

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Committee/Panel:	Employment in Hampshire County Council
Date:	12 March 2014
Title:	Local Government Pension Scheme 2014
Decision Reference:	5694
Report From:	Director of Corporate Resources

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1.0 Executive summary

- 1.1 The purpose of this paper is to:
- Inform on the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014
 - Seek EHCC approval of proposed policy statements in relation to the employer discretions stipulated within the LGPS 2014 regulations.

2.0 Contextual information

- 2.1 The LGPS Regulations 2014 are effective from 1 April 2014 and introduce a number of changes to the scheme. The main changes are:
- Basis of pension will be Career Average Revalued Earnings (CARE) – members will build up a pension each year for each pensionable employment held which is added to their Pension Account
 - An increased accrual rate of 1/49th from the current rate of 1/60th.
 - Normal pension age aligned with the member's State Pension Age (it is currently 65).
 - New definition of pensionable pay to include non-contractual overtime and additional hours for part time staff.
 - Contribution rates based on actual pay instead of, as now, Full Time Equivalent.
 - Revised contribution bands resulting in contribution increases for members' earning more than £43,000.
 - A new 50/50 option giving a choice to pay half contributions for half rate accrual (1/98th).
 - Option for leavers to elect for required payment from age 55

onwards without the need for employer's consent.

- Qualifying period for benefits will increase from 3 months to 2 years – if a member leaves the scheme within 2 years of joining they will receive a refund of contributions made

A communication programme about the scheme changes was begun in January 2014, and Hampshire Pension Fund has also updated members directly.

- 2.2 All pension built up before 1 April 2014 is fully protected and therefore, when a member leaves, all membership up to 31 March 2014 will be calculated using the final salary. For those members who have an existing rule of 85 protection, this will continue in the new scheme and will automatically be applied to their benefits.
- 2.3 For members within ten years of age 65 as at 1 April 2012 there will be an 'underpin', dependent on fulfilling certain criteria.
- 2.4 Councillor members already contribute to a career average scheme, under the 1997 LGPS regulations. The Government is yet to make a decision on whether Councillors will continue to have access to the LGPS after 31 March 2014, and whether this would be a continuation of the existing scheme or whether Councillors would transfer to the LGPS 2014.
- 2.5 LGPS regulations give employing authorities certain discretions over the exercise of their function in the LGPS. From 1 April 2014, employers need to have two sets of discretions:
- One for members who continue in the scheme or join it from 1 April 2014
 - Another for those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014
- 2.6 The LGPS 2014 Regulations stipulate the requirement for a policy statement in relation to the discretions in four areas:
- Funding of additional pension
 - Flexible retirement
 - Waiving actuarial reduction
 - Award of additional pension
- 2.7 Given the economic situation and the pressure on County Council's budgets, it is recommended that these discretions are not exercised where the County Council would incur a pension strain or other cost. It is suggested that wording of the relevant policy statements are strengthened to make this clear.

3.0 Considerations

- 3.1 The following areas should be considered when drawing up a policy statement in relation to the discretions:

- Employer circumstances – the policy should reflect the membership, budgetary constraints and nature of the business
- ‘Fettering’ – the policy should not be unnecessarily restrictive
- Anti-discrimination laws – the policy must not be discriminatory in any way

4.0 Proposed policy statements

4.1 **Appendix 1** provides a summary of the current compulsory and optional discretionary areas relating to the 2008 scheme, HCC’s current policy and the impact of LGPS 2014 regulations.

4.1 A proposed policy statement for those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014 is shown in **Appendix 1**. The discretions and their source Regulation have been added in, bringing this statement into line with the Pension fund model.

4.2 Under LGPS 2014, some of the existing discretions under the 2008 scheme fall away and others are replaced by identical or similar provisions. Proposed policy statements in respect of the new discretions for members who continue in the scheme or join it from 1 April 2014 are shown in **Appendix 1**.

