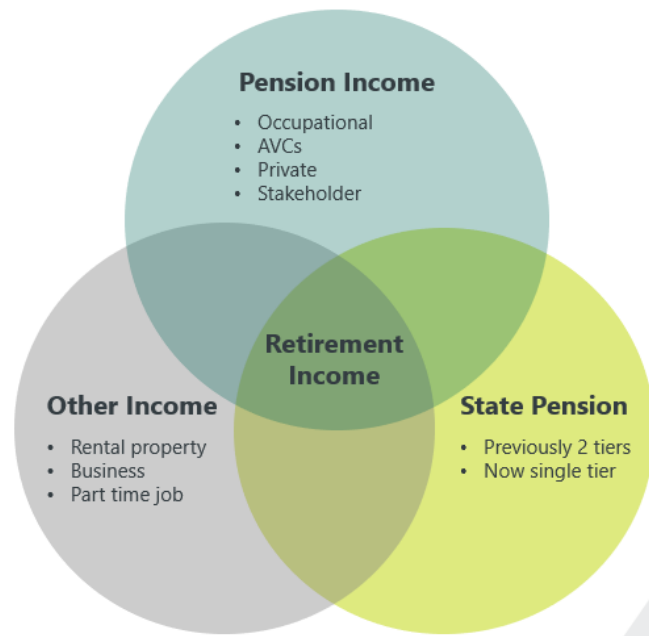


People Select Committee (Task and Finish Review)

Scrutiny Review of Local Government Pension Scheme (LGPS)



**Final Report
February 2022**

People Select Committee
Stockton-on-Tees Borough Council
Municipal Buildings
Church Road
Stockton-on-Tees
TS18 1LD

<u>Contents</u>	Page
Select Committee membership and acknowledgements	4
Original Brief	6
Executive Summary	9
1.0 Introduction	12
2.0 Evidence	13
3.0 Findings	28
4.0 Conclusion and Recommendations	30
Glossary	31

Task and Finish Group – Membership

Councillor Marilyn Surtees (Chair)
Cllr Niall Innes
Cllr Eileen Johnson
Cllr Lee Spence
Cllr Barry Woodhouse

Acknowledgments

The Committee would like to thank the following people for contributing to its work:

Beccy Brown, Head of HR, Legal and Communications
Jill Douglas, Assistant Director, HR, Legal and Communications
James Burrell, Consultation Officer
Laura Pelmear, Jennifer Salmon (XPS Administration)
James Bolton (AVC Wise)
Paul Moffatt, Rex Harrison (ISIO)

Contact Officer

Judy Trainer, Scrutiny Officer
Tel: 01642 528158
Email: judith.trainer@stockton.gov.uk

Foreword

TBA



**Councillor Marilyn Surtees
Chair**

Original Brief

Which of our strategic corporate objectives does this topic address?

The review indirectly supports delivery of all the Council Plan objectives as it is part of the delivery of the specific Council Plan objective of ensuring that we have dedicated and resourceful employees who can deliver Council services.

What are the main issues and overall aim of this review?

A task and finish review to investigate the reasons why 15% of the SBC workforce have chosen not to be members of the Teesside Local Government Pension Fund and to consider what steps may be needed to address this.

We are concerned that membership of the Local Government pension fund is falling and that this is more pronounced amongst the younger and lower paid members of the workforce. There have been many changes to local government pensions over recent years and media coverage of the impact of the £95k cap proposals and the McCloud and Sargeant Supreme Court cases about age discrimination on transitional arrangements in the scheme. We have anecdotal evidence that these issues and also alterations in working patterns particularly in the younger workforce (such as less of an expectation of a long-term career with one employer) has led to an impression that the LGPS is of reduced value.

We are keen to understand the causes of the fall in membership so that, as far as possible, we can address any issues and encourage members of the workforce to put in place suitable pension arrangements. Possible outcomes may include campaigns to increase awareness and understanding of the benefits of the scheme or changes to the scheme to offer new arrangements, for example more flexibility.

The Committee will undertake the following key lines of enquiry:

- What is the workforce profile of those staff choosing to be members of the Pension Fund?
- What are the reasons for staff not choosing to be members of the Teesside Local Pension Fund?
- What alternatives are there to the Teesside Pension Fund?
- Are changes needed to the current scheme and what steps would be required to make any changes? Could the scheme be made more attractive?
- How easy is to transfer a pension pot to another schemes?
- Do staff who are members of the pension fund fully understand how the fund operates?
- Could the scheme be better marketed?
- What do other Local Authorities in the North-East offer, what is their take up and are any changes being considered?
- Are changes to pension schemes being considered by other Local Authorities/ public sector bodies?

Who will the Committee be trying to influence as part of its work?

Council Staff, Teesside Pension Fund

Expected duration of review and key milestones:

6 months:

- Approve scope and project plan – July 2021
- Receive evidence – September – December 2021
- Draft recommendations – January 2022
- Final report – February 2022
- Report to Cabinet – March 2022

What information do we need?

Existing information (background information, existing reports, legislation, central government documents, etc.):

Workforce profile of SBC staff in and not in the Teesside Pension Fund

Who can provide us with further relevant evidence? (Cabinet Member, officer, service user, general public, expert witness, etc.)	What specific areas do we want them to cover when they give evidence?
Teesside Pension Fund	Outline of the current scheme and benefits
The Prudential	Additional Voluntary Contributions (AVCs)
ISIO Pension Advisors	Breakdown of take-up Recent changes to the scheme Other options Examples of other LAs/ public bodies considering/ implementing changes
SBC Staff	Understanding of the scheme Reasons for non-take-up
NEREO	Other NE Council Pension Fund arrangements, take-up and plans

How will this information be gathered? (e.g. financial baselining and analysis, benchmarking, site visits, face-to-face questioning, telephone survey, survey)

Committee meetings, desk top research, consultation with staff and NEREO

How will key partners and the public be involved in the review?

Teesside Pension Fund will be invited to give evidence and staff will be consulted.

How will the review help the Council meet the Public Sector Equality Duty?

The review will consider the impact of support in preventing discrimination for those with Protected Characteristics (including – but not limited to – age, gender, disability, ethnicity), and advance equality of opportunity for those with Protected Characteristics.

How will the review contribute towards the Joint Strategic Needs Assessment, or the implementation of the Health and Wellbeing Strategy?

Ensuring that employees retire with adequate pension arrangements has a direct economic and social impact on the Borough as 70% of the workforce also live in the Borough.

Provide an initial view as to how this review could lead to efficiencies, improvements and/or transformation:

A fuller understanding of the issues of the reduced pension membership and either increased take-up of the current scheme, alternative options or proposals to change the scheme to make it more suitable to the needs of the workforce.

Executive Summary

A task and finish review was established to investigate the reasons why 15% of the Council's workforce had chosen not to be members of the Teesside Local Government Pension Scheme and to consider what steps might be needed to address this.

