

Public  
Key Decision – No

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title:** Pensions Policy + Discretions

**Meeting/Date:** Employment Panel  
01 July 2014

**Executive Portfolio:** Resources: Cllr Jonathan Gray,

**Report by:** Head of Resources

**Ward(s) affected:** All Wards

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**Executive Summary:**

Due to a fundamental change in the Local Government Pension Scheme, in that from 1<sup>st</sup> April 2014 the basis of the scheme is required to be based on “career average”, it is essential that the Council’s Pensions Policy and local Discretions Policy are reviewed and agreed.

**Recommendation(s):**

That the Employment Panel agree:

- the Councils Pension Policy and the local discretions, attached at Annex 1.
- that the Policy should be reviewed on an annual basis to ensure affordability.

## **1. INTRODUCTION**

- 1.1 Employees working within local government have access to the Local Government Pension Scheme (LGPS). Prior to this financial year the pension scheme was based on final salary; however from the 1<sup>st</sup> April 2014 the scheme is now a defined benefit scheme based on career average. To ensure compliance with the regulations, it is strongly recommended that the Council is required to have in place a Pensions Policy. In the main, this was set prior to April 2014 however what is now required is the approval of a local Discretions policy.

## **2. BACKGROUND**

- 2.1 On a periodic basis the Council reviews its Pension Policy, which includes relevant local discretions. Most of the requirements of the policy have already been set, however the new LGPS requires formal approval of the Councils local Discretions Policy.

## **3. CHANGE TO THE PENSION SCHEME**

- 3.1 The change from a defined benefits “final salary” to “career average” scheme is a fundamental change in the LGPS. As well as the change in the type of scheme, there are some other changes that Members should be aware of:

### **Significant Changes in the Pension Policy**

- 3.2 The revised Pensions Policy is attached at Annex 1. Significant elements of the Policy are tied into the assumptions that underpin the Triennial Valuation (such as the contribution rates) and are set for 3 years. However, members should also note the other significant changes affecting the Policy, there are shown below:

#### Pension Policy: Non-contractual overtime

Non-contractual overtime is now pensionable as it is a benefit that an employee receives in the conduct of their duties and “adds” to their average pay. Under a final salary scheme non-contractual overtime would add no benefit as the scheme was literally based on contractual benefits (see para 2.3 of Annex 1)

#### Pensions Policy: 50/50 Section

This allows members (existing and new) who can't afford the full scheme to contribute to a pension on 50% benefit / 50% contribution basis (except for death in service or ill health retirement where they benefit from 100% of benefit). This change could be used as a recruitment and retention tool.  
(see section 3.1 of Annex 1)

#### Regulatory Change: Refund of contributions

Under the previous scheme, contribution could be refunded from 3 months, this is now 2 years.

### **Changes in Local Discretions**

- 3.3 Section 8 of the Pension Policy is in respect of Local Discretions, these are detailed at Appendix 2 of Annex 1, a summary of each and the justification for the recommendation is shown below:

Discretion	The Discretion	Recommendation	Justification for Recommendation
1.	<b>Granting additional pension</b> to an active scheme member or to a leaver within 6 months of termination.	No additional pension to be awarded.	Additional cost.
2.	<b>Funding of voluntary additional pension</b> contributions by making Shared Cost Additional Pension Contributions.	No additional pension to be awarded.	Additional cost.
3.	<b>Flexible Retirement</b> i.e. where a person reduced their working hours and elects to take their benefits early	<ol style="list-style-type: none"> <li>1. On a temporary basis, not to consent if there is an “net” additional cost to the Council.</li> <li>2. Consideration to be given to the development of a formal “flexible retirement policy” in the interests of balancing reducing costs/retaining skills and knowledge.</li> </ol>	<ol style="list-style-type: none"> <li>1. Additional cost.</li> <li>2. To develop a single purpose policy reflecting the potentially new mix of the Councils workforce.</li> </ol>
4.	<b>“Switching on” 85 Year Rule Protection</b>	<ol style="list-style-type: none"> <li>1. Each case will be considered on its merits.</li> <li>2. By the Council having the option to “switching on” the 85 year rule gives the Council an avenue to manage staff retention.</li> </ol>	Allowing the Council flexibility in its decision in each case to enable it to maximise business advantage to allowing “switch on”.

Discretion	The Discretion	Recommendation	Justification for Recommendation
5A	<p><b>Waiving all or part of an actuarial reduction</b>, where:</p> <p>Active members voluntarily retiring on or after age 55 but before their normal pension age who elect to immediately draw benefits, and for deferred members and suspended tier 3 ill health pensioners who elect to draw benefits (other than on ill health grounds) on or after age 55 but before their normal pension age</p>	<p>This is dependent on the grounds of “compassion”. If consideration is given:</p> <ol style="list-style-type: none"> <li>1. Each case will be considered on its merits.</li> <li>2. A review of such applications takes place each year to assess the financial impact and sustainability of this discretion going forward.</li> </ol>	<p>Allowing the Council flexibility in its decision in each case to enable it to maximise business advantage to allowing “waiving of actuarial reduction”.</p>
5B	<p>Similar to 5A above but technical difference in relation to those employees who have 85 year protection but who at the point of voluntarily retiring have not satisfied the 85 year rule</p>	<p>As 5A, but reflecting the impact of the 85 rule.</p>	<p>As 5A, but reflecting the impact of the 85 rule.</p>
6	<p><b>Whether, how much, and in what circumstances to contribute to a shared-cost Additional Voluntary Contribution (SCAVC) arrangement</b></p>	<p>The Council does not contribute to any shared cost AVC.</p>	<p>Additional cost.</p>

