Agenda Item No 5

Pension Fund Committee

30 October 2006

Augmentation Payments

Report of Stuart Crowe, County Treasurer

Purpose of the Report

1 The purpose of the report is to determine how augmentation payments should be made into the Fund by employers.

Background

2 Regulation 52 of the Local Government Pension Scheme Regulations 1997 (as amended) allows employers to resolve to increase the total membership of an active member by a maximum of the lesser of:

- 6 years 243 days or
- the period by which the member's total membership falls short of the total membership the member will have if he continues as an active member until he is 65.

This facility is usually referred to as augmentation.

3 The Department for Communities and Local Government (DCLG) issued draft regulations in May 2006 that will (when made law) remove the ability of employers to award compensatory added years under the Compensation Regulations. The facility to award added years is being removed as it does not comply with age discrimination regulations as it is a benefit that can not be awarded to those under age 50. One consequence of the removal of the added years facility is that employers are now much more likely to use the augmentation facility which has until now hardly ever been used within our Fund.

The cost of augmentation

4 The regulations set out two methods for meeting the cost of augmentation.

i) The administering authority and the employing authority can agree that the employing authority will pay increased employer contributions to meet the additional cost. This is problematic as it would involve incurring actuarial fees each time augmentation is used as the actuary would have to determine what the increase in contributions should be.

ii) The employing authority can pay an additional sum into the Fund for the augmentation worked out using factors and instructions provided by the Government Actuary. This approach has the advantage of being low-cost in terms of administration and immediately accessible as these factors and instructions are built into our pension administration software. The additional sum has to be paid to the fund within one month of the augmentation being awarded or within such longer period as the administering authority allow.

5 For reasons of simplicity and cost option b) appears to be the better option. Augmentation costs would be determined using the instructions provided by the Government Actuary as built into our pension administration software. To be consistent with our approach to the capital cost of early retirement it is appropriate to allow employers to either:

i) pay for the augmentation in full or
ii) spread the payments for the cost of augmentation over a five year period (if this method is chosen a factor provided by the Government Actuary is used to ensure the total amount paid is appropriately higher than if a single lump sum is paid, to take account of lost fund investment returns over the five year period).

6 It would be possible to allow employees to determine which of these options to choose as the net effect on the fund is the same.

Recommendation

7 It is Recommended that Option ‘b’ be selected and that employers determine whether they wish to pay augmentation costs in full within one month of a retirement or over a 5 year period but at a higher rate.

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pen/rep/kno