Key Findings

The Scheme

- The LGPS is a national scheme with the rules of the scheme contained in statutory regulations. Payment of benefits to scheme members is guaranteed by law
- The LGPS is a defined benefit scheme based upon the amount of money a person is earning by the time they come to retire in conjunction with the number of years of scheme membership. Benefits are derived from a final salary scheme (for service before 1 April 2014) and a CARE scheme (Career Average Revalued Earnings) scheme (for service after 1 April 2014)
- Recognised benefits include:
 - The employer shares the cost – employers contributions are significantly higher than those paid by scheme members
 - Life cover of three years' pay and other death benefits
 - Tax relief on all contributions - even on extra payments to top up pension
 - A pension for life with an option to convert some of it to a tax-free lump sum
 - No hidden fees or charges
 - Two years membership is all that is needed to build up a pension
 - No investment risk and a guaranteed package of benefits
 - Ill health protection
 - Redundancy protection
 - Flexible retirement option
 - Index linked pension increases
- Staff are auto enrolled if they have a contract of employment that is for at least 3 months and are under age 75
- The amount of contributions that an employee pays will depend upon their pensionable earnings. For part time workers, contributions are based on actual earnings
- The LGPS offers the flexibility to pay half the normal contribution rate and build up half the normal pension whilst retaining full life and ill-health cover. This is called the 50/50 section
- The nomination form for death in service grant is available on the website and promoted at staff awareness sessions; staff are also encouraged to review this annually. Despite this, only small numbers of scheme members have completed the form
- In other North-East Council's, pension opt out rates are similar to Stockton's

Additional Voluntary Contributions (AVCs)

- The Council decided to contribute to a Shared Cost AVC (SCAVC) scheme for Council staff under the LGPS Regulations 2013
- Under the shared cost AVC, employees can save on both income tax and national insurance contributions (12% or 2%) on the value of the salary sacrifice
- The SCAVC enables employees to have an efficient way of taking their pot at retirement, including a tax-free lump sum
- AVC Wise run a number of webinars to communicate the benefits to the workforce; a web-based knowledge hub hosting videos and an online calculator which assumes a cautious 3% growth rate
- Scheme members can change their contributions as often as they need

- The Council makes saving in NI costs through the scheme and professional fees are paid to AVC Wise out of the employer NI savings; if no one joins the scheme then there is no fee
- The majority of AVC scheme members are upwards of 45 years and a presentation is in production aimed at the younger workforce and the benefits for them
- Contributions have no impact on state pension as the Council would not let an employee drop below the level of NI contributions to impact on their state pension accrual

Workforce Analysis

- Staff who choose not to be in the Scheme do not benefit from any employer's contributions, have lower total reward and miss out on important death and ill health benefits
- Lower earners with long service can end up with significantly higher income in retirement than when working
- New hires may not appreciate the value of LGPS membership and if an employee is not auto enrolled or opts out initially, it may be harder for them to join in the future
- For high earners, tax charges can be difficult to predict before they are incurred and this can lead to increased dissatisfaction and increase turnover of senior employees
- Affordability is the main issue. Low earners and staff on part time contracts are more likely to opt-out of the pension scheme and staff on casual contracts are much more likely to opt out (90%)
- Where the pension scheme does not meet the needs particular staff groups, the Council could consider non-pension benefits such death benefits or workplace savings

Staff Survey

- Feedback from staff in the Scheme reveals a general lack of understanding of the scheme and a desire for more / better information in plain English. Many comments refer to the Annual Benefit Statement being confusing
- The top two reasons that staff give for not joining the pension scheme are affordability and not being on permanent contracts

Conclusion

It is vitally important that all staff make appropriate provision for their retirement. The Local Government Pension Scheme is an excellent pension scheme, guaranteed by law, where members benefit from significant employer contributions, tax relief on contributions, death benefits, a tax-free lump sum and an index linked pension on retirement. In addition, the Council has decided to contribute to a Shared Cost AVC scheme providing employees with an additional way of boosting their pension pot and further saving for their retirement.

The Task and Finish Group recognise that affordability is the main barrier for employees not taking advantage of the benefits provided by the Scheme. However, a better understanding of the scheme and its benefits and flexibilities would enable employees to make more informed decisions. This could include wider awareness of the 50/50 section enabling staff to benefit from important death benefits and begin to make provision for retirement with reduced contributions.

The staff survey revealed a widespread lack of understanding about the Scheme and many comments about the complexity of the information provided and lack of clarity. The Task and Finish Group urge the Teesside Pensions Fund to review the information it provides to ensure that it is in plain English and easy to understand and recommends that the information the Council sends to new starters on membership and benefits of the LGPS is also reviewed.

We hope our recommendations will raise awareness of the benefits of the Scheme, help employees to make better informed choices and improve take-up.

Recommendations

1. That an ongoing programme of awareness raising be established to encourage take-up of the Pension Scheme including:
 - promotion of the scheme to younger members of staff
 - increasing awareness of options contained in the Scheme (such as 50/50 section, allowing staff to benefit with reduced contributions)
 - emphasising that scheme members benefit from significant employer contributions
2. That the information the Council sends to new starters on membership and benefits of the LGPS be reviewed.
3. That the Council liaise with Teesside Pension Fund to:
 - urgently review the quality of the information provided to staff to ensure that it is both comprehensive and in plain English (including improvements to the presentation of the information contained in the Annual Benefit Statement)
 - develop a range of promotional materials in an easy-to-understand format
4. That Middlesbrough Borough Council be requested, as the administering Authority, to include in any future contract for the administration of the Pension Scheme, a requirement for information and promotional material to be clear and easy to understand.
5. That Human Resources review the use of temporary employment contracts with each Directorate to determine whether a permanent contract could be more appropriate (as this change would result in more employees being auto enrolled into the scheme).

1.0 Introduction

1.1 This report presents the outcomes of the scrutiny review of the Local Government Pension Scheme (LGPS).

1.2 A task and finish review was established to investigate the reasons why 15% of the Council's workforce had chosen not to be members of the Teesside Local Government Pension Scheme and to consider what steps might be needed to address this.

1.3 There were concerns that membership of the Local Government Pension Fund was falling and that this was more pronounced amongst the younger and lower paid members of the workforce. There have been many changes to local government pensions over recent years and media coverage of the impact of the £95k cap proposals and the McCloud and Sargeant Supreme Court cases about age discrimination on transitional arrangements in the scheme. There was anecdotal evidence that these issues and also alterations in working patterns particularly in the younger workforce (such as less of an expectation of a long-term career with one employer) had led to an impression that the LGPS was of reduced value.

1.4 The review was tasked with understanding the causes of the fall in membership so that, as far as possible, any issues could be addressed, and the workforce encouraged to put in place suitable pension arrangements. Possible outcomes might include campaigns to increase awareness and understanding of the benefits of the scheme or changes to the scheme to offer new arrangements, for example more flexibility.

1.5 The Group examined the following key lines of enquiry:

- What is the workforce profile of those staff choosing to be members of the Pension Fund?
- What are the reasons for staff not choosing to be members of the Teesside Local Pension Fund?
- What alternatives are there to the Teesside Pension Fund?
- Are changes needed to the current scheme and what steps would be required to make any changes? Could the scheme be made more attractive?
- How easy is to transfer a pension pot to another schemes?
- Do staff who are members of the pension fund fully understand how the fund operates?
- Could the scheme be better marketed?
- What do other Local Authorities in the North-East offer, what is their take up and are any changes being considered?
- Are changes to pension schemes being considered by other Local Authorities/ public sector bodies?

2.0 Evidence

Background - Recent Changes affecting the LGPS

Public Sector Exit Payments - £95,000 Cap

2.1 The Restriction of Public Sector Exit Payments Regulations 2020 restricted prescribed public sector bodies from making exit payments above £95,000 in connection with a person leaving employment or vacating office. Subsequently, these Regulations were revoked by the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021. The Revocation Regulations also contained a legal obligation for employers to make payments compensating employees who left during the period between the original regulations coming into force and the date of the Revocation Regulations coming into force.

