

By: Director of Personnel & Development
To: Personnel Committee – 11 September 2008
Subject: Local Government Pension Scheme Regulations
Classification: Unrestricted

SUMMARY: This report is to provide an update to the Personnel Committee on the recent changes to the Local Government Pension Scheme, and to seek agreement to the proposed, revised employer discretion policy statement.

1. Introduction.

- 1.1 The Local Government Pensions Scheme was last reported to Personnel Committee in September 2006, at a time when a number of changes were made to the scheme. This necessitated a number of alterations to KCC's Employer Policy on discretions. As was always clear there would be further changes from April 2008 to continue to transform the scheme in to something more modern and that reflects the type and pattern of employment experienced by local government. A new scheme had been introduced from 1 April 2008.
- 1.2 The new scheme does increase costs to some, though the majority of employees are contributing to the same level or slightly less, and in all probability unlikely to have been noticeable. A high quality final salary scheme with some enhancements to scheme benefits has been retained, which is increasingly appreciated as a major element of the total reward package. However some concern has been expressed by The Superannuation Fund Committee to the Department for Communities and Local Government (DCLG) that the new scheme actually costs the employer more and that this is not sustainable.
- 1.3 The recent changes to the scheme are highlighted below. As a consequence of these, and changes to the Administrative Regulations further alterations to employer's discretion policies are required.

2. Scheme Changes for 2008

- 2.1 Probably the most significant change to the scheme from April 2008 has been the financial basis upon which benefits are calculated. Historically the scheme has been based upon $1/80^{\text{th}}$ for each year served. In addition to pension there was a lump sum payable upon retirement. The scheme is now based upon $1/60^{\text{th}}$ for each year served, but without automatic lump sum. The new accrual rate represents a small increase in the value of the pension. The individual scheme member can commute pension for lump

sum at a rate of £1 for every £12 of lump sum up to a limit of 25% of the total pension pot.

- 2.2 To part fund the improvements to the scheme and to better reflect the proportionality of benefits, a tiered system of contribution rates has been introduced. These are based upon full time equivalent annual salaries. Below is a breakdown of the rates together with an indication of the equivalent Kent Scheme grade.

£0 - £12,000	5.5%	KS1
>£12,000 - £14,000	5.8%	KS2
>£14,000 - £18,000	5.9%	KS3-KS5
>£18,000 - £30,000	6.5%	KS6-KS9
>£30,000 - £40,000	6.8%	KS10-KS11
>£40,000 - £75,000	7.2%	KS12-KS15
>£75,000	7.5%	M Grades

- 2.3 In addition to these two major alterations other changes include:
- Casual employees with no “mutuality of obligation” will not be entitled to participate in the scheme.
 - A tiered ill health retirement benefit, based on the assessed probability of finding alternative employment, will be introduced.
 - Death in service benefit will increase from 2 to 3 times annual salary
 - Co-habiting partners will be able to receive benefits.
- 2.4 The DCLG have introduced the concept of cost sharing of future increases in cost between the employee and employer from 2010. This is out to consultation and the proposals made are currently viewed as unworkable by our colleagues in Corporate Finance.

3. Employment Policy Statements

- 3.1 As an employer within the pension scheme we are required to have published policies on how the scheme regulations will apply. These are contained in the Kent Scheme of Conditions of Service and therefore available to all staff.
- 3.2 In view of the changes that have been made, attached in Appendix 1 is the proposed, revised employer discretion’s for Kent County Council. It is proposed that these are published and effective from 1st October 2008.
- 3.3 Many of the revised policies have required only minor adjustment, i.e. the changes to the reference numbers within the regulations.

3.4 Four previous discretions have been removed from the scheme as they have either become irrelevant or replaced with more appropriate provision. There are two new provisions, Reg. 11(2) which deals with scheme members who are paid by fees and Reg. 13 which enables an employer to make additional payments into the scheme.

4. Noted

4.1 Personnel Committee is asked to:

- Note the changes in the Pension Scheme
- Agree the proposed revised employer policy statements in Appendix 1.

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APPENDIX 1

Local Government Pension Scheme Regulations 2007 Policy Statement on Employer Pension Discretions

This policy statement relates to the exercise of particular discretions extended to KCC under the Local Government Pension Scheme Regulations 2007.

