

PENSIONS COMMITTEE - 23 NOVEMBER 2005

LOCAL GOVERNMENT PENSION SCHEME (LGPS) – ANNUAL REPORT ON EARLY RETIREMENT 2004/05

SUMMARY

This report notes the numbers, costs and savings of early retirements for 2004/05 and assesses the Council's early retirement policies. It also updates 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 2004/05 be noted.
- (2) The Committee note the Council's Financial Terms for Redundancy and Early Retirement as published in Appendix 1.

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 – 2004/05

(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 77 retirements in 2004/05 which triggered payments from the pension fund, 18 of which were early retirements. This compares to a total of 87 in 2003/04, of which 26 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:		
	Initial Costs	Annual Costs to Age 60	Annual Costs 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	n/a	50% Department 50% Pension Fund	n/a

(c) Numbers, Costs and Savings

- Ill health retirements

In 2004/05 there were 5 ill health retirements compared to 9 in 2003/04. It is difficult to predict the number of ill health retirements that will occur each year. For 2004/05 the numbers in each service area were as follows:

<u>Service Area</u>	
Corporate Services	0
Children and Young People's Services	1
Adult Social Care	0
Environment and Regeneration Services	3
Bexley Trading Services	<u>1</u>
Total	<u>5</u>

Over a three-year period the actuary assumed a yearly average of 30, whereas the Council's average was 7 – well below the assumed level.

- Non-ill health early retirements

In 2004/05 there were 13 non-ill health early retirements compared to 17 in 2003/04. Over a three-year period the actuary assumed a yearly average of 22, the Council's average was 16 – also below the assumed level.

Table 2 - Breakdown of non-ill health early retirement numbers - 2004/05

Type of Non-Ill Health Early Retirement	Numbers	
	Senior Posts subject to Member Level Appointment	Other Posts
Redundancy	1	7
Efficiency	1	3
Voluntary – prior to age 60	0	1
Total of non-ill health early retirements	2	11

Table 3 – Summary of non-ill health early retirement costs – 2004/05

	Initial Costs £000	Annual Costs to Age 60 £000	Annual Costs Age 60 onwards £000
Costs charged to departmental budgets	125	54	7
Costs charged to Pension Fund	0	48	0
Total cost	125	102	7
Savings to departmental budgets	0	125	0
Total cost (+) /savings (-)	125	-23	7

Early retirements are agreed where there are financial or operational advantages to the Council ie savings and/or organisational change can be achieved at the same time as improving service delivery. The table above includes a number of assumptions but does provide a good indication of the financial impact. It shows that such retirements provided the Council with some savings.

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 2004/05, as in previous years, organisational changes took place. The majority of non-ill health retirements resulted from the review of support services. These 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 around 8 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

As Members will be aware new Regulations came into force on 1 April 2005 that significantly amended the early retirement provisions of the LGPS. Subsequently these Regulations were retrospectively revoked and a Tripartite Committee consisting of Government, employer and trade union representatives was established to draw up proposals for the ongoing modernisation and development of the Scheme.

Following the last meeting, the Deputy Prime Minister reiterated that the Government's legal advice is that the 85 year rule must be removed from the Scheme by no later than October 2006. Benefits accrued up to the date of removal would be fully protected and the question of additional transitional protection for older members is to be discussed further.

The Deputy Prime Minister confirmed that he intends to issue draft regulations later this month, to be effective from April 2006, with further modernisation proposals due no later than June 2006. A further report will be produced for this Committee, as appropriate, on future government proposals for changing the LGPS.

In the meantime, in Bexley, there have been no early retirements affected by the April 2005 Regulations and their subsequent revocation. The Financial Terms for Redundancy and Early Retirement have been revised to their pre-April 2005 form and are attached as Appendix 1. Employees and members of the LGPS have been informed of the changes.

The Council is, however, 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. Bearing in mind the current uncertainty it is not intended to change, at the present time, the approach Members in the past have agreed ie :

- 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.

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. The financial implications for the Pension Fund of the changes to the LGPS regulations were taken into account by the actuary in the recent actuarial valuation.

Local Government Act 1972 – section 100d

List of background documents

Pensions Committee July 2004 - Local Government Pension Scheme (LGPS) – Annual Report on Early Retirement 2003/04

Contact Officers: David Speller, Assistant Director (Human Resources).
Extn 2290
Nigel Bate, Head of Technical Finance. Extn 2647

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

FINANCIAL TERMS FOR REDUNDANCY AND EARLY RETIREMENTS (EXCLUDING ILL-HEALTH RETIREMENTS) – Last Updated August 2005

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 Regulation 31 (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 or the payment of added years 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 65th 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 Director of Finance and Business 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 Director of Finance and Business 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.

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 Regulation 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.