2.2 As the cap no longer applies, if an LGPS member exits on or after 12 February 2021 due to redundancy or business efficiency at age 55 or over:

- The member is entitled to and must take an unreduced pension
- If requested, employers must pay to the administering authority the strain cost associated with the early payment of that pension
- Employers must not make a cash alternative payment as set out in regulation 8 of the Exit Cap Regulations

McCloud and Sargeant Supreme Court Cases – Age Discrimination

2.3 The McCloud judgement refers to the Court of Appeal's ruling that public sector pension reforms unlawfully treated existing public sector workers differently based upon members' age. The judgement came after two Employment Tribunals concerning the pensions of Judges' (McCloud) and Firefighters' (Sargeant) respectively.

2.4 As a result, the LGPS is going to change for some people. In the LGPS, protections were applied in 2014 when the scheme changed from a final salary scheme to a CARE scheme. All members were automatically moved across to the new scheme, but older members, closer to retirement, were given additional protections, called the Underpin. As the protections were only applied to members of a certain age, the court decided that it was 'unlawful on the grounds of age discrimination'.

2.5 On 19 July 2021, a Bill was put before Parliament amending the Public Service Pensions Act 2013. The final outcome will not be known until changes are made to the LGPS regulations. Currently, members who were active in the scheme on 31 March 2012 and within 10 years of retirement received the Underpin protection. The proposal is that this protection should now apply to all qualifying members that were in the scheme on 31 March 2012, and then moved to the CARE scheme on 1 April 2014. For these qualifying members, the Underpin protection will apply for pension built up between 1 April 2014 to 31 March 2022 only. The changes will not be in place until 1 April 2023.

2.6 The Government has been quick to reassure members that the changes will be an 'upward' lift.

The Scheme

2.7 The following information outlines the key components of the Local Government Pension Scheme summarised from the Teesside LGPS website and presentation from XPS Administration who administer the Pension Fund:

2.8 The Local Government Pension Scheme is a national scheme specifically for employees of local councils and other related employers. Nationally the scheme has over 1.5 million contributing members and large numbers of pensioner and deferred benefit members. The rules of the scheme are contained in statutory regulations. Payment of benefits to scheme members is guaranteed by law.

2.9 There are two major types of occupational pension (final salary and money purchase schemes). The LGPS is a final salary or defined benefit scheme because it is based upon the amount of money a person is earning by the time they come to retire. This is used in conjunction with the number of years of scheme membership to determine the amount of pension. So, at any time during the years of membership, a scheme member can reasonably predict what the benefit will be at the time of retirement by using a simple formula.

2.10 The Teesside LGPS website lists the **top ten reasons to join the scheme** as follows:

- Your employer shares the cost – In fact employer's contributions are significantly higher than those paid by scheme members
- Life cover of three years' pay - from the second you join. Unlike other forms of life insurance, there's no medical - it's open to all
- If you are a taxpayer you get tax relief on all your contributions - even on extra payments you make to top up your pension
- At retirement you will receive a pension for life with an option to convert some of it to a tax-free lump sum
- There are no hidden fees or charges - you simply pay a percentage of your pay
- Two years membership is all that is needed to build up a pension so if you leave before retirement you will still receive a pension when you eventually retire
- No investment risk - you get a guaranteed package of benefits which are backed by law
- Protection for you in case you have to draw your benefits early through permanent ill health
- Protection for your loved ones in the form of pensions for dependants if you die
- Once you are drawing your pension it will go up in line with inflation, protecting you from rising prices

Auto Enrolment

2.11 If an employee has a contract of employment that is for at least three months and are under age 75, they will automatically be made a member of LGPS 2014 (with the right to opt out), unless:

- They are employed by a designating body, usually a Town or Community Council, where they can only join if their employer nominates them for membership of the Scheme, or
- They are an employee of an admitted body, where they have to elect to join

2.12 If the contract is for less than three months, they will not be automatically enrolled into the Scheme but can opt to join if they wish.

2.13 If the contract is initially for less than 3 months but is subsequently extended to a period of three months or more they will be enrolled into the Scheme from the first day of the pay period following the contract extension (with the right to opt out).

Transfer of Pension Rights

2.14 Applications for pension rights to be transferred into the Scheme must be made no later than twelve months after entering the LGPS. Applications for extension are usually only granted in exceptional circumstances.

2.15 If a person has left the LGPS and are joining another pension scheme, they may wish to consider transferring their LGPS benefits to it. An option to transfer (other than in respect of AVCs) must be made at least 12 months before their Normal Pension Age.

2.16 If a full transfer payment is made, a person will not be entitled to any further benefits from the LGPS for themselves, their spouse, civil partner, eligible cohabiting partner or eligible children.

Contributions

2.17 The amount of contributions that an employee pays will depend upon their pensionable earnings. For part time workers, contributions are based on actual earnings.

2.18 The table below shows the pay ranges and corresponding employee contribution rates that apply to the LGPS in England and Wales from 1 April 2021.

Band	Actual pensionable pay for an employment	Main section contribution rate for that employment	50/50 section contribution rate for that employment
1	Up to £14,600	5.50%	2.75%
2	£14,601 to £22,900	5.80%	2.90%
3	£22,901 to £37,200	6.50%	3.25%
4	£37,201 to £47,100	6.80%	3.40%
5	£47,101 to £65,900	8.50%	4.25%
6	£65,901 to £93,400	9.90%	4.95%
7	£93,401 to £110,000	10.50%	5.25%
8	£110,001 to £165,000	11.40%	5.70%
9	£165,001 or more	12.50%	6.25%

2.19 The contribution rates and / or pay bands are reviewed periodically in order to maintain the average contribution from employees at 6.5% and to ensure the long-term costs of the Scheme are managed.

Contributions

They may be cheaper than you think...

Assume that your annual pensionable pay is £25,000 Monthly = £2,083.33	Your gross monthly contribution of 6.5% of £2,083.33: Band 3 Contributions Contribution = £135.42	As the scheme is registered, you are eligible for tax relief on the contributions you make: Tax = £27.08
---	---	---

**Only actually costs £108.34
(5.2%)**

50/50 Section

2.20 The LGPS offers the flexibility to pay half the normal contribution rate and build up half the normal pension whilst retaining full life and ill-health cover. This is called the 50/50 section of the LGPS. It is designed to help members stay in the scheme, building up valuable pensions benefits during times of financial hardship.

Retirement and Benefits

Lump Sum

2.21 Rules introduced in April 2006 have now allowed all members to increase their lump sum by giving up part of their annual pension. The standard conversion rate is 12 to 1. This means that when a member retires they can elect to give up part of their annual pension and for every whole £1 they give up, they will get an additional £12 added to their tax-free retirement grant.

1997	2008	2014
Service to 31 March 2008	Service from 1 April 2008 Service to 31 March 2014	Service from 1 April 2014
Final Salary	Final Salary	CARE
1/80 th	1/60 th	1/49 th
3/80 th Automatic Lump Sum	No Auto Lump Sum Option To Commute	No Auto Lump Sum Option To Commute

Membership before 1 April 2008

2.22 Under this scheme, 1/80th of final pay is added to a person's pension account for each year of membership. They will also automatically get a lump sum retirement grant of 3/80ths for membership until 31 March 2008.

2.23 The retirement grant can be increased by giving up some annual pension. A member can get £12 of retirement grant (subject to certain HMRC limits) for every £1 of annual pension they give up.

Membership between 1 April 2008 and 31 March 2014

2.24 Benefits are worked out by looking at final pay and membership. Final pay will be that which a person's pension contributions were taken out of over the last twelve months or one of the previous three years if they were higher.

2.25 Under this scheme, 1/60th of final pay will be added to the pension account for each year of membership.

2.26 For membership from 1 April 2008 there is no automatic lump sum retirement grant. However, under current regulations, when a person takes payment of their deferred benefits they can swap some annual pension for a retirement grant. A member can get £12 of retirement grant (subject to certain HMRC limits) for every £1 of annual pension they give up.