The Local Government Pension Scheme (Administration) Regulations 2007

Regulations 16 (4) (ii)

If a scheme member wishes to aggregate the most recent of their periods of previous scheme membership with their current membership, it is Kent County Council's policy that the election to do so must be made within 12 months of the Pension Section being notified that they have again become an active member. The Director of Personnel & Development may extend this time limit if the scheme member can demonstrate exceptional circumstances so as to justify this.

Regulation 22 (2)

Scheme members who have the option to pay contributions in respect of a period of unpaid absence must elect to do so within 30 days of the date of the notice issued to them. The Director of Personnel & Development may extend this time limit if the scheme member can demonstrate exceptional circumstances so as to justify this.

Regulation 25 (3)

It is not Kent County Council's policy to operate a shared cost AVC scheme for employees.

Regulation 83 (8)

If a scheme member wishes to transfer any pension benefits they have built up in other schemes to the Local Government Pension Scheme, it is Kent County Council's policy that election to do so must be made within 12 months of the Pension Section being notified that they have become an active member of the Kent Scheme. The Director of Personnel & Development may extend this time limit if the scheme member can demonstrate exceptional circumstances so as to justify this.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007

Regulation 11 (2)

Where a scheme member's pensionable pay consists of fees, it is Kent County Council's policy that, if this produced a higher figure, an average of all such fees for any 3 consecutive years ending 31 March within the period of 10 years ending with the last date of active membership may be used in the calculation of benefits.

Regulation 12

It is not Kent County Council's general policy to grant additional pension scheme membership to scheme members under this regulation. Any exceptional cases that were of overall benefit to the authority would require the agreement of the relevant Managing Director and the Director of Personnel & Development.

Additional scheme membership will not be granted in respect of pre April 1972 service, which at the point of retirement has not yet been up-rated.

Regulation 13

It is not Kent County Council's general policy to grant additional pension to scheme members under this regulation. Any exceptional cases that were of overall benefit to the authority would require the agreement of the relevant Managing Director and the Director of Personnel & Development.

Regulation 18 (1)

It is Kent County Council's policy to only provide consent for flexible retirement and the immediate payment of benefits where there is no detrimental effect on the service. Any such consent requires the agreement of the relevant Managing Director and the Director of Personnel & Development.

Regulation 18 (3)

If consent has been given under Regulation 18(1), it is not Kent County Council's policy to waive, in whole or part, any actuarial reduction to the scheme member's benefits.

Regulation 30 (2)

It is not Kent County Council's policy to give consent under this regulation to the immediate payment of benefits to a scheme member who voluntarily retires unless there is a demonstrable benefit to the organisation which would take full account of any extra costs to be borne by the authority. Any such consent shall be agreed by the relevant Managing Director and the Director of Personnel & Development.

Where a scheme member has previously been awarded a preserved benefit, it is not generally the policy of Kent County Council to give consent under this regulation to the early payment of benefits. However, each request will be considered and full account taken of any costs to be borne by the authority. Any consent shall be agreed by the relevant Managing Director and the Director of Personnel & Development.

Regulation 30 (5)

Where a request has been made for the early payment of benefits for compassionate reasons, full consideration must be given to the guidelines* contained in the Kent Scheme of Conditions of Service. Payment may only be made after agreement between the relevant Managing Director and the Director of

Personnel & Development. KCC will be responsible for any additional costs deriving from the decision to release benefits prematurely in compassionate circumstances.

**These guidelines state that the circumstances must be exceptional and would not reasonably be expected to prevail, i.e. the occurrence of a disaster or accident etc. Financial hardship alone would not normally be deemed sufficient.*

Discretionary Compensation Regulations (2006)

1. It is Kent County Council's policy to base redundancy pay calculations on the actual weeks' pay as opposed to the statutory ceiling.
2. Additional levels of compensation, provided by the revised regulations will not normally be agreed, unless there is an overall benefit to the Authority. In exceptional cases the amount of redundancy compensation can be doubled, up to a maximum of 52 weeks. In such cases agreement will be required from the relevant Managing Director and the Director of Personnel & Development.