

REPORT TO CABINET

REPORT OF: Joyce Slater Human Resources and Organisational Development Service Manager

REPORT NO: HR & OD 119

DATE: 13th January 2014

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| TITLE: | Pensions Policy 2014 | |
| KEY DECISION OR POLICY FRAMEWORK PROPOSAL: | KEY | |
| PORTFOLIO HOLDER: NAME AND DESIGNATION: | PAUL CARPENTER Portfolio Holder Governance and Communication | |
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| INITIAL IMPACT ANALYSIS: | Carried out and Referred to in paragraph (7) below Stage 1 Completed 29.11.2013 http://moderngov.southkesteven.gov.uk/mgConvert2PDF.aspx?ID=12546 | Full impact assessment Required: |
| Equality and Diversity | | |
| FREEDOM OF INFORMATION ACT: | This report is publicly available via the Your Council and Democracy link on the Council's website: www.southkesteven.gov.uk | |
| BACKGROUND PAPERS | www.LGPS2014.org The Councils Pension policy 2007 http://moderngovsvr/mgConvert2PDF.aspx?ID=4522 The Councils new look pension scheme approved by Council 3 rd March 2008 http://moderngovsvr/mgConvert2PDF.aspx?ID=5171 Additional Pension Policy Statements Officer decision 17 th September 2013 http://www.lgpsregs.org/images/SI/2014regsSept2013 HR guidance updated 13 th December 2013 http://www.lgpsregs.org/images/Versions/HRv2.0 | |

1. RECOMMENDATIONS

- 1.1 That cabinet approve the South Kesteven District Council policy statement in respect of the new Local Government Pension Scheme 2014.
- 1.2 That members agree to the policy being kept under review, pending the release of further guidance and that any subsequent changes being reported back to cabinet for approval.

2. PURPOSE OF THE REPORT

- 2.1 Regulation 60 in SI 2013 2356 requires the council, as a scheme employer, to publish a written statement of its policy in relation to the exercise of its functions. This report to cabinet and the policy statement in appendix 1 will meet this requirement and ensures that the Council has an approved policy in place for 1st April 2014.
- 2.2 It includes a statement of employer discretions and many of these are very similar to those adopted by the council previously.
- 2.3 Any discretion adopted would need to be considered in line with the principles detailed in the policy and that consideration would determine whether the discretion would be exercised or not.

3. DETAILS OF REPORT

Summary of the Changes

- 3.1 The local government pension scheme 2014 (LGPS 2014) is changing from a final salary scheme to an account based Care Average Re-valued Scheme from 1st April 2014.
- 3.2 Local Government Pension Scheme 2014 continues many of the features of the current scheme such as flexible retirement, ill health retirement and introduces the following new elements.
- 3.3 Pension is calculated on the contributions paid into an employee's pension account, on a new set of employee contribution rates which range from 5.5% – 12.5%.
- 3.4 The accrual rate is now 1/49th of salary; the 2008 – 2014 scheme was based on 1/60^t and the pre 2008 scheme was based on 1/80ths.
- 3.5 Pension entitlement after April 2014 can be calculated for each individual as their number of years of local government pension scheme membership divided by 49 multiplied by the career average pay.
- 3.6 Each year's contribution is revalued using the consumer price index rate.
- 3.7 It limits entitlement to benefits to employees with contracts of over 3 months duration and employees have to have contributed to the scheme for 2 years before benefits can be paid.
- 3.8 It introduces a 50/50 option as a short term option to assist in times of hardship.

- 3.9 The age at which employees can draw their local government pension changes to Normal Pension Age – i.e. the age they would get their state pension.
- 3.10 A new feature is that employees can chose to retire early, without employer consent from age 55 and their pensions will be reduced on an actuarial basis. The new government actuaries' guidance is not yet out for the Local Government Pension Scheme 2014.
- 3.11 The current understanding is that all pensions in the previous pension schemes will be fully protected.
- 3.12 Pension contributions are payable on a new definition of pensionable pay – i.e. all pay that is taxable. The regulations and guidance give detailed definitions.
- 3.13 The concept of assumed pensionable pay is introduced. This is used when an employee is on reduced pay (long term sickness or paid child related leave – maternity, paternity, and adoption). The employee now pays pension contributions on pay actually received. The employer must pay contributions based on assumed pensionable pay – what they would have been earning if they were back at work. This is because the individual continues to accrue benefits such as death in service.
- 3.14 ARCs – additional regular contributions have been replaced by Additional Pension contributions (APC's) which can be purchased through regular contributions or by a lump sum payment.

4. Financial Implications

- 4.1 As pensionable pay in the Local Government Pension Scheme 2014 includes overtime and bonus payments such as call out etc., the employers' contributions will increase.
- 4.2 With the introduction of assumed pensionable pay, the employer will attract additional pension contributions when an employee is on half pay or no pay when long term sick or when on maternity/paternity or adoption leave or for first days sick when no pay option is applied. The reason for this is that the employee continues to accrue benefits, for example death in service and ill health benefits.
- 4.3 Employees with authorised unpaid absence can buy back missing contributions and the split of these costs are 1/3rd employee 2/3rd employer. Very few people now take unpaid additional maternity/paternity/adoption leave so the impact is likely to be small and in any case we usually budget for an employee for the whole year.
- 4.4 Employees can make contributions for absences related to strike action and the rate remains 16% as in the current scheme. There is no cost to the employer in relation to these contributions.
- 4.5 The 50/50 option is intended to be a temporary arrangement during periods of hardship for an employee. It is not intended to be a permanent arrangement and at re-autoenrolment the employee who opts for a 50/50 option is re- auto enrolled into the full scheme. For any employee who opts for the 50/50, the employers' contributions remain at the 100% rate. The

rationale behind this is that the employee continues to accrue benefits for ill health and death in service. As the Council currently budgets for pension contributions at 100%, this is likely to be budget neutral and at this stage we can have no idea as to how many staff may chose to use this option.

