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By: Office Manager

To: Kent and Essex Inshore Fisheries and Conservation Authority  
– 4 September 2014

Subject: **Local Government Pension Scheme - Policy Statement**

Classification: Unrestricted

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Summary: The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 requires all scheme employers to review their existing discretionary pension policy statement and publish a new policy statement.

This report summarises the pension policies that need reviewing and makes recommendations for the adoption of a new pension policy statement.

Additionally, greater flexibility is requested for funding early retirement costs by way of allowing lump sum payments.

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## 1. Introduction

The LGPS regulations required all scheme employers to publish and keep under review a written policy statement on how they would apply their discretionary powers in relation to certain provisions of the scheme. As the new LGPS came into force on 1 April 2014 it has been necessary to adopt a new discretionary pension policy statement which we were required to publish by 30 June 2014. The Chief Fishery Officer approved the policy as provided in Appendix A which has been passed to the Kent Pension Fund.

## 2. Background

The cost of providing public sector pension schemes have been steadily increasing over many years leading to concerns about their long-term sustainability. Lord Hutton of Furness was appointed to chair an independent Public Service Pension Commission to undertake a fundamental structural review of public sector pension provision.

The main recommendations of the Commission were that:

- All public sector pension schemes should change from final salary pension schemes to Career Average Revalued Earnings schemes (CARE). An annual pension pot is calculated which is uprated each year to take into account inflation (Consumer Price Index (CPI)).
- Scheme retirement ages should be the same as state retirement pension ages.
- There should be a cost sharing mechanism introduced that requires scheme members to share the increasing costs of providing public sector pension schemes and not just the employers.
- Existing rights of current scheme members should be protected.

The present Government accepted the Commission's recommendations and tasked the government departments responsible for each public sector pension scheme to negotiate with the relevant employer representatives and unions on the required changes to the respective schemes.

Agreement has been reached between Department for Communities and Local Government (DCLG), the Local Government Association (LGA) and trade unions on the new LGPS which came into force on 1 April 2014.

### 3. Pension Policy Statements

3.1 Paragraphs 3.2 – 3.6 below outline the pension policy statements that have to be reviewed, together with a recommendation, where applicable, on the policy that should be adopted. The full Schedule of Discretions can be found in Appendix A incorporating the proposed recommendations and additional details.

#### 3.2 Regulation 9 – Contributions

3.2.1 Currently the Authority determines the appropriate contribution band on 1 April each year and during the year when a material change takes place. The contributions bands applied are based on full time equivalent pay.

3.2.2 Under the new scheme, the contribution bands are based on the actual pensionable pay received, so it recommended that:

3.2.3 The Authority will apply the nationally determined scheme member contribution rates and bands. These are subject to review and may be varied.

3.2.4 The Authority will determine the appropriate contribution band for a scheme member by using the pensionable pay received on 1 April each year and every 3 months thereafter.

#### 3.3 Regulation 16 (2)(e) & (4)(d) – Shared Cost Additional Pension Contribution (SCAPC)

3.3.1 There is provision, under this regulation, to allow scheme members to buy additional pension with a shared cost to the employer. KEIFCA does not currently operate a shared scheme and it is recommended that we maintain our current position.

3.3.2 The above does not apply where a scheme member has had a period of child related leave or authorised unpaid leave. Employers do not have discretion for this element and must pay 2/3rds of the cost if the scheme member elects within 30 days of their return to work, to pay a SCAPC to cover the amount of pension 'lost' during the period of absence.

3.3.3 However, the new regulations are not currently clear on how these periods of unpaid leave are to be calculated and by whom and it may not be possible to provide scheme members with the information they need to make an election within the required time frame. To take this into account the following proposal is suggested.

3.3.4 Where it is not possible to provide the scheme member with the information they need to make their election within the 30 day deadline, the Authority will extend the limit. However, the scheme member must contact KEIFCA to request this information within 30 days of returning to work and respond within 30 days of receiving the information.

3.4 TR Regulations 1(1)(c) of Schedule 2 – whether to allow the rule of 85 to be 'switched on' for members age 55-59

3.4.1 Currently where scheme members meet the 85 year rule before the age of 60 though technically they can apply for early release of their pension benefits we do not agree as there is a cost to the Authority.

3.4.2 The 85 year rule is where pensionable service and age equals 85 or more, with active members, as at 1 October 2006, having varying degrees of protections which relates to the individuals Critical Retirement Age (CRA).

3.4.3 The new scheme provides employers with the discretion to waive the reductions to the member's benefits if we agree to the release of pension before the age of 60 (referred to as 'switching back on' the 85 year rule). This would require us meeting the costs incurred.