4.3 Employer impacts

4.4 Much work will need to be done by employers and the Pension Fund to prepare for the changes being introduced by LGPS 2014. There will be additional requirements for HCC’s payroll system and technical solutions are being identified. It is anticipated that SAP will deliver some of the functionality required to deliver the new scheme rules including the 50/50 section and reporting. There is a review of wage types to simplify and identify those that need to become pensionable under the new rules. All this will be ready for 1 April 2014 go live.

4.5 There are also likely to be financial implications from complying with the new scheme. For example, there are likely to be additional employer contributions due to the inclusion of all overtime within the definition of pensionable pay. Employers have no choice in this matter. Because so many changes are being introduced at the same time it is difficult to predict costs with any accuracy, but the loss of the National Insurance rebate in 2016 is likely to add £6m to the County Council’s paybill.

5.0 Recommendations

5.1 EHCC are asked to:

- a) Note the changes to the Local Government Pension Scheme (LGPS) from 1 April 2014
- b) Approve the proposed policy statements for:
 - those who stopped contributing to the LGPS between 1 April

2008 and 31 March 2014 (**Appendix 1**)

- members who continue in the scheme or join it from 1 April 2014 (**Appendix 1**)

Appendix 1 Summary of the discretionary areas, HCC’s current policy under the 2008 scheme, the impact of LGPS 2014 regulations, and proposed HCC policy statements going forward.

	Current Discretion	HCC’s Current Policy under LGPS 2008	Impact of LGPS 2014	Proposed HCC Policy For those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014	Proposed HCC Policy For members who continue in the scheme or join it from 1 April 2014
Compulsory					
1	Power to increase total membership of active members (LGPS 2008 Regulation 12)	It will not consider increasing total membership.	Discretion no longer available	N/A	N/A
2	Award of additional pension (LGPS 2008 Regulation 13/ LGPS 2014 Regulation 31)	It will not consider awarding an additional amount of pension. However, if you are retired in the interests of the efficiency of the service it will consider buying you additional pension in the Local Government Pension Scheme using an amount no greater than the payment you would have received had you been made redundant. There may be tax implications associated with this.	Discretion unchanged	It will not consider buying you additional pension. However, if you are retired in the interests of the efficiency of the service it will consider buying you additional pension in the Local Government Pension Scheme using an amount no greater than the payment you would have received had you been made redundant. There may be tax implications associated with this.	It will not consider buying you additional pension. However, if you are retired in the interests of the efficiency of the service it will consider buying you additional pension in the Local Government Pension Scheme using an amount no greater than the payment you would have received had you been made redundant. There may be tax implications associated with this.
3	Flexible retirement (LGPS 2008 Regulation 18 (1) and (3)/ LGPS 2014 Regulation 30(6))	It may consent to pension benefits being paid under the flexible retirement policy to an employee over the age of 55, who requests this, provided	Discretion unchanged	N/A <i>(not relevant to non active members)</i>	It may consent to pension benefits being paid under the flexible retirement policy to an employee over the age of 55, who requests this, provided

	Current Discretion	HCC's Current Policy under LGPS 2008	Impact of LGPS 2014	Proposed HCC Policy For those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014	Proposed HCC Policy For members who continue in the scheme or join it from 1 April 2014
		<p>their remuneration is reducing by 40 per cent through either a reduction in contractual hours or grade or the reduction is less than 40% and does not incur a Pension Fund charge.</p>			<p>their remuneration is reducing by 40 per cent through either a reduction in contractual hours or grade or the reduction is less than 40% and does not incur a Pension Fund charge. Employees should note that the final decision whether to allow flexible retirement is at the sole discretion of the County Council as the employer.</p>
4	<p>Choice of early payment of pension (LGPS 2008 Regulation 30 (2))</p> <p>Waiving of actuarial reduction (LGPS 2014 Regulation 30(8))</p>	<p>It may consent to immediate payment of benefits to an employee who requests this and retires voluntarily between age 55 and 60.</p> <p>In exceptional circumstances the waiving of any reduction in benefits under the LGPS's 'rule of 85' will also be considered.</p> <p>It will pay preserved benefits without reductions to an ex-employee over age 55, on compassionate grounds.</p>	<p>Discretion falls away under LGPS 2014, because leavers can request payment of benefits from age 55 onwards without the need for employer's consent. But it would still be a discretion to waive any actuarial reduction, and also whether to allow protections under the 85 year rule to apply. Discretion unchanged for pre 1 April 2014</p>	<p>It will not consent to immediate payment of benefits to an employee or ex-employee who requests this and retires voluntarily between age 55 and 60, unless there is no cost to the employer.</p>	<p>It will not consent to waive any of the actuarial reduction applicable to an employee who retires voluntarily between age 55 and Normal Pension Age.</p> <p>It will not consent to ex- employees taking deferred benefits early unless there is no cost to the employer.</p> <p>It will not permit unreduced benefits for employees</p>

