

Meeting:	Licensing and General Purposes Committee
Date:	5 March 2007
Subject:	Flexible Retirement Policy
Responsible Officer:	Paul Najsarek
Portfolio Holder:	Councillor David Ashton
Status:	Part 1 – Public
Encs:	N/A

SECTION 1 – SUMMARY AND RECOMMENDATIONS

From 6 April 2006 the main Scheme regulations introduced flexible retirement, which allows LGPS members to draw their pension benefits from age 50 whilst remaining in employment, provided;

- a) the employer has consented and
- b) there has been a reduction in hours or grade.

As a result each employer is required to prepare, publish and maintain a policy statement on flexible retirement.

RECOMMENDATIONS:

That Committee agrees to the proposed policy as outlined in 2.18 effective from 1 April 2007.

SECTION 2 - REPORT

Background

1. Her Majesty's Revenue and Customs (HMRC) amended its overriding rules for all pension schemes from 6 April 2006, allowing scheme members to receive their pension benefits while continuing in employment. Under the old HMRC rules a person had to retire before pension benefits could be paid.

- 2.2 Regulation 35 of the LGPS regulations was amended to permit the immediate payment of pension benefits, at the employers' consent, where a scheme member from age 50 reduces his/her hours or moves to a lower grade even though the scheme member has not retired from employment and continues to build up benefits in the Scheme.
- 2.3 The early payment of pension benefits would attract an actuarial reduction (as defined by the Government Actuary Department) if the member has not satisfied the '85 year rule' (determined by adding a person's age plus period of membership) or is not 65 years. This actuarial reduction would not necessarily cover the full financial strain on the pension fund of placing the benefits into payment early.
- 2.4 The employer can choose to waive any actuarial reduction for early payment and by doing so, it must make a payment to the pension fund to cover the fund strain. Additionally, a fund strain, which will also require a payment to the pension fund, will arise in circumstances where a person under 60 years of age, who has met the '85 year rule' is allowed to receive early payment of pension benefits.
- 2.5 As a result of the introduction of flexible retirement in the LGPS regulations, the employer is now required to formulate its policy in relation to the following discretions:
- Agreeing to the early payment of pension benefits;
 - Agreeing to the reduction in hours or grade; and
 - the waiving of any early retirement reduction (either in part or in full).

Agreeing to the early payment of pension benefits on grounds of flexible retirement

- 2.6 In determining a policy on flexible retirement Harrow Council as the employer has several options:
- To assess potential for use of this discretion and elect not to implement at this time;
 - Only consider flexible retirement in exceptional circumstances. In this scenario Harrow will need to develop criteria describing what constitutes the exceptional circumstances;
 - Consider flexible retirement in areas of skills shortages to encourage employees to remain in employment beyond the time they might be expected to retire; or
 - Consider all requests for flexible retirement.

Agreeing to the reduction in hours or grade

- 2.7 The LGPS regulations do not stipulate a minimum reduction in hours or grade before flexible retirement can be granted. However, the responsibility to act in a prudent manner and the public perception of Local Government

employees receiving pension benefits while continuing to receive close to full salary must be considered.

2.8 It might therefore be reasonable to include suitable restrictions before agreeing to the early payment of pension benefits. Such restrictions could include:

- Pension benefits would only be considered for early payment where there is either no strain on the pension fund or the financial strain is fully covered through either actuarial reduction of benefits or reduction in employee's salary (i.e. reduction on grade or hours)
- Approval of the reduction in hours or grade if it is in Harrow's interests to do so and there is no detrimental effect on service delivery;
- The reduction in salary being a certain percentage either through reduced hours or grade;
- The reduction in hours or grade being permanent (see financial implications below); and
- The flexible working arrangement is fair and equitable to all employees within the service area.

The waiving of any early retirement reduction (either in part or in full)

2.9 The regulations allow the employer to waive the actuarial reduction applied to benefits where applicable in part or in full. By doing so, a payment to the pension fund to cover the fund strain must be made.

2.10 However, in view of this authority's financial position and to remain consistent with Harrow's discretionary policy relating to waiving actuarial reductions in cases of Regulation 31 retirements, it is suggested that this discretion is not exercised.