3.4.4 It is recommended that we maintain our current position of not agreeing unless there are exceptional circumstances.

3.5 Regulation 21(5) – in determining Assumed Pensionable Pay whether a lump sum payment made in the previous 12 months is a 'regular lump sum'

3.5.1 Under the new scheme there is a change in how the pay for periods of unpaid authorised leave including child related leave is calculated. This is now done by Assumed Pensionable Pay and employers are required to have a policy on what are considered 'lump sum' payments paid to members which should be included in this calculation. A list of these is kept within Employee Services for payroll purposes.

3.5.2 A regular lump sum payment is a payment for which the member's employer determines there is a reasonable expectation that such a payment would be paid on a regular basis.

### 3.6 Regulation 30(8) – Waiving of Actuarial Reductions

3.6.1 Currently an employer has the discretion to allow a scheme member to retire voluntarily between the ages of 55-59 and receive immediate payment of their pension benefits. From age 60 the employer's permission is not required.

3.6.2 The Authority's current policy is to consider individual cases on their merits and under normal circumstances the pension paid would be reduced. However, in exceptional circumstances, when it is in the operational interests of the Authority or on compassionate grounds the reduction could be waived and the pension paid without reduction and we would pick up the costs incurred.

3.6.3 Under the new scheme, scheme members between 55 and 59 will no longer need their employer's permission to retire and can receive immediate payment of their pension benefits. However, the pension benefits payable would be subject to a reduction to allow for early payment. The extent of the reduction will be based on the Government Actuary Department (GAD) guidance on pension reduction factors. Employers have the discretion to waive these reductions.

3.6.4 It is recommended that we maintain our current position of not agreeing to waive the reduction unless there are exceptional circumstances.

## 4. Funding of early retirement costs

4.1 Since 1998 KEIFCA has paid all charges incurred by the organisation for early retirement costs (i.e. redundancies or early release of pension benefits) by instalments only.

KEIFCA is one of only two organisations within the Kent Pension Fund not to use the ability to pay by lump sum. There are budget implications to this, however, there is agreement that small lump sum payments should be allowed within our provisions.

4.2 It is recommended that Members agree that costs incurred by the IFCA as a result of payments in respect of early retirement costs should be made by lump sum payment where the instalment value is up to and including £2,000. Where the instalment value is over £2,000, payment must continue by annual instalments due to the impact on the overall KEIFCA budget.

4.3 (The £2,000 refers to the total instalment value i.e. on occasions Pensions provide an amended cost figure between the estimated and actual costs, due later information being provided. A decision will not, therefore, be able to be made until the final cost figures are received to ensure the £2,000 limit is adhered to).

## 5. Conclusion

5.1 A formal review of the Authority's discretionary pension policy statements is required due to the introduction of the new Local Government Pension Scheme from 1 April 2014 and needs to be published by 30 June 2014.

## 6. **Recommendations**

6.1 Members are asked to **ratify** the decision of the Chief Officer to approve the recommendations as discussed and summarised below:

### 6.2 Regulation 9

The Authority will determine the appropriate contribution band for a scheme member by using the pensionable pay received on 1 April each year and every 3 months thereafter.

### 6.3 Regulation 16(2)(e) and (4)(d)

It is not KEIFCA's policy to operate a Shared Cost Additional Pension Contribution scheme for scheme members.

6.4 However, this does not apply where a scheme member has had a period of child related leave or authorised unpaid leave and elects, within 30 days of return to work, to pay a SCAPC to cover the amount of pension 'lost' during the period of absence. KEIFCA will pay 2/3rd of the cost of the 'lost' pension for periods of authorised unpaid leave, including periods of child related leave, if a scheme member elects, within 30 days of their return to work, to pay a SCAPC.

6.5 Where it is not possible to provide the scheme member with the information they need to make their election within the 30 day deadline, the Authority will extend the limit. However, the scheme member must contact KEIFCA to request this information within 30 days of returning to work and respond within 30 days of the information being provided.

### 6.6 Transitional Regulations Schedule 2, paragraph 2(2)

We maintain our current position of not agreeing to the early release of pension to anyone who meets the 85 year rule before the age of 60 unless there are exceptional circumstances.

### 6.7 Regulation 30(8)

We maintain our current position of not agreeing to waive any actuarial reduction applied to benefits paid early to both active and deferred members unless there are exceptional circumstances.

### 6.8 Funding of early retirement costs

Members agree that costs incurred to the organisation as a result of payments for early retirement costs can be made as a lump sum as well as by instalments up to a £2,000 instalment value limit.