	Current Discretion	HCC's Current Policy under LGPS 2008	Impact of LGPS 2014	Proposed HCC Policy For those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014	Proposed HCC Policy For members who continue in the scheme or join it from 1 April 2014
		Serving employees can apply for this before leaving.	leavers.		voluntarily retiring between age 55 – 59.
5	Funding of additional pension contributions (LGPS 2014 Regulation 16(2)(e) and 16(4)(d))	N/A	New discretion under LGPS 2014	N/A	It will only contribute to the cost of a member's additional pension contributions where required to do so under the LGPS Regulations. Where a member is voluntarily making additional pension contributions, it will not consider meeting any part of that cost.
Optional					
6	Aggregation of previous periods of membership (Administration Regulation 16)	It will only accept elections to combine pension rights from previous local government employment with a current period of membership, which are made within 12 months of re-joining the scheme, except for those members who hold certificates of protection.	Discretion slightly changed, aggregation is automatic unless a member opts out within 12 months.	N/A <i>(not relevant to non active members)</i>	It will only accept elections <i>not</i> to combine pension rights from previous local government employment with a current period of membership, which are made within 12 months of re-joining the scheme.
7	Transfers of pension rights (Administration Regulation 83 (8))	It will only accept the election for transfer of pension rights from an external pension provider into the LGPS if this	Discretion unchanged	N/A <i>(not relevant to non active members)</i>	It will only accept the election for transfer of pension rights from an external pension provider into the LGPS if this

	Current Discretion	HCC's Current Policy under LGPS 2008	Impact of LGPS 2014	Proposed HCC Policy For those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014	Proposed HCC Policy For members who continue in the scheme or join it from 1 April 2014
		election is made within 12 months of the member joining the LGPS.			election is made within 12 months of the member joining the LGPS.
8	Other discretions	It will base any redundancy payment due to you on your actual weekly rate of pay (rather than the current statutory maximum) and on your years of continuous local authority service (there are specific arrangements for calculating this if you have more than one job with the Council). The part of your redundancy payment that relates to earnings in excess of the statutory maximum can be used to buy additional service in the Local Government Pension Scheme. This option is only open to you if you request it before your employment ceases. You should note that there may be tax implications.	Discretion unchanged	N/A <i>(not relevant to non active members)</i>	The part of your redundancy payment that relates to earnings in excess of the statutory maximum can be used to buy additional service in the Local Government Pension Scheme. This option is only open to you if you request it before your employment ceases. You should note that there may be tax implications.

Agenda item: 6

	Current Discretion	HCC's Current Policy under LGPS 2008	Impact of LGPS 2014	Proposed HCC Policy For those who stopped contributing to the LGPS between 1 April 2008 and 31 March 2014	Proposed HCC Policy For members who continue in the scheme or join it from 1 April 2014

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because employers are required to formulate, publish and keep under review a policy statement in relation to the exercise of a number of discretions under the LGPS. EHCC Committee agreement of the policy to be effective from 1 April 2014 is therefore sought.

Other Significant Links

Links to previous Member decisions:

<u>Title</u>	<u>Reference</u>	<u>Date</u>
Employer discretionary policies		23 July 2008
Employer discretionary policies		17 April 2008

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1 There are no equality implications as the paper proposes a consistent approach across all grades.

2. Impact on Crime and Disorder:

2.1 Not applicable

3. Climate Change:

3.1 How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable

3.2 How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable