

Human Resources Committee

25 September 2006

Flexible Retirement



Joint Report of Stuart Crowe, County Treasurer and Kim Jobson, Head of Human Resources, Corporate Services

Purpose of the Report

- 1 This report seeks approval for the new Flexible Retirement Policy, which is a new type of retirement that is available to individuals aged over 50 in certain circumstances with the consent of their employer.

Background

- 2 Various changes were made to the Local Government Pension Scheme regulations with effect from 6 April 2006 to take advantage of the flexibilities offered by the new pension tax regime that came into force from that date.
- 3 Before 6 April 2006 HM Revenue & Customs had in most circumstances not allowed individuals to draw their pension benefits whilst continuing in the same job. However under the new pension tax regime the rules have relaxed and it is now possible for individuals to draw their pension benefits without retiring from work provided the rules of the scheme they belong to are changed to facilitate this.
- 4 The Local Government Pension Scheme regulations have now been changed to allow this new form of 'flexible' retirement provided certain conditions are met.

Flexible retirement in the Local Government Pension Scheme

- 5 Flexible retirement is possible provided an individual is aged 50 or more and they either reduce their hours or reduce their grade. The individual also needs their employer's consent to access their pension benefits through flexible retirement.
- 6 Different early retirement reductions can apply to someone retiring under flexible retirement compared to someone retiring and leaving work completely. We have been advised by the Government Actuary's Department that where someone leaves under flexible retirement the reductions that apply to their benefits are based on the period from the date they retire up until:
 - age 65 where the member cannot meet the 85 year rule;
 - the day they meet the 85 year rule where this falls on or after age 60; and
 - age 60 where the member meets the 85 year rule before age 60

The effect of this is that even if someone meets the 85 year rule if they draw their benefits under flexible retirement before age 60 they will still have their benefits reduced to reflect their early payment. This also means that there is no 'capital cost' payable by the employer where an individual leaves under flexible retirement (a 'capital

cost' is an amount owed to the Fund by an employer where an individual leaves and draws their benefits before age 60 with employer consent).

- 7 Employers have the discretion to waive any reduction that applies to an individual's pension benefits under flexible retirement provided the employer pays an appropriate sum into the fund to allow for this.
- 8 The latest amendments to the Local Government Pension Scheme Regulations include a requirement that by 1 October 2006 each employer should have and publish a statement of their policy on flexible retirement. The regulations state that in formulating this policy an administering authority or Scheme employer "must have regard to the extent to which the exercise of the functions could lead to a serious loss of confidence in the public service."

Policy Outline

- 9 Flexible retirement can have advantages for the individual and for the Council. The individual is able to avoid a sudden switch from full-time working to retirement and can instead move into retirement more gradually. The Council can benefit from being able to retain the skills of experienced employees for longer and this will allow better succession planning. By allowing flexible retirement in appropriate circumstances the Council will be seen to be providing valuable additional options for its older workforce.
- 10 Appendix 2 is Durham County Council's Flexible Retirement Policy for consideration. The Council's policy statement on flexible retirement will be as outlined in Section 2.1 of the proposed policy. Any policy on flexible retirement should take as a starting point the requirements of the Council. If reductions in grade or hours are not compatible with the operation of the service the individual works in then flexible retirement will not be possible.
- 11 There are two possibilities when an individual is requesting flexible retirement, one is that it is linked to a reduction in grade; the other is that it is linked to a reduction in hours. For a reduction in grade to be accepted the individual will have to have their job description changed to reflect the reduced responsibilities that will go with a reduction in grade. This could only be agreed in the context of the service the individual works in, as presumably any duties the individual gives up will have to be taken on by one or more other employees, unless the demands of the service are reducing. Similarly, where a reduction in hours is proposed this needs to be assessed in light of the needs of the service and whether such a reduction is practical. For example, for some jobs it could be difficult to agree to a reduction from a 5-day week to a 4-day week as it may prove impractical to cover the missing day through reallocation of work or recruitment.
- 12 The Council already has a policy dealing with requests for a flexible working pattern coming from employees with children under the age of 6 (or children with a disability under the age of 18) - this is a statutory requirement for employers and is contained within the Family Leave Policy. There is also a written policy on dealing with requests for job sharing. This new Flexible Retirement Policy will ensure that a formal approach is followed for dealing with requests from employees who wish to apply for flexible retirement and ensure transparency and fairness.
- 13 In addition it is recommended that Corporate Human Resources be involved before any final decision is made regarding flexible retirement. This will ensure there is consistency across the organisation.

- 14 Where a flexible retirement request is made the same areas that are covered under our Family Leave and Job Share Policy will apply. These are as follows:
- The employee has the right to have a written application for flexible retirement considered through a formal procedure.
 - The employee has the right to a written explanation if their application is rejected
 - The Council has the right to reject an application for flexible retirement when the desired working pattern cannot be accommodated within the needs of the organisation i.e. refusal on business grounds.
- 15 Where a flexible retirement request is linked to a request to reduce grade then the key considerations will be to decide whether such a reduction in grade is commensurate with the reduced duties and is also compatible with the needs of the service the individual works in. In addition the employee has the option of applying for a lower graded post under the Council's Recruitment and Selection Policy in fair and open competition with other applicants.

Recommendations

- 16 Members are asked to approve the introduction of the Flexible Retirement Policy with effect from 1 October 2006 to support changes to the Local Government Pension Scheme regulations.

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Appendix 1: Implications

Finance

None - Flexible retirement will not impose a cost on employers as individuals who access their pension benefits who do not meet the 'rule of 85' or who have not reached age 60 will have their benefits actuarially reduced to reflect the early payment.

Staffing

A flexible retirement policy could result in better knowledge transfer and succession planning and reduced staff turnover.

Equality and Diversity

An equitably applied flexible retirement policy may provide an encouragement for older workers to continue working for the Council.

Accommodation

None

Crime and disorder

None

Sustainability

None

Human rights

None

Localities and Rurality

None

Young people

None

Consultation

None

Health

None