

**AGENDA ITEM**

**REPORT TO CABINET**

**17<sup>th</sup> July 2014**

**REPORT OF THE  
CORPORATE MANAGEMENT  
TEAM**

**COUNCIL DECISION  
Leader of the Council – Councillor Robert Cook**

**LOCAL GOVERNMENT PENSION SCHEME 2014**

**SUMMARY**

To provide information on the Local Government Pension Scheme (LGPS) following implementation of Regulations on 1<sup>st</sup> April 2014 and to update the Council's LGPS discretionary policy statement.

**RECOMMENDATIONS**

1. Cabinet note the changes to the LGPS.
2. To recommend to Council for approval the updated Discretionary Policy Statement at Appendix 1 to this report.
3. The Council's Pensions and Retirement Policy is updated to reflect LGPS 2014 and the Discretionary Policy Statement.

**BACKGROUND**

1. A summary of the main changes to the LGPS which took effect from 1<sup>st</sup> April 2014 are detailed below:

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|                                 | <b>LGPS 2008</b>  | <b>LGPS 2014</b>  |
|---------------------------------|---|---|
| <b>Basis of Pension</b>         | Final Salary (FS)   | Career Average Revalued Earnings (CARE)   |
| <b>Accrual Rate</b>             | 1/60 <sup>th</sup>  | 1/49 <sup>th</sup>  |
| <b>Pensionable Pay</b>          | Pay excluding non-contractual overtime and non-pensionable additional hours | Pay including non-contractual overtime and additional hours for part-time staff   |
| <b>Contribution Flexibility</b> | No  | Yes. Members can opt to pay 50% contributions for 50% of the pension benefit. However - NO change in Employer contributions |

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| <b>Normal Pension Age</b>                        | 65   | Equal to the individual member's State Pension Age (minimum 65)   |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
|--|--|---|----|------------|---------------|--|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|-------------------|--|------|--|------|----|------------|---------------|--|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|---------|------|---------|----------|-------|----------|----------|-------|--------------------|--|-------|
| <b>Qualifying period for benefits</b>            | 3 months   | 2 years   |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| <b>Contributions rates</b>                       | <table border="1"> <thead> <tr> <th>From</th> <th>To</th> <th>Gross rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td></td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£15,800</td> <td>5.8%</td> </tr> <tr> <td>£15,801</td> <td>£20,400</td> <td>5.9%</td> </tr> <tr> <td>£24,401</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£45,500</td> <td>6.8%</td> </tr> <tr> <td>£45,501</td> <td>£85,300</td> <td>7.2%</td> </tr> <tr> <td>More than £85,300</td> <td></td> <td>7.5%</td> </tr> </tbody> </table> <p>Banded contributions based on Employee's full time equivalent pay</p> | From  | To | Gross rate | Up to £13,500 |  | 5.5% | £13,501 | £15,800 | 5.8% | £15,801 | £20,400 | 5.9% | £24,401 | £34,000 | 6.5% | £34,001 | £45,500 | 6.8% | £45,501 | £85,300 | 7.2% | More than £85,300 |  | 7.5% | <table border="1"> <thead> <tr> <th>From</th> <th>To</th> <th>Gross Rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td></td> <td>5.5%</td> </tr> <tr> <td>£13,501</td> <td>£21,000</td> <td>5.8%</td> </tr> <tr> <td>£21,001</td> <td>£34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001</td> <td>£43,000</td> <td>6.8%</td> </tr> <tr> <td>£43,001</td> <td>£60,000</td> <td>8.5%</td> </tr> <tr> <td>£60,001</td> <td>£85,000</td> <td>9.9%</td> </tr> <tr> <td>£85,001</td> <td>£100,000</td> <td>10.5%</td> </tr> <tr> <td>£100,001</td> <td>£150,000</td> <td>11.4%</td> </tr> <tr> <td>More than £150,000</td> <td></td> <td>12.5%</td> </tr> </tbody> </table> <p>Banded contributions based on actual pay</p> | From | To | Gross Rate | Up to £13,500 |  | 5.5% | £13,501 | £21,000 | 5.8% | £21,001 | £34,000 | 6.5% | £34,001 | £43,000 | 6.8% | £43,001 | £60,000 | 8.5% | £60,001 | £85,000 | 9.9% | £85,001 | £100,000 | 10.5% | £100,001 | £150,000 | 11.4% | More than £150,000 |  | 12.5% |
| From   | To   | Gross rate  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| Up to £13,500                                    |  | 5.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £13,501  | £15,800  | 5.8%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £15,801  | £20,400  | 5.9%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £24,401  | £34,000  | 6.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £34,001  | £45,500  | 6.8%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £45,501  | £85,300  | 7.2%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| More than £85,300                                |  | 7.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| From   | To   | Gross Rate  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| Up to £13,500                                    |  | 5.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £13,501  | £21,000  | 5.8%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £21,001  | £34,000  | 6.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £34,001  | £43,000  | 6.8%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £43,001  | £60,000  | 8.5%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £60,001  | £85,000  | 9.9%  |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £85,001  | £100,000   | 10.5%   |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| £100,001   | £150,000   | 11.4%   |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| More than £150,000                               |  | 12.5%   |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| <b>Early Retirement</b>                          | Can retire from age 55, but between ages 55-60 requires Employer consent to release pension.<br>Age 60 and above does not require consent.   | Can retire from age 55, and no longer will require Employer consent. Pension will be reduced if retire before normal retirement age to eliminate any cost to Employer (subject to protection arrangements)                        |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |
| <b>AVCs (Additional Voluntary Contributions)</b> | Up to 50% of pensionable pay can be paid into an AVC each year<br>AVC released when Pension released<br>Can draw AVC as 100% lump sum, an annuity or a combination of lump sum or annuity (further pension)  | No limit on amount which can be paid into an AVC<br>AVC released when Pension released<br>If open an AVC after 1 <sup>st</sup> April 2014, can only draw up to 25% of AVC as a Lump Sum, the balance must be taken as an annuity. |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |                   |  |      |  |      |    |            |               |  |      |         |         |      |         |         |      |         |         |      |         |         |      |         |         |      |         |          |       |          |          |       |                    |  |       |