Membership after 1 April 2014

2.27 After 1 April 2014 benefits are worked out as per the career average revalued earnings scheme (CARE). This means the pension is calculated in 'units' based on a formula which takes account of the member's pensionable salary for each year of pensionable service. At retirement all 'units' are added together to provide an annual pension. Under the CARE scheme, 1/49th of pay is added to the pension account each year.

2.28 For membership from 1 April 2008 there is no automatic lump sum retirement grant. However, under current regulations, when a person take payment of their deferred benefits they can swap some annual pension for a retirement grant. A member can get £12 of retirement grant (subject to certain HMRC limits) for every £1 of annual pension they give up.

Retirement

2.29 If a member joined the Scheme after 1 April 2014, they must have at least two years total membership in the Scheme in order to retire or have brought a transfer value into the Scheme (so that the total exceeds two years). If they joined the Scheme before this date, they only need three months' membership to be entitled to pension benefits.

2.30 Normal Pension Age (NPA) will match a person's State Pension Age, with a minimum of age 65 applying where State Pension Age is lower than 65.

2.31 If an employee satisfies either of the following conditions, they can retire with immediate benefits in the following circumstances:

- They have reached normal pension age
- They are too ill to work and this is certified by an independent registered medical practitioner (ill-health retirement)
- They are 55 or over and their employer offers early retirement on the grounds of redundancy or efficiency
- They are 55 or over and take voluntary early retirement
- They are 55 or over and take flexible retirement with their employer's agreement

1 Early	➤➤	From age 55
2 Redundancy / Efficiency of Service	➤➤	From age 55
3 Flexible	➤➤	From age 55
4 Normal	➤➤	State Pension Age
5 Late	➤➤	By age 75
6 Ill Health	➤➤	From any age

2.32 The earliest age that an employee is entitled to claim their pension without employer consent is age 55. Unless agreed otherwise, benefits will be reduced for early payment to reflect the fact that they are to be paid for longer. In April 2028, the normal minimum pension age will rise from age 55 to age 57.

Number of Years Paid Early	Pension reduction	Lump Sum (for membership to 31 March 2008)
0	0%	0%
1	5.1%	2.3%
2	9.9%	4.6%
3	14.3%	6.9%
4	18.4%	9.1%
5	22.2%	11.2%
6	25.7%	13.3%
7	29.0%	15.3%
8	32.1%	17.3%
9	35.0%	19.2%
10	37.7%	21.1%
11	41.6%	N/A
12	44.0%	N/A
13	46.3%	N/A

85-Year Rule

2.33 For employees who were members of the LGPS at any time between 1 April 1998 and 30 September 2006, some or all of their benefits could be protected from an early payment reduction under the 85-year rule. The only occasion where this protection does not automatically apply is if an employee chooses to voluntarily draw their pension on or after age 55 and before age 60.

2.34 For the 85-year rule to apply, at the date a person draws their pension, their age (in whole years) plus their Scheme membership (in whole years) must add up to 85.

2.35 Service accrued from the 1 April 2008, depending on age and length of membership is treated differently and there have been some quite complex protections put in place for protected members:

- If they choose to retire early and will be 60 years of age by the 31 March 2016 and meet the rule of 85, they will not receive a reduction to any pension benefits accrued up until the 31 March 2016
- If they will be 60 years of age between the 1 April 2016 and the 31 March 2020, and meet the rule of 85 when they retire, they will receive full protection for Scheme membership up until 31 March 2008 and partial protection for the period between then and the date they retire
- If they will not be 60 by 31 March 2020, then any Scheme membership accrued from the 1 April 2008 will be reduced if they are taken before age 65

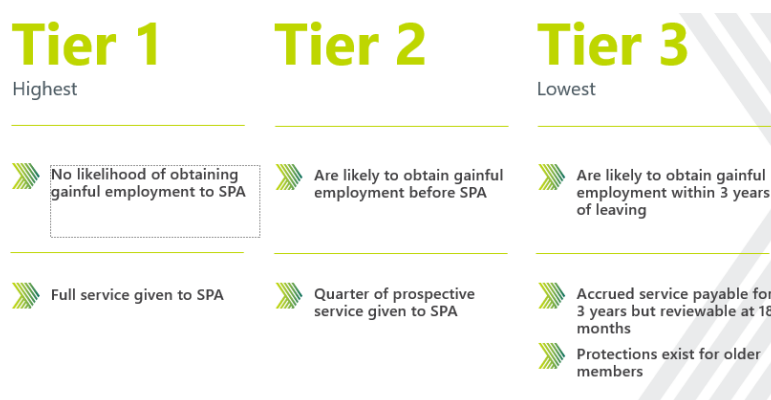
Flexible Retirement

2.36 Flexible retirement is where a person reduces either the hours they work or move to a post with less pay and receive payment of their pension (in part or full), as well as their salary. Once a Scheme member has reached their 55th birthday, they can ask their employer to consider them for flexible retirement.

Ill Health Retirement

2.37 To qualify for ill health benefits a Scheme member must have to have met the two years vesting period in the Scheme and their employer, based on an opinion from an independent occupational health physician appointed by them, must be satisfied that the employee will be permanently unable to do their own job until Normal Pension Age and that they are not immediately capable of undertaking gainful employment.

2.38 Ill health benefits can be paid at any age and are not reduced on account of early payment, in fact, benefits could be increased to make up for early retirement. There are graded levels of benefit based on how likely a person is to be capable of gainful employment after they leave.



Redundancy

2.39 For employees over age 55, if their contract of employment is terminated on the grounds of redundancy (this includes voluntary redundancy), or in the interests of the efficiency of the service, then providing they have over two years of service, or have transferred previous pension rights into the Scheme they will be entitled to receive their pension immediately and without reduction.

2.40 If an employee has less than two years pensionable service, they will be offered a refund and if they are aged under 55 and have over two years pensionable service, they will be awarded deferred benefits.

Divorce

2.41 Where a Scheme member gets divorced, or a civil partnership is dissolved, the Court will take pension assets into account when determining any settlement. This could include:

- **Pension sharing** - the pension is split at the time of divorce or dissolution so that each receive a separate pension pot and can continue to build pension benefits for the future
- **Pension offsetting** - each keep their own pension benefits but adjust the proportion of other assets to take account of the value of the pension benefits
- **Pension earmarking** - arranging that when one person's pension benefits start to be drawn down, part of them will be paid to the other person

Capital Value

2.42 The amount of pension a member is able to exchange for a tax-free lump sum is limited by HM Revenue and Customs to 25% of the capital value of their pension benefits (provided the lump sum does not exceed £250,000 (2016/17 figure) less the value of any other pension rights e.g. AVCs).

2.43 The capital value is worked out by multiplying the yearly pension payable at retirement by 20 and adding in any automatic lump sum (only payable for members of the LGPS before 1 April 2008).

Lifetime Allowance (LTA)

2.44 The Lifetime Allowance is a limit on the amount of pension that can be paid from pensions schemes without triggering an extra tax charge. The standard lifetime allowance was £1.055 million for the tax year 2019/20 and it increased to £1.073 million in April 2020 and remains subject to change.

2.45 A member's benefits are tested against the LTA whenever they "crystallise" their benefits usually when retiring. For a defined benefits scheme (such as the LGPS), the value of benefits is calculated as 20 times the initial amount of pension plus any tax-free cash. Any pension savings above the LTA are subject to a charge of 55% if the excess is taken as a lump sum and 25% if the excess is taken as a pension.