Benefits of flexible retirement

2.11 There are a number of positive reasons for considering the use of flexible retirement, for example:

- To enable employees to effect a smoother transition from work into retirement by removing the cliff edge that currently exists (but for this regulation);
- To encourage the retention of key experienced employees who would otherwise leave in order to draw their pension and take up employment elsewhere;
- To offer the employer an alternative way of reducing numbers of full time equivalent staff without using the traditional, more costly, efficiency/redundancy routes; and
- To enable gradual transfer of skills from experienced employees to new recruits.

Matters for consideration

2.12 Although there are benefits to flexible retirement, there are other issues that require consideration, for example;

- The possible extra costs associated with those staff who receive the early payment of their retirement benefits, while continuing in employment (see financial implications);
- The impact on service delivery where resource has been reduced to less than full time;
- The additional costs associated with recruiting and training a replacement for the additional hours of the post (although Harrow Council could stipulate in its flexible retirement policy that replacement employment will not be provided); and
- The loss of 'savings' to the pension fund as a result of allowing someone to receive the immediate payment of pension benefits where they might have been expected to retire beyond the earliest retirement date.

Financial implications

2.13 It is imperative that when exercising discretions relating to flexible retirement, the Council has due regard to the associated costs and potential impact on the Harrow Council Pension Fund.

2.14 There are two costs that potentially fall on the pension fund as a result of flexible retirement;

- The strain on the fund in relation to the early payment of pension benefits, and
- The loss of potential savings arising from the employee not continuing beyond the date assumed for actuarial valuation purposes – this would otherwise have been a saving that would have emerged at future actuarial valuations.

2.15 The regulations allow for the strain on the pension fund to be met by the employer/service area.

Legal implications

2.16 The recommendations conform with The Local Government Pension Scheme (Amendment) Regulations 2006 and The Local Government Pension Scheme (Amendment) (No 2) Regulations 2006.

Consultation

2.17 Unison and the GMB have been consulted and expressed the following concerns/views; officers' responses are in italics below:

Para 2.2 – 2.5 The immediate payment of pension benefits is at the employers consent, not solely at the request of the employee. What then is the process that protects the scheme member from pressure being applied to reduce hours or move to a lower grade? Will the waiving of the actuarial reduction be applied fairly and transparently?

The proposed policy will only apply where the employee makes a request. The proposed policy at 2.18 makes clear that the waiving of actuarial reductions will not be considered.

Para 2.6 The criteria should be developed before implementation.

The criteria are set out in the proposed policy at 2.18 and will be incorporated into a flow diagram. All requests for flexible retirement will be subject to approval by the relevant Director and the Officer Sub-Group. Decisions will also be reported on a regular basis to the L&GP Committee.

Para 2.7 This paragraph seeks to insulate the Council from any financial responsibility for changes. We wonder why the employee should assume all the costs in this process.

The proposed policy will only apply where the employee makes a request. Para 2.7 identifies that in adopting a policy the Council should be mindful to act in a prudent manner and raises the issue of public perception.

Para 2.11 If there are benefits to the employer, which there appears to be, it should be prepared to pay.

The proposed policy balances the benefits to the employee with those to the employer.

Para 2.18 There should be at least a commensurate reduction in the individual's workload to match the loss of earnings and reduction in the employee's contribution to the pension fund.

The procedure to accompany the proposed policy will emphasise this point.

Proposed policy

2.18 Taking into account all of the above the proposed policy is:

- All requests for flexible retirement will be considered (a flow diagram could be produced so the process is clear to all and there will need to be a check at service level to avoid influx of requests for figures);

- 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;
- Pension benefits will only be considered for early payment where there is no strain on the pension fund. Where the actuarial reduction will 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;
- The reduction which must at least equate to the financial strain on the pension fund is to be identified as part of the business case;
- The waiving of any early retirement actuarial reduction (either in part or in full) will not be considered;
- Flexible retirements must be approved by a Director and the Officer Sub-Group.

SECTION 3 - STATUTORY OFFICER CLEARANCE

Chief Financial Officer	<input checked="" type="checkbox"/>	Myfanwy Barrett
Monitoring Officer	<input checked="" type="checkbox"/>	Jill Travers

SECTION 4 - CONTACT DETAILS AND BACKGROUND PAPERS

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Background Papers: None

IF APPROPRIATE, does the report include the following considerations?

1.	Consultation	YES
2.	Corporate Priorities	YES
3.	Community Safety (s17 Crime & Disorder Act 1998)	NA
4.	Manifesto Pledge Reference Number	NA