- 4.6 Part time employee's contribution rates will be based on their total pay, not their full time equivalent rate. While employee contributions may well go down, the employer rate continues so this may be cost neutral.
- 4.7 Overall, the estimated cost of the new Local Government Pension scheme is £44,000. This is based on 2012 - 2013 payroll data. Of this approximately 25% relates to the new employer contributions for sick pay and maternity / paternity / adoption leave. Approximately £34,000 of additional employer costs arises from overtime and additional payments as per the changed definition of pensionable pay and these are now subject to a detailed review, to mitigate some of these costs. In some cases the overtime was to cover vacancies so will not necessarily be reflected in 2014 – 2015 additional employer costs.

5. Policy implications

- 5.1 The attached policy statement details a range of principles that are explicit and need to be considered, on a case by case basis, in every pension release case that requires employer consent.
- 5.2 It also details the discretions specified in the pension scheme regulations. On the advice of the administrators of the Lincolnshire pension scheme, discretion statements have been prepared when the wording in the regulations state " the scheme employer may.... " as that infers a choice. In addition the latest HR guidance from the Local Government Association gives details of an additional discretion in relation to the rule of 85 protections.
- 5.3 The policy statement also outlines the Council's approach to a wide range of pension options. Again these have been based on previously approved options in the 2008 – 2014 Pension Scheme.

6. Procedures

- 6.1 The Council has a formal procedure so that each case is considered on its merits on a case by case basis and is scrutinised from a business, HR, legal and financial perspective before a decision to approve a retirement is made.

7. Communications

- 7.1 Staff briefings, in the form of road shows, have been provided by our pension administrators and were publicised in posters and Insight. These were very well attended by SKDC staff. Further briefings are planned.
- 7.2 A Lincolnshire communications plan is being developed by the pension scheme administrators and the Council will use the material they provide in collaboration with our own communications team.
- 7.3 There are plans for a wide range of national promotional material to be created. In particular there are going to be a range of short web based videos around specific details.

The first of these are available at <http://www.lgps2014.org/content/lgps-2014-videos>.

4. OTHER OPTIONS CONSIDERED

This policy is required by the regulations.

The option to not adopt discretions 5.2 and 5.8 in relation to added pension contributions or employer award of additional pension has been proposed in the policy statement because of the financial implications. If the Council were to adopt these discretions there are both significant financial costs that would arise and a detailed set of criteria would need to be specified to ensure a fair application of those discretions. In the current financial climate it is felt that the cost implications of adopting discretion 5.2 & 5.8 outweigh the value of enhancing reward packages.

5. RESOURCE IMPLICATIONS

HR & Payroll

There are operational changes and procedural changes which will have some impact on staff time as the new scheme is introduced and in respect of reports to the pension administrators.

Changes to the HR & payroll system are being developed for all local government users and HR, payroll and ICT staff time will have to be spent on the computer system for implementation and testing.

Finance

Using last year's payroll data, the estimated cost arising from the additional employer contributions is approx £44,000. In the main this arises from additional payments made to staff that are currently not pensionable but will be in the new scheme. A review of these additional payments will be undertaken.

6. RISK AND MITIGATION

Risk has been considered as part of this report and any specific high risks are included in the table below:

| Category Risk | Action / Controls |
|----------------------------|--|
| Legislative non compliance | This report and policy statement will mitigate this risk |
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7. ISSUES ARISING FROM IMPACT ANALYSIS

A stage 1 impact analysis has been completed and no issues have been identified. A stage 2 impact analysis will be completed.

8. CRIME AND DISORDER IMPLICATIONS

None

9. COMMENTS OF FINANCIAL SERVICES

Financial modelling has been undertaken with respect to the likely financial implications of the changes described in the report. The additional costs have been considered as part of the preparatory work for the budget framework for 2014/15. The modelling assumes that current arrangements for overtime and standby payment will continue. However should these arrangements be reviewed which result in a reduction of payments being made then there will be a reduction in the anticipated additional costs.

10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES

Regulation 60 in SI 2013 2356 requires the Council to introduce a new policy statement in respect of the new Local Government Pension Scheme 2014 ("the 2014 Scheme"). The Policy must reflect the proposed changes introduced by the 2014 Scheme and address those areas where the Council has discretion on whether to introduce parts of the Scheme (See paragraph 5 of the Policy). The Policy must be kept under review and be amended to reflect any changes required as a result of any subsequent government guidance that is produced.

11. COMMENTS OF OTHER RELEVANT SERVICES

12. APPENDICES:

Appendix 1 Draft Pensions policy 2014 Statement

Stage 1 Equality Impact Analysis