2.46 Whilst most people aren't affected by lifetime allowance, members are encouraged to take action if the value of their pension benefits is approaching or more than LTA.

Annual Allowance

2.47 The annual allowance is the maximum amount of pension savings that can be built up in one tax year before liability to an annual allowance charge arises. The standard annual allowance is currently £40,000. Tax charges can be reduced or negated by carrying forward unused allowance from the three previous years. If a member is affected due to them being a high earner or the growth in value of the pensions savings is close to or exceeding the annual allowance, they are issued with a separate pension savings statement.

Death Benefits

Nomination Form

2.48 Any lump sum payable in the event of a member's death may be paid to their legal personal representatives, a nominated beneficiary or distributed at the discretion of the Teesside Pension Fund.

2.49 The main advantage of completing this form is that if payment is made to the nominated beneficiaries, the payment will not form part of their estate and will therefore not count towards inheritance tax. Also, by completing this form, payment of any death grant can be made without requiring sight of legal documents. Death in Service Grant is equal to three times Assumed Pensionable Pay

2.50 Once an expression of wish form has been completed, it is vital that it is kept up to date as certain life events (marriage, divorce etc.) may result in a member wanting to change their wishes. The Pension Fund will only act on the most up to date form therefore if a member wishes to add or remove a beneficiary, they must complete a new form.

2.51 The nomination form for death in service grant is available on the Teesside Pension Fund website and promoted at staff awareness sessions; staff are also encouraged to review this annually. Despite this, only small numbers of scheme members complete the form.

Survivor Benefits

2.52 In addition to a lump sum death grant, Survivor benefits can be paid to a:

- Spouse
- Civil Partner (same sex or opposite sex)
- Eligible Co-habiting Partner
- Eligible Child

Pension Increases

2.53 Pension increases are currently based on the Consumer Prices Index (CPI) averaged from September to September and are applied from the first Monday on or after 6 April in the following year. Pension increase varies from year to year:

Year	% Increase
2020	1.7%
2019	2.4%
2018	3.0%
2017	1.0%
2016	0.0%
2015	1.2%
2014	2.7%

State Pension

2.54 The new state pension is £179.60 per week dependent on a person's NI record. This would be reduced by any period of contracted out service. Gov.uk has a facility to check the state pension a person is estimated to receive.

Pensions can be increased through:

- Additional voluntary contributions
- Additional pension contributions – This is buying additional pension, not service and guarantees additional index linked pension benefits. A calculator is available at www.lgpsmember.org

Teesside Pension Fund - Employer Liaison Team

2.55 All communication, training and signposting is now dealt with directly by the Employer Liaison Team. The team endeavours to find answers to any complex questions, queries or requests in a timely manner. The team can help with the following, along with many other topics:

- Contributions
- Pension Overviews / Awareness
- Employer Training
- Scheme and Financial year end returns
- Member Self-Serve (MSS)

2.56 Employee sessions are currently delivered in person and there is currently a big demand for these.

2.57 As well as a wide range of information being available on the Teesside Pension Fund website, a Member Self Service (MSS) facility has been created which allows registered users to log into their pension record online. This secure website allows members to calculate their own estimates of benefits from age 55, access online versions of their Annual Benefit Statements and update the Pensions Unit on changes in circumstances.

2.58 The Annual Benefit Statement is sent to scheme members every year and members are encouraged to check their annual pension statement as the law only requires pay figures to be kept for six years and it would be difficult to correct a problem after that time.


Additional Pension Contributions (AVCs)

2.59 AVC Wise manage an AVC scheme on behalf of the Council. They offer webinars and individual meetings with staff. A web-based knowledge hub hosts three videos and an online calculator which assumed a cautious 3% growth rate.

2.60 Where an employee opts to pay an Additional Voluntary Contributions (AVCs) under Regulation 17 of the Local Government Pension Scheme (LGPS) Regulations 2013 (the 2013 Regulations), an employer can decide to also contribute to that employee's AVC arrangement. This is known as a shared cost AVC (SCAVC).

2.61 AVCs can be paid as a salary sacrifice arrangement. A member can elect to pay both AVCs and SCAVCs at the same time and this also applies to members who are paying AVCs for life assurance.

2.62 Employees save on both Income Tax and National Insurance contributions (12% or 2%) on the value of the salary sacrifice. Employees also have an efficient way of taking their pot at retirement, including a cash tax free lump sum.


Joe
 Salary: £30,000
 Regular AVC: £250 per month (£3,000 each year)

	Without AVC	With Standard AVC	With AVC Wise
Gross monthly pay (before main scheme contributions)	£2,500	£2,500	£2,251
Joe's LGPS contribution	£162.50	£162.50	£162.50
Joe's AVC contribution	£0	£250	£1
Employer AVC contribution	£0	n/a	£249
Total AVC contribution	n/a	£250	£250
Joe's Income Tax	£258.00	£208.00	£208.00
Joe's National Insurance	£204.36	£204.36	£174.48
Joe's monthly pay after tax	£1,875.14	£1,675.14	£1,705.02

All figures provided are for illustrative purposes only and are not guaranteed.

2.63 In the above example, Joe's £250 contribution to his AVC pot costs him £200. With SCAVC, his contribution £170.12 – an extra saving of £29.88 due to NIC savings.

Stockton-on-Tees Borough Council - Results 22 September 2021

- 2901 active LGPS members at launch
- 120 standard AVC members transferred to the Shared Cost AVC Scheme
- £24,332.24 monthly amount
- 30 new LGPS members joined - £9,954.06
- TOTAL monthly amount - £34,278.30
- £4,901.80 monthly financial savings

2.64 Scheme members can change their contributions as often as they need. The majority of AVC scheme members are upwards of 45 years and a presentation was in production aimed at the younger workforce and the benefits for them.

2.65 Contributions have no impact on state pension as the Council would not let an employee drop below the level of NI contributions to impact on their state pension accrual.

2.66 Stockton make saving in NI costs through the scheme and professional fees are paid to AVC Wise out of the employer NI savings; if no one joins the scheme then no fee would be paid.

ISIO Pension Management Service

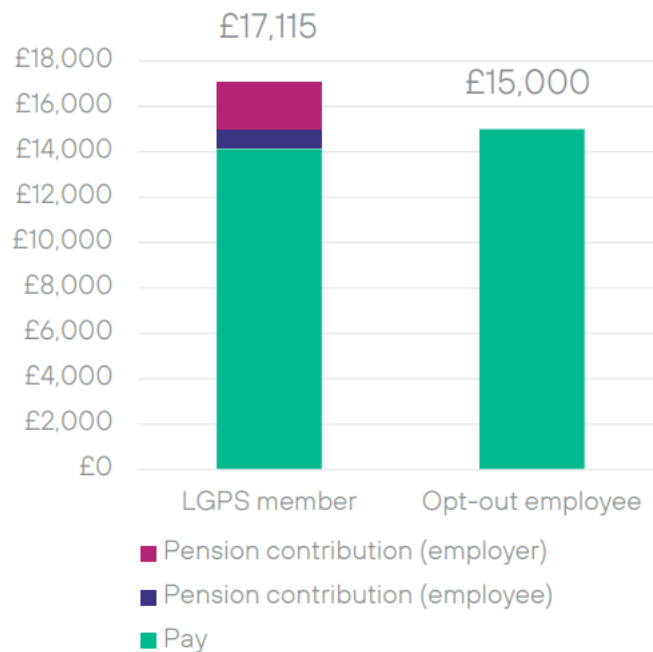
2.67 This section summarises the information provided by ISIO Pension Management Services including information on the take up of the LGPS across the SBC Workforce. The full presentation is attached at **Appendix A** setting out a detailed breakdown of the SBC workforce against take up of the LGPS.

