPORT ON EARLY RETIREMENT 2003/04

#### SUMMARY

This report notes the numbers, costs and savings of early retirements for 2003/04 and assesses the Council's early retirement policies. It also confirms the Council's Financial Terms for Redundancy and Early Retirement in order to meet legislative requirements.

#### RECOMMENDATIONS That

- (1) The numbers, costs and savings of early retirements occurring in 2003/04 be noted.
- (2) The Committee note that no changes are required to the Council's published policy on early retirement.

## 1. Introduction

In April 1998 Members agreed changes to the management of early retirements in Bexley following the publication of a national Audit Commission report. One of the changes agreed was to report to Members on the numbers, costs and savings from early retirements at the end of each financial year together with an assessment of the Council's existing early retirement policies.

The Council's Financial Terms for Redundancy and Early Retirement are published in full at Appendix 1.

## 2. Early Retirements in Bexley – 2003/04

### (a) Background

Early retirement from the Council may occur for one of the following reasons:

- redundancy
- efficiency retirement
- voluntary resignation prior to age 60
- ill health retirement

There were 87 retirements in 2003/04 which triggered payments from the pension fund, 26 of which were early retirements. This compares to a total of 65 in 2002/03, of which 25 were early retirements. The Council has discretion regarding the level of payments made in early retirement situations with the exception of ill health. The numbers, costs and savings of early retirements are therefore divided into the categories of ill health and non-ill health.

(b) Funding of Early Retirements

Ill health early retirements are non-discretionary, are chargeable to the Pension Fund and are allowed for in the Fund's actuarial valuation. The costs of non-ill health early retirements are met as follows:

Table 1 – Funding of non-ill health early retirements

Element of early retirement benefits	Costs of early retirement element charged to:		
	Year 1	Year 2 to age 60	Age 60 onwards
Redundancy payment	Department	n/a	n/a
Added years lump sum	Department	n/a	n/a
Added years pension	Department	Department	Department
Basic pension prior to age 60	50% Department 50% Pension Fund	50% Department 50% Pension Fund	n/a (not a cost of early retirement)

(c) Numbers, Costs and Savings

- Ill health retirements

In 2003/04 there were 9 ill health retirements compared to 7 in 2002/03. It is difficult to predict the number of ill health retirements that will occur each year. For 2003/04 the numbers in each service area were as follows:

<u>Service Area</u>	
Corporate Services	0
Education and Community Services	5
Environment and Regeneration Services	1
Bexley Trading Services	<u>3</u>
<b>Total</b>	<b><u>9</u></b>

Over a three-year period the actuary assumed a yearly average of 30, whereas the Council's average was 9 – well below the assumed level.

- Non-ill health early retirements

In 2003/04 there were 17 non-ill health early retirements compared to 18 in 2002/03. Over a three-year period the actuary assumed a yearly average of 22, the Council's average was 15 – also well below the assumed level.

Table 2 - Breakdown of non-ill health early retirement numbers - 2003/04

Type of Non-III Health Early Retirement	Numbers	
	Senior Posts subject to Member Level Appointment	Other Posts
Redundancy	0	5
Efficiency	1	5
Voluntary – prior to age 60	0	6
Total of non-ill health early retirements	1	16

Table 3 – Summary of non-ill health early retirement costs – 2003/04

	Year 1 £000	Year 2 to age 60 £000	Age 60 onwards £000
Costs charged to departmental budgets	256	104	19
Costs charged to Pension Fund	116	85	0
Total cost	372	189	19
Savings to departmental budgets	389	359	0
Total cost (+) /savings (-)	-17	-170	19

The table above includes a number of assumptions but does provide a good indication of the financial impact. It shows that such retirements continue to provide the Council with savings.

(d) Leisure Link

During 2003/04, following the award of the Leisure PPP contract to Boxwood, Leisure Link (an admitted body to the Council's pension fund) ceased to trade. Five Leisure Link staff who were made redundant by Leisure Link took up their entitlement to early retirement. As Leisure Link has ceased to trade the Council's pension fund will meet the full cost of these five cases, totalling £21,000 for the augmented service lump sums, £7,000 per annum for the augmented service pensions and £23,000 per annum up to age 60 for the basic pensions. These figures are not included in table 3 above.

### 3. Assessment of Existing Policies

The Council's human resources policies are designed to achieve smooth and effective organisational change by maintaining employee commitment and motivation and minimising redundancies and early retirement where possible. In addition, where redundancy or early retirement is unavoidable, it is intended that a

reasonable financial package exists. The value of this approach is that organisational change can be achieved with a minimum of disruption and cost.

In 2003/04, as in previous years, organisational changes took place. The majority of non-ill health retirements resulted from a reorganisation which affected finance, administration, print and microfilm staff in Corporate Services and finance staff in Education and Community Services. These redundancies/early retirements were achieved without significant disruption to the Council's service or employee relations' difficulties. In addition, as part of this process, there were some 14 successful redeployments.

The Council's policies and procedures continue to be effective in achieving organisational change with the minimum of disruption and cost.