Discretion	The Discretion	Recommendation	Justification for Recommendation
7	<p><b>Whether, with the agreement of the Pension Fund administering authority, to permit a Scheme member to elect to transfer other pension rights into the LGPS if he / she has not made such an election within 12 months of joining the LGPS</b></p>	<ol style="list-style-type: none"> <li>1. The new Pensions policy (section 6) requires employees to make an election within 12 months. No reason foreseen to publish otherwise as systems and policy in place to advise employees of time limit and accepting a late application could result in additional cost to the Council.</li> <li>2. However, late applications will be considered on a case-by-case basis providing there is no additional cost to the Council and that the Pension Fund is in agreement.</li> </ol>	<p>Elections within 12 months acceptable</p> <p>And elections after 12 months acceptable providing no additional cost to the Council</p>
8	<p><b>Whether to extend the 12 month time limit within which a Scheme member who has a deferred LGPS benefits in England or Wales following the cessation of employment.</b></p>	<ol style="list-style-type: none"> <li>1. The new Pensions policy (section 6) requires employees to make an election within 12 months. No reason foreseen to publish otherwise as systems and policy in place to advise employees of time limit and accepting a late application could result in additional cost to the Council.</li> <li>2. However, late applications will be considered on a case-by-case basis providing there is no additional cost to the Council.</li> </ol>	<p>Elections within 12 months acceptable</p> <p>And elections after 12 months acceptable providing no additional cost to the Council</p>

Discretion	The Discretion	Recommendation	Justification for Recommendation
9	<p><b>How the pension contribution band to which an employee is to be allocated on joining the Scheme, and at each subsequent April, will be determined and the circumstances in which the employer will, in addition to the review each April, review the pension contribution band to which an employee has been allocated following a material change which affects the member's pensionable pay in the course of a Scheme year</b></p>	<p>The Pensions policy (section 2) explains how employee's contribution bands are assessed.</p>	<p>Rates are set by statute to give an average contribution rate of 6.5%.</p> <ul style="list-style-type: none"> <li>• Employees will be assigned based on: <ul style="list-style-type: none"> <li>○ Base salary for the forthcoming year.</li> <li>○ Fixed allowances and payments</li> <li>○ Pro-rata salary.</li> </ul> </li> <li>• One off payments will be excluded.</li> <li>• Where an employee's mid-year commences/ceases undertaking work, the employee's banding will be reassessed.</li> <li>• Contractual changes will trigger banding reassessment.</li> <li>• Where an employee has multiple employments, each one will be assessed separately.</li> </ul>

Discretion	The Discretion	Recommendation	Justification for Recommendation
10	<p><b>Whether or not, when calculating assumed pensionable pay when a member is:</b></p> <ul style="list-style-type: none"> <li>- on reduced contractual pay or no pay on due to sickness or injury, or</li> <li>- absent during ordinary maternity, paternity or adoption leave or during paid additional maternity, paternity or adoption leave, or</li> <li>- absent on reserve forces service leave, or</li> <li>- retires with a Tier 1 or Tier 2 ill health pension, or</li> <li>- dies in service</li> </ul> <p>to include in the calculation the amount of any 'regular lump sum payment' received by the member in the 12 months preceding the date the absence began or the ill health retirement or death occurred. A 'regular lump sum payment' is a payment for which the member's employer determines there is a reasonable expectation that such a payment would be paid on a regular basis.</p>	<p>Does not include lump sum payment for periods of absence.</p> <p>Gives consideration to including regular lump sum payments for ill health retirement and death in service, with the primary criteria being whether it could reasonably be expected that the member would have been likely to receive that regular payment for the foreseeable future.</p> <p>It is recommended that all decisions are approved by the Head of Resources and guidance is taken from LGSS Pensions.</p>	<p>Any decision as to whether or not to include in the calculation of a scheme member's assumed pensionable pay the amount of any 'regular lump sum payment' received by the member in the 12 months preceding the date the absence began or the ill health retirement or death occurred would need to be fair, equitable and justifiable.</p>

<b>Discretion</b>	<b>The Discretion</b>	<b>Recommendation</b>	<b>Justification for Recommendation</b>
<b>Existing Employer Discretions, to be included in the Revised Local Discretions Policy</b>			
	<b>Forfeiture of Pension Rights</b> ....committed an offence that was gravely injurious to the State etc.	The Council will consider each case on its merits.	Equitable consideration.
	<b>Recovery or retention where former member has misconduct obligation</b> ....seeking monetary obligation out of the pension fund due to criminal, negligent or fraudulent acts.	The Council will consider each case on its merits.	Equitable consideration.
	<b>Tier 3 Ill Health Retirement (1)</b> ....if a person commences employment after being in receipt of Tier 3 ill health pension [regulation 37 (3) & (4)]	Assumption should be that recovery will be made in each case as the member is required to notify the Council of any employment, however cases will be considered on their merits.	Equitable consideration.
<b>Existing Employer Discretions Removed</b>			
	<b>Power of employer to increase total membership – Augmentation</b>	The facility for employers to grant extra 'augmented' membership of the Pension Scheme ceased after 31 March 2014.	Statutory removal.
	<b>Early Voluntary Retirement before 60</b>	This discretion has been superseded.	See earlier early retirement discretions.





3.4 The Pensions Policy will be reviewed on an annual basis to ensure affordability.

**4. LEGAL IMPLICATIONS**

There are no direct legal implications.

**5. RESOURCE IMPLICATIONS**

The implications in respect of the new Pension Scheme are built into the 2014/15 budget. With the recommendation to review the local discretions on an annual basis, this review will take place during the budget preparation process so the most affordable policy is approved prior to the new financial year.

**BACKGROUND INFORMATION**

LGSS Policy Team

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