

# Item 3

## REPORT TO EMPLOYMENT ISSUES PANEL

7 MARCH 2006

## REPORT OF DIRECTOR OF RESOURCES

### Resource Management Portfolio

### PROPOSED CHANGES TO LOCAL GOVERNMENT PENSION SCHEME (LGPS)

#### 1. SUMMARY

- 1.1 This report advises members of the Employment Issues Panel of the proposed changes to the LGPS as set out in draft regulations issued in December 2005

#### 2. RECOMMENDATIONS

It is recommended that the Employment Issues Panel:

- 2.1 Notes the current position as detailed in this report.
- 2.2 Notes that the earliest age that an employer can agree to the release of benefits reverts back to 50 as a result of the revoked regulations and advises Cabinet that the Council's ER/VR policy should remain unaltered pending the receipt of further government changes as indicated in paragraph 4.4 of this report.
- 2.3 That Cabinet be appraised of the current situation in regard to the LGPS.

#### 3. BACKGROUND

- 3.1 During 2005 the Government introduced and subsequently revoked LGPS regulations that would have increased the reductions that apply on retirement before age 65 with effect from 1 April 2005. The revoked regulations would also have increased the earliest retirement age from the LGPS to age 55 for most scheme members.
- 3.2 Revoking the regulations imposed a cost on the LGPS as employer contributions had been set on the assumption that reduced benefits would become payable from April 2005.
- 3.3 The Government established a Tripartite Committee comprising Government, union and employer representatives and chaired by the Deputy Prime Minister to consider the long-term future of the LGPS. The Government also promised that the cost of revoking the regulations would not fall on employers or the Government.
- 3.4 In the absence of any progress by the Tripartite Committee the Local Government Association (LGA) wrote to the Deputy Prime Minister setting out suggestions for amendments to the LGPS.

3.5 The Deputy Prime Minister issued draft regulations on 5 December 2005 which, following a period of statutory consultation ending 28 February 2006, are expected to come into force in April 2006.

#### 4. DETAILS OF PROPOSED CHANGES

4.1 The 'rule of 85', which currently allows individuals to take benefits from the scheme unreduced before age 65 provided contributory service plus age equals at least 85, will be removed for future service with effect from 1 October 2006. The Government has stated that its legal advice states that the 'rule of 85' must be removed by that date as it will not be compatible with forthcoming age discrimination legislation. The draft regulations allow some protection for those near retirement – anyone who reaches 60 by 31 March 2013 will not be affected by the removal of the 'rule of 85'. The regulations also introduce the option for members affected by the removal of the 'rule of 85' to choose a retirement age between 60 and 65 and to pay additional contributions to allow them to retire on that date with no reductions applying to their benefits.

4.2 The cost of delaying the removal of the 'rule of 85' by 18 months has been estimated to be between £520 - £590 million. The Government has proposed that this be met by allowing members to commute some of their pension to receive a larger lump sum. For each £1 of annual pension surrendered, the member will receive a lump sum of £12. Retirees will be able to take up to 25% of the capital value of their pension benefits in the form of a lump sum. It is envisaged that this proposal may recoup the cost in around 7-8 years.

4.3 Several other changes are proposed to take advantage of the new pension tax regime that will come into force 6 April 2006:

- Individuals will be able to join and remain in the scheme as active members until age 75
- The 15% limit on contributions will be removed – in future an individual's overall tax-advantaged contributions to the scheme will be restricted to 100% of earnings
- Benefits must be paid by age 75 and benefits for employees who defer drawing benefits beyond age 65 should be actuarially increased to reflect the fact that they will be paid for a lesser period of time
- The ability for a member to surrender a part of his/her pension in favour of spouse, civil partner or dependant should be removed
- The earliest age that benefits may be paid on the grounds of redundancy or efficiency, or at which an employer can agree to the early release of pension benefits, remains as age 50 (but will have to increase to 55 by 2010).
- Flexible retirement should be permitted at or after age 60, linked to a reduction in hours or grade agreed by the employer and the employer should be able to waive, in whole or in part, any actuarial reduction that would have been applied to the early payment of those benefits.
- Children's pensions coming into payment after 5 April 2006 will, for those who carry on in full time education or training for a trade, profession beyond age 17, have to cease by age 23.
- The amount of augmented membership that an employer may, in future, grant to a scheme member should have a single limit of 6 2/3<sup>rd</sup> years.
- The maximum number of added years that a scheme member should, in the future, be able to purchase should be limited to 6 2/3<sup>rd</sup> years
- Retirees should no longer be able to convert some or all of their scheme lump sum into additional pension

- 4.4 Members should particularly note that the earliest age that an employer can agree to the early release of pension benefits reverted back to 50 as a result of the revocation of previous proposals. The Council's own ER/VR policy stills refers to age 55 as the earliest time that enhanced benefits will be paid. In view of the likely announcement of further changes to government policy and the comments in Paragraphs 5.1 and 5.2, members are advised to leave the discretionary ER/VR policy unaltered at this stage.
- 4.5 The draft regulations introduce a further change not related to the cost of revocation, the removal of the 'rule of 85' or the new pension tax regime. This is a change to pension contribution during a strike. A member of the Durham fund who wants strike days to count as pensionable service will have to pay a total contribution for strike days of 19.8% as opposed to 16%.

## **5. CONSULTATION**

- 5.1 The consultation period on the draft regulations expires on 28 February 2006. Should the proposed changes be included in the amended LGPS Regulations a review of the Council's current ER/VR and 'rule of 85' policies will be required.
- 5.2 The Trade Unions which represent local government employees do not agree with the main thrust of the proposals set out in the draft regulations, particularly the abolition of the 'rule of 85'. As a result, a series of ballots for possible strike action have been arranged just prior to the end of the consultation period. Members of the Employment Issues Panel will be informed of progress at the meeting.

## **7. OTHER MATERIAL CONSIDERATIONS**

### **7.1 Links to Corporate Objectives/Values**

The contents of this report support the Council's corporate values of:

- being responsible with and accountable for public finances
- achieving continuous improvement and innovation in service delivery
- being open, accessible, equitable fair and responsive
- taking account of risk management

### **7.2 Equality and Diversity**

Every step is taken to ensure the Council's ER/VR and Rule of 85 policies are in accordance with LGPS regulations and deal with applications fairly regardless of religion, sex, race, gender etc.

### **7.3 Risk Management**

No additional implications have been identified.

### **7.4 Legal & Constitutional**

The ongoing review of the Local Government Pension Scheme, culminating in new regulations anticipated to come into force April 2006 may necessitate a further review of the Council's ER/VR and Rule of 85 policies.

## 7.5 Health & Safety

No additional implications have been identified.

No other material considerations associated with this report have been identified.

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**Wards:** Not ward specific

### **Background Papers:**

Local Government Pension Scheme (Amendment) (No.3) Regulations 2005: Consultation Draft

Early Retirement/Voluntary Redundancy Policy Review –  
Report of Director of Resources – Employment Issues Panel 24 February 2005

Early Retirement/Voluntary Redundancy Policy Review –  
Report of Director of Resources – Cabinet 17 March 2005

### **Examination by Statutory Officers**

|   | YES                                 | N/A                                 |
|---|-------------------------------------|-------------------------------------|
| 1 The report has been examined by the Councils Head of the Paid Service or his representative | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| 2 The content has been examined by the Councils S.151 Officer or his representative           | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| 3 The content has been examined by the Council's Monitoring Officer or his representative     | <input checked="" type="checkbox"/> | <input type="checkbox"/>            |
| 4 The report has been approved by Management Team   | <input type="checkbox"/>            | <input checked="" type="checkbox"/> |