#### **4. Published policy - Compensation**

The Council is required to publish its policy on how it intends to exercise its discretion regarding compensation for early retirement and redundancy, both of which may include severance payments for individuals aged 18 or over but under 50. To meet this requirement, the Council's Financial Terms are published in full at Appendix 1. In considering the Council's approach Members have agreed the following:

- to calculate redundancy pay by using a sum equal to an employee's actual week's pay.
- to pay compensation up to a maximum of 66 weeks' pay, by using a sum equal to an employee's actual week's pay, to an employee aged 18 or over but under 50 on the grounds of redundancy or efficiency retirement with at least two years' service.
- to enhance pension benefits by up to five added years for an employee aged 50 or over who is retired on the grounds of efficiency or redundancy on the basis of two months for every year of relevant service.

The policy must be "workable, affordable and reasonable" having regard to the "foreseeable costs". This year's assessment of the effectiveness of the Council's policies provides further evidence that the Council's benefits package is meeting these criteria.

As the Council's current early retirement policies continue to work well, no changes are proposed at the present time.

#### **5. Equal Opportunities/Access Issues**

Bexley's policies and arrangements for early retirements apply to all affected employees regardless of race, gender, disability, or level in the organisation. This information is monitored in respect of early retirement situations to ensure that no discriminatory practices exist.

## **6. Summary of Financial Implications**

The funding of early retirements is explained in section 2 above. There are no new financial implications arising from this report.

### **Local Government Act 1972 – section 100d**

#### **List of background documents**

Pensions Committee July 2003 - Local Government Pension Scheme (LGPS) –  
Annual Report on Early Retirement 2002/03

**Contact Officers:** David Speller, Assistant Director (Personnel). Extn 2290  
Nigel Bate, Group Accountant (Technical). Extn 2647

**Reporting to:** David Berry, Director of Finance and Business Services

N:\Civic\Finance\Technical\fnjbate\Word\Pensions\Cttee\June04\Early Retirement.doc

**FINANCIAL TERMS FOR REDUNDANCY AND EARLY RETIREMENTS  
(EXCLUDING ILL HEALTH RETIREMENTS) – Last updated July 2002**

**INTRODUCTION**

This document includes the Council's policy in respect of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) (Miscellaneous) Regulations 2002.

Compensation for redundancy will be calculated as set out in Sections 1,2,3 and 4 below according to the circumstances of the individual. Compensation for efficiency retirements and voluntary resignations under Rule of 85 will be calculated as set out in Sections 7 and 8 respectively.

Any question of interpretation of the scheme will have regard to the appropriate statutory provisions.

**1. REDUNDANCY PAY**

In accordance with the statutory scheme employees will be entitled to redundancy pay based on the following scales:

For each year of continuous service when the employee was aged 41 or over	1½ weeks' pay
For each year of continuous service when the employee was aged 22 or over but less than 41	1 week's pay
For each year of continuous service when the employee was aged 18 or over but less than 22	½ week's pay

**Notes:**

- i) Length of service is determined by counting backwards from the relevant date the number of years continuous service, up to a maximum of 20 years.
- ii) Service before the age of 18 does not count.
- iii) Under the provisions of the Discretionary Compensation Regulations 2002 the statutory limit on the amount of a week's pay will be disregarded. Calculations will be based on the actual amount of a week's pay.
- iv) Continuous service with other local authorities and other bodies listed in the Redundancy Pay (Continuity of Employment in Local Government, etc) (Modification) Order 1999 counts for the purpose of this scheme.

- v) If any employee is aged over 64 the amount of redundancy pay is reduced by one twelfth for each whole month by which their age exceeds their 64th birthday.

## 2. PENSION BENEFITS

Employees retired on the grounds of redundancy or efficiency will receive an unreduced pension and lump sum payment.

Note: Employees must be aged 50 or over and have at least two years total membership of the Local Government Pension Scheme (LGPS) or have brought a transfer value into LGPS.

## 3. PENSION ENHANCEMENTS (ADDED YEARS)

A sliding scale for the granting of added years applies to redundant employees who are aged 50 or over whether or not they are members of the Local Government Pension Scheme, subject to the following:

- Employees must have a total period of Local Government Pension Scheme membership and/or “special service” of at least 5 years and must satisfy the conditions set out in Section 5.

The amount of added service will be calculated as follows:

2 months' service is added for each completed year of the total period of membership and/or “special service”, subject to:

- the statutory maximum not being exceeded in each case (ie. service in excess of 40 years/age 65); and
- no employee receiving more than 5 added years.

The above conditions derive from statutory provisions.

*“Special service” effectively means any **continuous** Local Government service when the employee was eligible to join the LGPS but did not, and/or service where an employee would be treated as a member but for a relevant disqualification (as defined by the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) (Miscellaneous) Regulations 2002).*

## 4. ENHANCED SEVERANCE BENEFITS

Employees who are ineligible for premature retirement benefits will receive severance benefits based on the following scales, subject to the notes set out below and the conditions in Section 5. These benefits are inclusive of any redundancy payments made under Section 1.