2.68 An inclusive pensions strategy would aim to deliver, within an agreed budget, an evenly distributed benefit to all groups of employees. Benefit in this case could be considered a combination of the level, form, timing, accessibility and appreciation of the pension (or alternative). Inclusive pensions aim to give all employees access to the same benefits and where this is not achieved, it is justified so that it is considered fair by all stakeholders. Where the pension scheme does not meet the needs particular staff groups, the Council could consider non-pension benefits such death benefits or workplace savings

2.69 Possible objectives in relation to pension provision for employees might include:

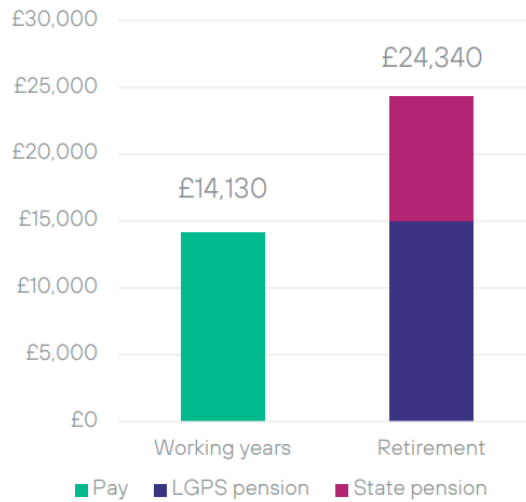
- Meeting employees needs
- Giving employees choice
- Being an inclusive employer
- Improving recruitment, retention and motivation
- Managing cost and risk

2.70 The following table illustrates how staff who opt out of the LGPS have lower total reward as well as missing out on important death and ill health benefits.



Where the LGPS may not meet the Council’s objectives

2.71 The following graph illustrates how lower earners with long service can end up with significantly higher income in retirement than when working:



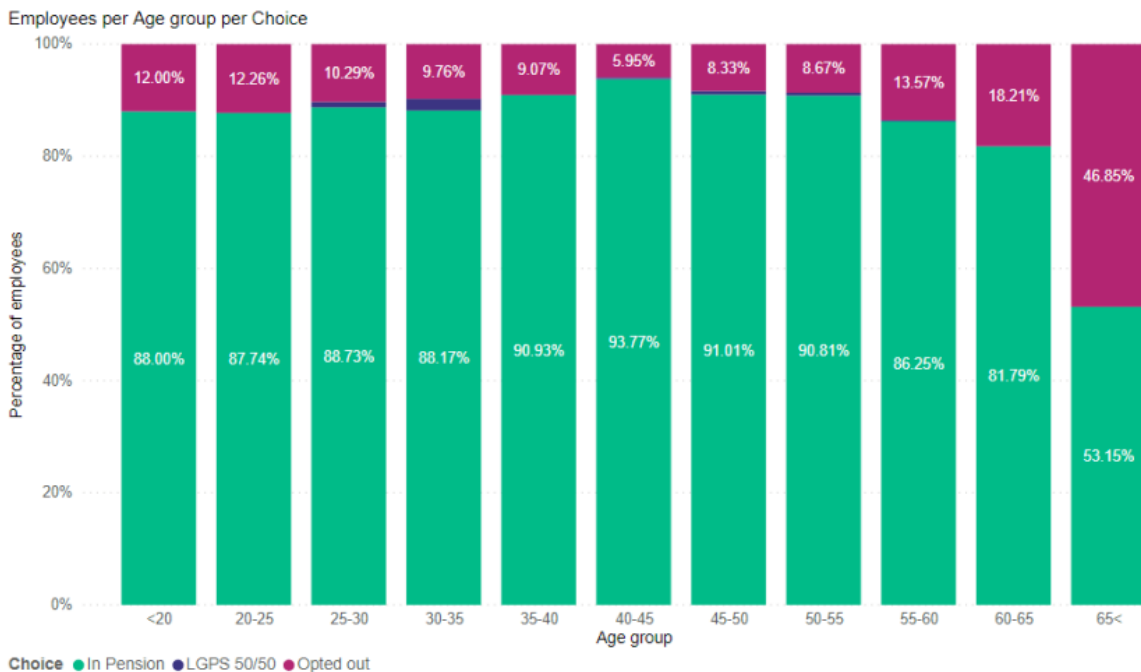
2.72 In addition, LGPS may not meet the Council’s objectives for younger staff members where there may be other priorities on their finances.

2.73 Similarly, with younger members, new hires may not appreciate the value of LGPS members. If a member opted out initially, it may be financially harder for them to join in the future.

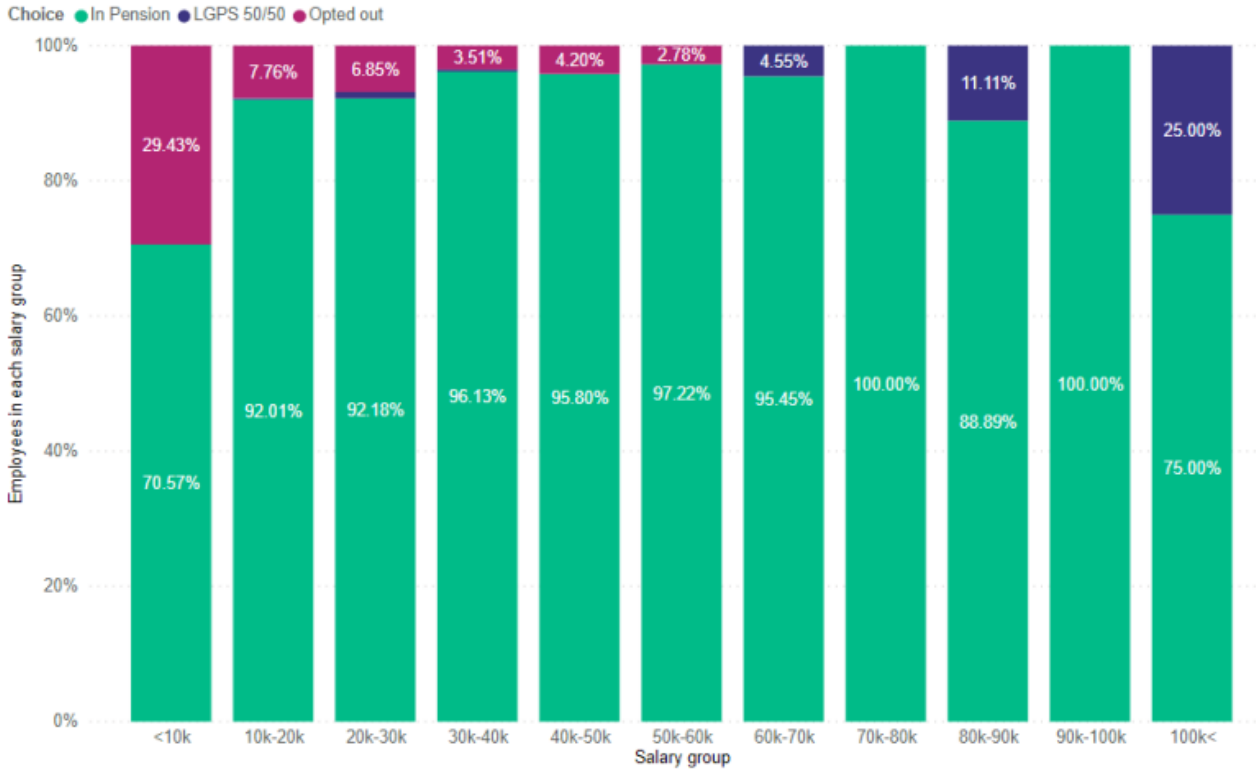
2.74 Tax changes can also be difficult to predict before they are incurred for higher earners, which can lead to dissatisfaction and turnover of senior employees.

