

By: Director of Finance  
To: Superannuation Fund Committee - 12 September 2008  
Subject: **ADMINISTERING BODY POLICY ON ABATEMENT OF PENSION**  
Classification: Unrestricted

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Summary: To review the policy on abatement of pension when an individual is re-employed in local government.  
**FOR DECISION**

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## **INTRODUCTION**

1. Regulations A70(1), A71(4)(C) and T12 of the Local Government Pension Scheme (LGPS) require that each Administering Body (AB) has a policy in place regarding the abatement of a pension payable where a pensioner is re-employed by an LGPS employer. The policy in Kent was set by Committee in November 1999.
2. Our present policy requires a pension to be abated, in circumstances where a pensioner is re-employed in a local government position, where, the sum of the pension and re-employment income, exceeds the income from the pre retirement local government employment.
3. The only exceptions to cases described in 2 above are as follows:-
  - Casual contracts or contracts with no contractual hours
  - Where the retiree is over 60 years of age with an entitlement to draw the pension
  - Where the retiree has taken 'voluntary' retirement and the pension has been reduced to reflect the premature date of retirement.
4. All changes to the AB policy must be subject to consultation with scheme employers.

## **REASON FOR CHANGE**

5. Since the original policy was established in June 1998 there has been a significant change to the way in which premature retirements are funded. Each employer within the Kent Pension Fund, is required to fund all pension costs arising from a decision to agree to the premature retirement (i.e. before a person has an entitlement to receive a pension on an unreduced basis) of a scheme member.
6. Employers are charged the full cost of the premature retirement in instalments. This includes, voluntary early retirements, redundancy and efficiency retirements.
7. Retirements for scheme members, where the member qualifies under the scheme rules to receive a pension on an unreduced basis, are exempt from abatement under

the current policy as described in 3 above. All ill health retirements are funded through the employer contribution rate set after each triennial valuation.

8. As part of the recent changes to the LGPS under the banner of the 'New Look LGPS' the concept of flexible retirement was introduced. This flexibility enables officers to retire from their existing posts, receive a pension in full or part, return to employment with the same LGPS employer, and rejoin the scheme, in respect of the new employment. This feature was introduced to taper the previous 'cliff edge' effect of full retirement and broadly fits the central government initiative to encourage employees to work longer and fully fund their own pensions in retirement, thus reducing reliance upon state benefits.
9. In 'flexible' retirement cases, there is no requirement for the pension to be abated despite the retiree having continued in local government employment provided they have reduced either hours or pay in the re-employment post.
10. Given therefore that all retirements, where a 'strain' would otherwise fall to the pension scheme, are now fully funded by the employing body, it would seem unreasonable to further reflect such costs by way of a reduction in the pension in payment.
11. Following the introduction of 'Flexible Retirement' our current policy would lead to there being 2 classes of pensioners who had taken up further local government employment, where a reduction was applied to one group and not the other.
12. There is no means within the LGPS of rebating to an employer strain costs they have paid if the individual comes back into local authority employment.

### **SCOPE OF POTENTIAL CHANGE**

13. A consultation letter has been distributed to all scheme employers. At the time of writing, all support a change in policy to cease the practice of the abatement of pensions. An oral update on responses will be given at the meeting.
14. We presently apply a reduction in respect of 26 cases. Of these cases, 18 are cases where the employer has fully funded the strain costs deriving from the decision to agree premature retirement. We presently abate pensions to the extent of £97,000 per annum approx over the 26 cases. Whilst the pension scheme will therefore be paying a further £97,000 per annum in pensions this cost has largely been borne by the employer at the point of retirement. The 8 cases where an employer has not already met the strain costs relate to pensioners all over 60 years of age with most close to normal retirement age. The annual abatement of these pensions amounts to £12,275 per annum.
15. It is proposed that the current practice of abating pensions ceases and our policy is worded to this effect.
16. There are two potential options open to the AB if it is agreed to support a change to the existing policy:

- To cease abatement at a date, in the future, agreed by committee for all future retirements only.
  - To cease abatement for all new and existing cases with effect from a date agreed by committee.
17. If we were to cease abatement only in respect of future cases from an agreed date in the future, there is the risk that those pensioners where abatement continues to be applied will consider our treatment of them to be harsh when compared to new retirees in the same position but where no reduction is applied. Members are recommended to agree the cessation of abatement in all cases as shown above.
18. In order not to 'fetter' our discretion it is necessary to reserve the right to apply an abatement in 'exceptional' circumstances. An example could be that the scheme is made aware that a scheme member is permitted to retire prematurely and in collusion with the employer is immediately re-employed in exactly the same contractual post.

### **RECOMMENDATION**

19. Members are requested to change the current AB policy with effect from 1 December 2008 and replace it with the following proposed wording:

*"It is the policy of Kent County Council not to abate a pension in payment where the pensioner takes up a re-employment position with a Local Government employer. The council reserves the right to abate a pension in payment, in exceptional circumstances".*

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