- (a) Where an employee is redundant aged 22 years or under, they will receive:

for each completed year of qualifying  
employment on or after the age of 18

½ week's pay

**plus**

for each completed year of qualifying  
employment on or after the age of 20 ½ week's pay

**(the maximum payable in accordance with the above is 3 weeks' pay)**

(b) Where an employee is redundant aged 23 years or over, they will receive:

for each completed year of qualifying employment  
after the age of 18 2 weeks' pay

**plus**

for each completed year of qualifying employment  
on or after the age of 41 3 weeks' pay

**(the maximum payable in accordance with the above is 66 weeks' pay)**

(c) Where an employee is redundant aged 50 or over with more than 1 but less than 2 completed years of qualifying employment, they will receive 5 weeks' pay.

Notes:

- i) Severance payments will only be made to employees who are eligible to be members of the Local Government Pension Scheme.
- ii) The amount of a week's pay under this Section is calculated disregarding the statutory maximum (ie a "week's pay" for redundancy purposes, as defined in Section 1, Note (iii)).
- iii) The maximum lump sum severance payment must not exceed one week's pay for each complete week between the date of termination and the employee's 65<sup>th</sup> birthday.
- iv) With the exception of employees aged 50 or over with 1 completed year of service as identified in (c) above, severance payments will only be made to those employees who satisfy the service qualifications for statutory redundancy pay.
- v) Qualifying employment is defined as periods of employment where the Council is satisfied that the individual was either:
  - in local government employment within the meaning of the 1997 Pension Scheme Regulations; or
  - in pensionable employment within the meaning of the Teachers Superannuation (Consolidation) Regulations 1988; or
  - has continuous employment within the meaning of both.

**but excludes -**

- periods of employment in an independent school within the meaning given in Section 114(1) of the Education Act 1944.
- any period in relation to which a pension or other benefits (other than a refund of contributions) under the qualifying scheme are being or have been paid.

vi) Employment must be continuous with the following exceptions:

- an employee with pensionable employment within the meaning of the NHS Pension Scheme Regulations 1995 will have such service taken into account if they were statutorily transferred from the NHS to local authority employment as a result of the Community Care Act 1990. (This does not apply to an individual who has voluntarily changed employer). Such employment must be continuous.
- continuous service prior to a break for maternity reasons will be counted in the same way as other service is recognised for entitlement to other terms and conditions of employment under the provisions of the NJC Green Book.
- continuous service prior to a break under Bexley's career break/return scheme will be counted.
- an employee voluntarily returning to Bexley directly from an organisation to which they were transferred from Bexley under TUPE provisions will be considered as having fully continuous service from the beginning of their pre-transfer continuous service if the organisation was an admitted body of the Local Government Pension Scheme. If it was not, continuous service prior to the transfer will be aggregated with continuous service accrued on return.

vii) there may be circumstances whereby exercising discretion to count discontinuous service would help to alleviate hardship. Specific instances will be considered on a case by case basis by the Chief Executive and Director of Corporate Services.

viii) service before the age of 18 does not count.

**5. CONDITIONS FOR PAYMENT OF SEVERANCE AND PENSION ENHANCEMENTS**

(a) Severance payments and pension enhancements will only be made to those employees who during the remaining period of their employment with the Council:

- are reasonably willing, when requested, to transfer to and undertake other productive work of which they are capable;

- continue to co-operate with management in the undertaking of their duties;
- maintain a reasonable attendance and performance record; and
- remain in employment with the Council for the full period required by the Council.

Employees will be informed at the earliest opportunity if their conduct under any of these headings is likely to put their severance payment and pension enhancement at risk.

- (b) Payments will be recovered from any employee who takes up alternative employment with any other employer within 4 weeks of the date of termination of the contract of employment on the grounds of redundancy.

Employees will be required to sign a declaration that they have not taken up any offer of employment with any other authority, person, firm or company (or become self employed) since their date of termination.

## **6. EXCEPTIONAL CASES**

Where the circumstances of a particular case justify a departure from these arrangements, the Chief Executive and Director of Corporate Services may agree to revised terms, using existing powers.

## **7. FINANCIAL TERMS FOR EFFICIENCY RETIREMENT**

Employees retired on grounds of efficiency resulting from organisational strategy or expenditure reduction proposals will receive either:

If aged 50 or over: pension benefits as set out in Section 2. Pension enhancements as set out in Section 3.

Or, if aged under 50: benefits as set out in Section 4 (Enhanced Severance Benefits) exclusive of redundancy payments set out in Section 1.

## **8. FINANCIAL TERMS FOR VOLUNTARY RESIGNATION UNDER REGULATION 31 (RULE OF 85)**

This rule permits “active” members of the Local Government Pension Scheme aged between 50 and 59 to resign voluntarily and seek the Council’s consent for early payment of their pension benefits. Consent will depend on there being clear financial or operational advantage to the Council in agreeing to the payment being made.

Note: It is possible to consider “augmenting” pensionable service and it has been agreed that all cases will be considered by Members on their merits. Agreement will depend on there being clear financial or operational advantage.