

**REPORT FOR:            Licensing & General  
   Purposes Committee**

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**Date of Meeting:**            26 November 2012

**Subject:**                      Flexible Retirement Policy

**Responsible Officer:**      Tom Whiting – Assistant Chief Executive

**Exempt:**                        No

**Enclosures:**                 None

**Section 1 – Summary and Recommendations**

Regulation 66 of the Local Government Pension Scheme (Administration) Regulations 2008 makes it a requirement for each employing authority to review from time to time its policy in relation to the exercise of its discretionary functions under flexible retirement.

**Recommendations:**

The Committee is requested to review the application of Harrow Council's Flexible Retirement Policy and approve the proposed policy as detailed below.

1. All requests for flexible retirement will be considered.
2. Approval will only be granted if it is in the Council's best interest to do so and where the service can demonstrate operational efficiencies.
3. There will have to be a sufficient reduction in the employee's grade or hours to ensure that the pension fund is reimbursed for any shortfalls.
4. The waiving of any early retirement actuarial reduction (either in part or in full) will only be considered in exceptional circumstances.
5. Flexible retirements must be approved by a Director and agreed by;
  - a. the Officer Sub-Group and Members of the Early Retirement Sub-Committee where there is a strain on the pension fund; or
  - b. the Divisional Director of HRD & Shared Services where there is no strain on the pension fund.

## **Section 2 – Report**

### **2.1 Background**

- 2.2 Since the 2002 Green Paper (Simplicity, Security and Choice) the Government has considered flexible retirement key to meeting the challenges of an ageing population by providing choices and opportunities for older people to plan how they want to retire.
- 2.3 It was recognised that increasing the incentives to work longer would give individuals the opportunity to plan for a longer working life and save towards a more financially secure retirement whilst at the same time reduce the growing skills shortage through the retention of skilled older workers.
- 2.4 Consequently, from 6 April 2006 Her Majesty's Revenue and Customs (HMRC) introduced new rules to allow increased flexibility with saving for retirement and drawing retirement benefits.
- 2.5 These new rules brought about the amendment of the Local Government Pension Scheme (LGPS) Regulations to permit the immediate payment of pension benefits, at the employer's consent, where a scheme member from age 50 (now age 55) reduces his/her hours or grade even though the scheme member has not retired from employment and continues to build up benefits in the scheme.

### **2.6 Benefits of Flexible Retirement**

- 2.7 The HMRC changes has been viewed as a positive step towards enabling people to work longer whilst at the same time effect a smoother transition from work to retirement by removing the 'cliff edge' that previously existed.
- 2.8 Employers can retain key experienced employees who would otherwise leave in order to draw their pension and take up employment elsewhere.
- 2.9 Flexible retirement enables the gradual transfer of skills from experienced employees to new recruits and offers employers an alternative way of reducing numbers of full time equivalent staff without using the traditional, more costly, redundancy/efficiency routes.

### **2.10 Flexible Retirement Policy**

- 2.11 As part of the amendment to the LGPS Regulations, employers were required to prepare, publish and keep under review a policy statement on flexible retirement.
- 2.12 Under Harrow's current policy the following conditions apply:-

- a) All requests for flexible retirement will be considered;

- b) Approval will only be granted if it is in Harrow Council's best interest to do so and where the service area can demonstrate operational efficiencies;
- c) The flexible retirement reduction in hours/grade delivers a 10% saving of on-cost salary (pro rata if applicable) in the first year. This is to be identified as part of the business case;
- d) Where an actuarial reduction applies and this does not fully cover the cost of placing the pension into payment, there will have to be a sufficient reduction in the employee's grade or hours to ensure that the pension fund is reimbursed for any shortfalls;
- e) The waiving of any early retirement actuarial reduction (either in part or in full) will not be considered;
- f) Flexible retirements must be approved by a Director, and agreed by;
  - I. the Officer Sub-Group and members of the Early Retirement Sub-Committee where there is a financial strain on the pension fund; or
  - II. the Divisional Director HRD & Shared Services where there is no financial strain on the pension fund.

2.13 All flexible retirements and the financial impacts are reported to the Committee on an annual basis.

2.14 The number of flexible retirement cases since the introduction of Harrow's policy is shown below. In comparison with other London Boroughs this figure is relatively low (10-15% below average).

<b>Year</b>	<b>Number of Flexible Retirements</b>	<b>Number with a strain on the Pension Fund</b>
2007	6	1
2008	12	3
2009	9	3
2010	12	2
2011	8	0
2012	9	0

## **2.15 Review of Flexible Retirement Policy**

- 2.16 As alluded to above, the LGPS Regulations make it a requirement to review its policy on flexible retirement from time to time.
- 2.17 The Council's policy on flexible retirement was last reviewed at the LGPC meeting held on 1 March 2010 where it was decided that no changes to the policy would be made at that time.
- 2.18 However, in recognition of the changing financial climate and to support the Council's agenda in meeting its MTFs target, it is proposed that the flexible retirement policy should be simplified (as set out in the recommendations above) and positively promoted across the organisation.
- 2.19 It is felt that the key consideration should be the recovery of any strain on the pension fund and the promotion of what can be used as a valuable tool at this time.
- 2.20 The proposed amendment principally removes the requirement to deliver a 10% on-cost salary saving in the first year as this has been viewed as an unnecessary overcomplicated barrier to the process. However, the requirement to reimburse the pension fund of any shortfall remains.
- 2.21 The above recommendation is consistent with the approach of other London Boroughs (e.g. Business case requirement, Senior Officer approval and the waiving of any actuarial reduction in exceptional circumstances).

## **2.22 LGPS Miscellaneous Regulations 2012**

- 2.23 To increase the uptake of flexible retirement, a recent amendment to the regulations now permits the employee to choose whether to receive all, part or none of their **post 31 March 2008** accrued benefits (i.e. benefits built up under the 2008 scheme which changed the accrual rate from 80ths to 60ths with no automatic payment of a lump sum). This change will appeal to employees who will suffer a large percentage reduction on their post 2008 benefits if taken earlier than their normal retirement date.
- 2.24 The above amendment will be communicated to staff in the coming weeks.

## **2.25 Financial Implications**

- 2.26 The requirement to reimburse the pension fund from any shortfall is still retained in the recommendation so there is no material financial impact.
- 2.27 The simplification of the policy will further promote flexible retirement and could avoid potential redundancy/efficiency costs.

## 2.28 Risk Management Implications

2.29 Risk included on Directorate risk register? No

2.30 Separate risk register in place? No

2.31 There are no potential risks associated with the recommended policy.

## 2.32 Equalities implications

2.33 Was an Equality Impact Assessment carried out? No

2.34 There is no detrimental impact on any of the protected characteristics.

## 2.35 Corporate Priorities

2.36 N/A

## Section 3 - Statutory Officer Clearance

Name: Steve Tingle	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 13 November 2012		
Name: Hugh Peart	<input checked="" type="checkbox"/>	Monitoring Officer
Date: 9 November 2012		

## Section 4 - Contact Details and Background Papers

**Contact:** Linda D'Souza, Service Manager – Shared Services, Tel: 020 8424 1426, Email: Linda.D'Souza@harrow.gov.uk

### Background Papers:

Report for the Licensing & General Purposes Committee – 1 March 2010, 8 June 2008.

If appropriate, does the report include the following considerations?

1.	Consultation	YES
2.	Corporate Priorities	N/A