- From 1<sup>st</sup> April 2014 Councillors were no longer eligible to join the LGPS and current membership of the LGPS will cease for existing Councillor Members at the expiry of their current term of office in May 2015. The changes in the table above do not affect the Councillors who are current members of the pension scheme. Councillors who are members of LGPS were informed of the changes by letter on 25 March 2014.
- As the Regulations making the changes to the LGPS were only finalised and published in March 2014, it has left very little time for Pension Funds and Employers to provide information and implement the changes. Employees have been kept updated on the proposed changes through KYIT and Teesside Pension Fund have also provided information on their website and sent communications directly to their LGPS members.
- Changes to the LGPS contribution rates and bands were successfully undertaken by Xentrall in the April 2014 payroll. Xentrall will check that employees are in the correct contribution rate band annually and when there is a contractual change in grade or hours.

5. The Council now needs to update its Discretionary Policy Statement to take account of changes made by the new Regulations.

## DETAIL

6. The proposed updated Discretionary Policy Statement is attached at Appendix 1 with new or revised discretions highlighted.
7. One of the main changes in the scheme is to enable an employee who is 55 years or over to decide to retire early before their normal pension age. Prior to LGPS 2014 the earliest an employee could voluntarily decide to retire was age 60, otherwise employer consent was required for a retirement between the age of 55 and 60 years. There may be a cost to releasing pension benefits early and under the previous scheme the employer would meet this cost. Under the new scheme an employee who voluntarily retires early will meet the cost of releasing benefits early through a reduction in their pension benefits. The following table sets out the reductions which will be applied:

| No. of years paid early | Pension reduction – Male | Pension reduction - Female |
|-------------------------|--------------------------|----------------------------|
| <b>0</b>                | 0%                       | 0%                         |
| <b>1</b>                | 6%                       | 5%                         |
| <b>2</b>                | 11%                      | 11%                        |
| <b>3</b>                | 16%                      | 15%                        |
| <b>4</b>                | 20%                      | 20%                        |
| <b>5</b>                | 25%                      | 24%                        |
| <b>6</b>                | 29%                      | 27%                        |
| <b>7</b>                | 32%                      | 31%                        |
| <b>8</b>                | 36%                      | 34%                        |
| <b>9</b>                | 39%                      | 37%                        |
| <b>10</b>               | 42%                      | 40%                        |
| <b>11</b>               | 45%                      | 44%                        |
| <b>12</b>               | 48%                      | 47%                        |
| <b>13</b>               | 52%                      | 50%                        |

The % reductions do not take account of any protections which may apply to those members who joined the LGPS before 1<sup>st</sup> April 2014.