Analysis by Age, Salary and Contract Type

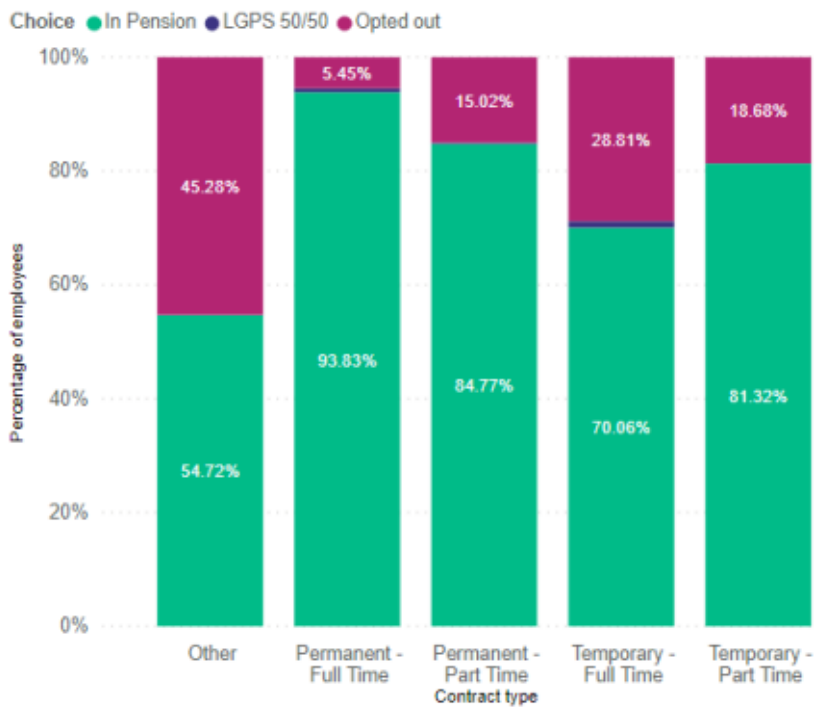
2.75 The following graphs illustrate that take up is lower in younger age groups and in respect of lower earners and take up is higher where staff are on permanent contracts.



Employees Choice per Salary group

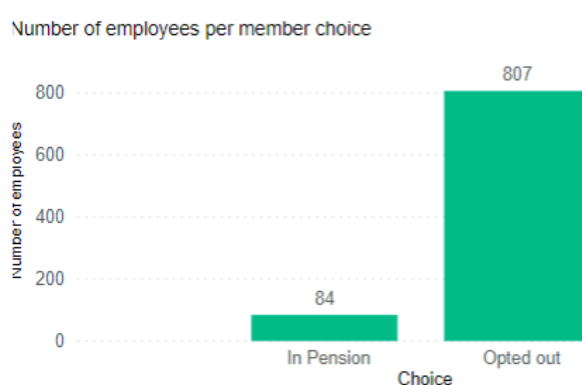
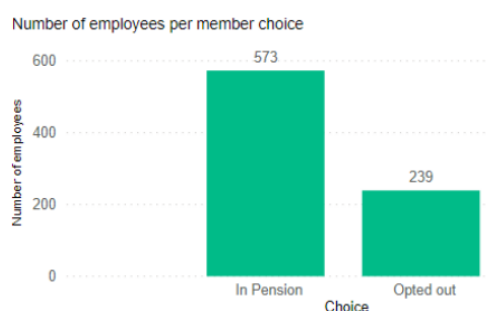


Employees per contract type and choice



Analysis by Employees earning less than £10,000pa and on Casual Contracts

2.76 The following graphs illustrate that take up is low for employees earning less than £10,000 and significantly lower for staff on casual contracts.



ISIO Recommendations

2.77 ISIO recommended that the Council should confirm its objectives then consider and investigate the findings of the workforce analysis before looking at alternatives:

- Revisit, confirm and prioritise objectives
- Confirm and review policies relating to casual employees
- Investigate how LGPS 50:50 might be used to better meet employee needs
- Consider actions to close the gap between total benefits different groups of employees, including low earners, younger employees, casual and part-time staff
- Alternative analysis will be needed to understand how members 'feel' about their LGPS pension

Feedback from other North-East Councils

2.78 A survey was carried out of other North-East Councils to ascertain:

- Their LGPS opt out rates
- How the Scheme was promoted to their staff
- Whether alternative 'savings' schemes or life insurance options were offered to staff

2.79 Four responses were received. The responses revealed a similar opt out rate to Stockton employees; promotion of the Scheme took place through staff induction and website and two Councils offered AVC payroll deductions.

Feedback from Staff Survey

2.80 As part of the review, an internal-staff consultation was undertaken to help understand what all staff thought about pensions. A full copy of the feedback is attached at **Appendix B**.

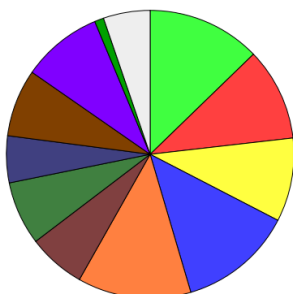
2.81 The survey was open to all, whether they were a member of the scheme or not, with feedback helping to inform the scrutiny review. The consultation involved an online questionnaire available between October and December 2021. This was promoted in KYIT, the Council's weekly staff newsletter, and via emails to staff. Activity resulted in a total sample size of 321 responses (296 from members of the scheme and 25 from non-members). All responses to the survey were completely anonymous.

2.82 Where staff were already a member of the Scheme, they were asked to indicate if they needed more information. 81% of staff responding indicated that they needed to know more about aspects of the scheme with the highest answer "how the scheme works":

Member-yes

Question responses: 260 (81.00%)

Do you feel you need to know more about any of the following? Tick all that apply:



	% Total	% Answer	Frequency	Count
How the scheme works	12.76%	13.47%	46.11%	148
Additional Pension Contributions	10.43%	11.01%	37.69%	121
Additional Voluntary Contributions	9.40%	9.92%	33.96%	109
Early retirement	12.84%	13.56%	46.42%	149
Flexible retirement	12.76%	13.47%	46.11%	148
Ill health retirement and redundancy	6.47%	6.82%	23.36%	75
Lifetime allowance	7.16%	7.55%	25.86%	83
Death grants	5.26%	5.55%	19.00%	61
50 50 selection	7.59%	8.01%	27.41%	88
85-year rule	9.05%	9.55%	32.71%	105
Other, please state	1.03%	1.09%	3.74%	12
[No Response]	5.26%	--	19.00%	61

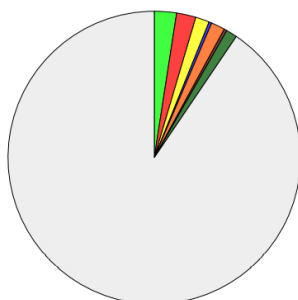
2.83 Of the staff that ticked "other", nine responses were additional comments in relation to lack of understanding of the scheme or specific queries, one response was about the need for easier to understand information including the Annual Benefit Statement and one response was a comment that single parents could not benefit from the scheme in the same way that other members could.