8. Clearly the reductions are potentially quite significant and may therefore deter employees from retiring before their normal or state pension age. Under the new scheme there are new discretions which enable the employer to “switch on the rule of 85” (which is very similar to the previous employer consent) and to waive any or all of the reductions of post April 2014 reductions. It is proposed that the Council exercises these discretions where there are “financial and operational” reasons to do so.
9. In the last 2 years the Council has approved 9 applications for early retirement on an employer consent basis. Of these applications only 3 had an employer cost. In particular for some employees, depending on their age and service, switching on the 85 year rule may have a nil cost for the employer but does increase the employee’s pension benefits due to the additional protection the rule provides. Consequently in these cases it would be arguably unreasonable not to exercise the discretion in the employee’s favour.

10. In addition in the short to medium term there will be minimal cost (and benefit to the employee) of waiving any or all reductions in post 2014 benefits until there has been a longer period of post 14 pensionable service.
11. Due to the relatively low number of early retirements Teesside Pension Fund are of the view that the exercise of these discretions is unlikely to put such a strain on the Pension Fund that employer contributions will be adversely affected.
12. Having the ability to exercise the discretions on operational and financial reasons will be a useful tool to help manage organisational change, succession planning and could avoid a future redundancy at a higher cost to the Council.
13. As under the previous scheme LGPS 2014 has retained the entitlement for an employee, who is a member of the LGPS and aged 55 years or over, to access their pensionable benefits without reduction if they are in a redundancy situation or on efficiency of the service grounds. The cost of early release of pensionable benefits is met by the Council as well as making a redundancy or efficiency payment. It may be that by exercising a discretion to mitigate the reduction in an employee's pension benefits may encourage an employee to leave on early retirement rather than being subject to a redundancy dismissal in the future at a significantly higher cost to the Council.
14. It is essential that the use of the discretions is subject to scrutiny to ensure that the discretions are being appropriately applied. Checks and balances are built in to the existing processes for early retirement approvals and it is proposed that they would continue to apply. This includes approval by the Corporate Director of the relevant service area as well as Finance, HR, and Cabinet member sign off.
15. The neighbouring Tees Valley local authorities are proposing to adopt very similar discretionary policy statements.
16. The Council's Pensions and Retirement Policy will need to be updated to reflect LGPS 2014 and the approved discretionary policy statement. In addition information on pensions will continue to be made available for employees through KYIT and Teesside Pension Fund.

## **FINANCIAL IMPLICATIONS**

17. Financial implications will arise should a discretion be exercised which incurs an employer cost. These costs will need to be considered in relation to the Council's Medium Term Financial Plan and individual Service budgets. Exercising a discretion on early retirement could avoid a redundancy dismissal and reduce redundancy costs.

## **LEGAL IMPLICATIONS**

18. The Council is required by the Regulations to have a discretionary policy statement in place. In addition it is important that the Council exercises its discretion appropriately and reasonably and does not fetter its discretion. It is considered that the proposed discretions and process is lawful. The checks and balances proposed in terms of the approval of exercising a discretion should ensure a fair and consistent application of the discretions.

## **RISK ASSESSMENT**

19. It is a statutory requirement to have a discretionary policy statement and therefore not to adopt a policy would put the Council at risk of challenge, however the risk in adopting the proposed policy is considered to be low.

#### **COMMUNITY STRATEGY IMPLICATIONS**

None

#### **CORPORATE PARENTING**

None

#### **CONSULTATION**

20. The draft discretionary policy statement has been subject to consultation with CMT, HRSG and the Trade Unions.

Contact Officer: Beccy Brown

Telephone No: 01642 527003

Email: [Beccy.brown@stockton.gov.uk](mailto:Beccy.brown@stockton.gov.uk)