2.84 Where staff were not members of the Scheme, they were asked to indicate why. A range of reasons were cited with the top answer being affordability.

member-no

Question responses: 25 (7.79%)

Please tell us why by ticking any that apply:



	% Total	% Answer	Frequency	Count
I can't afford the contributions	2.45%	25.81%	2.49%	8
I am not in a permanent position	2.14%	22.58%	2.18%	7
I have a private pension	1.53%	16.13%	1.56%	5
I will not be remaining in Local Government	0.31%	3.23%	0.31%	1
I will think about pensions when I get older	1.53%	16.13%	1.56%	5
I don't understand the benefits	0.31%	3.23%	0.31%	1
Other (please state)	1.22%	12.90%	1.25%	4
[No Response]	90.52%	--	92.21%	296
Total	100.00%	100.00%	0%	327

2.85 Of the staff that ticked “other”, two were too old to join to the scheme, one was a new starter waiting to be added and one was already retired and was now working on casual basis.

Other Comments

2.86 At the end of the survey all staff responding were invited to make additional comments. There were 59 responses. The responses often revealed a lack of understanding about the scheme and the top response was for more/ better information:

- Need for more / better information (including comments about avoiding jargon, using plain English and not being able to understand the Annual Benefit Statement) 25
- Can't afford to pay the contributions/ contributions should be more flexible/ Council should pay more 7
- Lack of response to queries asked of the Pensions Unit 7
- Need to do more to encourage people to join (including comments about running seminars and encouraging young people to join) 6
- Dissatisfaction with changes/ perceived changes in pension rules over recent years 5
- Positive comments about Scheme 3
- Additional specific queries 3
- Positive comments about recent AVC Wise presentations 1
- Request for more digital resources 1
- Comment that single parents are disadvantaged by scheme rules 1

Key Findings

The Scheme

- The LGPS is a national scheme with the rules of the scheme contained in statutory regulations. Payment of benefits to scheme members is guaranteed by law
- The LGPS is a defined benefit scheme based upon the amount of money a person is earning by the time they come to retire in conjunction with the number of years of scheme membership. Benefits are derived from a final salary scheme (for service before 1 April 2014) and a CARE scheme (Career Average Revalued Earnings) scheme (for service after 1 April 2014)
- Recognised benefits include:
 - The employer shares the cost – employers contributions are significantly higher than those paid by scheme members
 - Life cover of three years' pay and other death benefits
 - Tax relief on all contributions - even on extra payments to top up pension
 - A pension for life with an option to convert some of it to a tax-free lump sum
 - No hidden fees or charges
 - Two years membership is all that is needed to build up a pension
 - No investment risk and a guaranteed package of benefits
 - Ill health protection
 - Redundancy protection
 - Flexible retirement option
 - Index linked pension increases
- Staff are auto enrolled if they have a contract of employment that is for at least 3 months and are under age 75
- The amount of contributions that an employee pays will depend upon their pensionable earnings. For part time workers, contributions are based on actual earnings

- The LGPS offers the flexibility to pay half the normal contribution rate and build up half the normal pension whilst retaining full life and ill-health cover. This is called the 50/50 section
- The nomination form for death in service grant is available on the website and promoted at staff awareness sessions; staff are also encouraged to review this annually. Despite this, only small numbers of scheme members have completed the form
- In other North-East Council's, pension opt out rates are similar to Stockton's

Additional Voluntary Contributions (AVCs)

- The Council decided to contribute to a Shared Cost AVC (SCAVC) scheme for Council staff under the LGPS Regulations 2013
- Under the shared cost AVC, employees can save on both income tax and national insurance contributions (12% or 2%) on the value of the salary sacrifice
- The SCAVC enables employees to have an efficient way of taking their pot at retirement, including a tax-free lump sum
- AVC Wise run a number of webinars to communicate the benefits to the workforce; a web-based knowledge hub hosting videos and an online calculator which assumes a cautious 3% growth rate
- Scheme members can change their contributions as often as they need
- The Council makes saving in NI costs through the scheme and professional fees are paid to AVC Wise out of the employer NI savings; if no one joins the scheme then there is no fee
- The majority of AVC scheme members are upwards of 45 years and a presentation is in production aimed at the younger workforce and the benefits for them
- Contributions have no impact on state pension as the Council would not let an employee drop below the level of NI contributions to impact on their state pension accrual

Workforce Analysis

- Staff who choose not to be in the Scheme do not benefit from any employer's contributions, have lower total reward and miss out on important death and ill health benefits
- Lower earners with long service can end up with significantly higher income in retirement than when working
- New hires may not appreciate the value of LGPS membership and if an employee is not auto enrolled or opts out initially, it may be harder for them to join in the future
- For high earners, tax charges can be difficult to predict before they are incurred and this can lead to increased dissatisfaction and increase turnover of senior employees
- Affordability is the main issue. Low earners and staff on part time contracts are more likely to opt-out of the pension scheme and staff on casual contracts are much more likely to opt out (90%)
- Where the pension scheme does not meet the needs particular staff groups, the Council could consider non-pension benefits such death benefits or workplace savings

Staff Survey

- Feedback from staff in the Scheme reveals a general lack of understanding of the scheme and a desire for more / better information in plain English. Many comments refer to the Annual Benefit Statement being confusing
- The top two reasons that staff give for not joining the pension scheme are affordability and not being on permanent contracts

Conclusion

It is vitally important that all staff make appropriate provision for their retirement. The Local Government Pension Scheme is an excellent pension scheme, guaranteed by law, where members benefit from significant employer contributions, tax relief on contributions, death benefits, a tax-free lump sum and an index linked pension on retirement. In addition, the Council has decided to contribute to a Shared Cost AVC scheme providing employees with an additional way of boosting their pension pot and further saving for their retirement.

The Task and Finish Group recognise that affordability is the main barrier for employees not taking advantage of the benefits provided by the Scheme. However, a better understanding of the scheme and its benefits and flexibilities would enable employees to make more informed decisions. This could include wider awareness of the 50/50 section enabling staff to benefit from important death benefits and begin to make provision for retirement with reduced contributions.

The staff survey revealed a widespread lack of understanding about the Scheme and many comments about the complexity of the information provided and lack of clarity. The Task and Finish Group urge the Teesside Pensions Fund to review the information it provides to ensure that it is in plain English and easy to understand and recommends that the information the Council sends to new starters on membership and benefits of the LGPS is also reviewed.

We hope our recommendations will raise awareness of the benefits of the Scheme, help employees to make better informed choices and improve take-up.

Recommendations

1. That an ongoing programme of awareness raising be established to encourage take-up of the Pension Scheme including:
 - promotion of the scheme to younger members of staff
 - increasing awareness of options contained in the Scheme (such as 50/50 section, allowing staff to benefit with reduced contributions)
 - emphasising that scheme members benefit from significant employer contributions
2. That the information the Council sends to new starters on membership and benefits of the LGPS be reviewed.
3. That the Council liaise with Teesside Pension Fund to:
 - urgently review the quality of the information provided to staff to ensure that it is both comprehensive and in plain English (including improvements to the presentation of the information contained in the Annual Benefit Statement)
 - develop a range of promotional materials in an easy-to-understand format
4. That Middlesbrough Borough Council be requested, as the administering Authority, to include in any future contract for the administration of the Pension Scheme, a requirement for information and promotional material to be clear and easy to understand.
5. That Human Resources review the use of temporary employment contracts with each Directorate to determine whether a permanent contract could be more appropriate (as this change would result in more employees being auto enrolled into the scheme).

Glossary

AVCs	Additional Voluntary Contributions
CARE	Career Average Revalued Earnings
CPI	Consumer Price Index
HMRC	Her Majesty's Revenue and Customs
LGPS	Local Government Pension Scheme
LTA	Lifetime Allowance
MSS	Member Self Service
NEREO	North-East Regional Employers' Organisation
NPA	Normal Pension Age
SCAVCs	Shared Cost Additional Voluntary Contributions