

**PERTH AND KINROSS COUNCIL**  
**STRATEGIC POLICY & RESOURCES COMMITTEE**

**17 April 2019**

**RETIREMENT SCHEME**

**Report by Depute Chief Executive, Chief Operating Officer (Report No. 19/116)**

**PURPOSE OF REPORT**

This report proposes changes to the Council's Retirement Scheme to ensure it complies with Local Government Pension Scheme Regulations and remains fit for purpose in supporting business change and organisational transformation.

**1. BACKGROUND/MAIN ISSUES**

- 1.1 The Council's current Retirement Scheme was approved by the Strategic Policy & Resources Committee in April 2009, following changes to the Local Government Pension Scheme (LGPS).
- 1.2 The Retirement Scheme provides a range of retirement options for employees and is an important part of workforce planning arrangements which support business change and organisational transformation. Since the removal of the Default Retirement Age in 2011, the timing of retirement has become a matter of personal choice for every employee. Our retirement options support equality of opportunity and valuing diversity as well as providing flexible options for those employees who may wish to improve their work-life balance or may no longer feel they are able to cope with the demands of their position.
- 1.3 There have been a number of recent developments which necessitate a review of the Retirement Scheme to ensure it complies with LGPS Regulations and remains fit for purpose in supporting business change and organisational transformation.
- 1.4 The key developments which influence the review are:
  - 1.4.1 The Local Government Pension Scheme (Scotland) Regulations 2018. These Regulations removed the requirement for employer consent where a member elects to retire voluntarily on or after age 55 but before they reach their normal pension age. Removal of this requirement therefore enables any member to elect to retire early once they reach the age of 55; however an actuarial reduction will apply, unless agreement is made with the employer for this to be waived.
  - 1.4.2 Flexible retirement requests have been agreed for up to a maximum of 3 years before retiring from the Council in order to facilitate effective workforce and succession planning. Experience of the operation of this provision has indicated a shorter timeframe is desirable. In practice, the average length of service in flexible retirement is just under two years.

- 1.4.3 The current Retirement Scheme allows for a discretionary award of up to 6 2/3 compensatory added years for employees aged over 55 and based on continuous service with the Council or predecessor Councils. For reasons of affordability and ensuring a shorter payback period, the Executive Officer Team has used its delegated authority to restrict the discretionary award of added years on a consistent and equitable basis. Experience of the operation of this provision, continuing financial challenges and the development of other workforce management tools mean the award of added years is no longer an essential business tool.

## 2. PROPOSALS

### Voluntary Early Retirement

- 2.1 The Local Government Pension Scheme (Scotland) Regulations 2018 which came into force in June 2018 removed the requirement for employer consent where a member elects to retire voluntarily on or after age 55 but before they reach their normal pension age. Previously, any employee aged between 55-59 would have required employer consent before they could access their pension.
- 2.2 Accordingly, it is **proposed** that the Voluntary Early Retirement provisions of the Council's Retirement Scheme are updated to reflect the fact that employees can elect to retire from the age of 55 onwards, without employer consent and with an actuarial reduction in their pension, in accordance with the Policy Discretion Policy.

### Flexible Retirement

- 2.3 An employee who is a member of the LGPS may request to receive their retirement benefits and to continue working with the same employer under a Flexible Retirement option, subject to them: being aged 55; taking a reduction in hours or grade equating to at least a 20% reduction in salary; and the Council agreeing to the revised working arrangements and release of pension benefits.
- 2.4 Under the delegated authority within the Pension Discretion Policy, and since 2012 the Executive Officer Team has approved flexible retirement arrangements where there is a sound business case which includes an agreed retirement date within 3 years of commencing the flexible retirement arrangement. The business rationale for agreeing a final retirement date in cases of flexible retirement is to allow effective workforce and succession planning to facilitate operational service delivery, improvement and transformation.
- 2.5 This 3 year maximum for flexible retirement arrangements has proven to be successful and has facilitated service redesign and transformation as well as providing a more structured environment for succession planning across Services. However, in recognition of the increasing pace of change within the local government environment, and to provide some additional flexibility, it is

**proposed** that the maximum period for flexible retirement be reduced to 2 years for all new requests. In **exceptional** circumstances, it is **proposed** there is an option for the Council and employee to mutually agree an extension period of up to 2 further years. No further extension will be granted and, in all cases, the employee will agree to leave the Council's employment on grounds of retirement from that post at the end of the flexible retirement period. It is therefore proposed that these features are incorporated in the revised Retirement Scheme.

#### Early Retirement On Grounds of Efficiency of the Service/Redundancy

- 2.6 The LGPS allows Councils to exercise discretion in the award of added years for employees taking early retirement on grounds of efficiency of the service or redundancy. The Council's existing Retirement Scheme includes provision for employees aged 55 and over to be eligible for a discretionary award of a maximum of 2/4/6 $\frac{2}{3}$  added years for 10/20/30 years' continuous service. Early retirement on grounds of efficiency of the service or redundancy are available only in circumstances initiated by the employer and are considered after other alternatives have been explored.
- 2.7 In 2017, the Executive Officer Team (under delegated authority within the Pension Discretion Policy) determined that, for affordability and consistency reasons, the award of added years for retirement on the grounds of efficiency of the service would be restricted to a maximum of 1/2/3 added years for 10/20/30 years' service. (No added years have been awarded for retirement on grounds of redundancy in which case a redundancy payment is payable along with immediate access to pension without actuarial reduction.) A benchmarking exercise carried out at that time indicated that only a small number of Councils continued to offer a maximum of 6 $\frac{2}{3}$  added years and the majority of Councils had scaled back their maximum awards to 3 years or less.
- 2.8 There has been some recent discussion about the potential removal of added years' payments at the Scottish Pensions Liaison Group in view of the costs involved in these discretionary payments and their affordability. In view of interest in the cost of exit payments and legislative changes in England and Wales, in 2017, the Scottish Government carried out a consultation exercise "A Severance Policy for Scotland" which sought views on whether changes should be made to exit payment arrangements across the devolved public sector in Scotland. To date, there has been no response from the Scottish Government on this exercise. It should be recognised that Scottish Councils are recognised as operating efficient and cost effective exit arrangements with robust business cases and payback periods, generally within 2-3 years. This is not necessarily the same across other public sector organisations in Scotland. The 2003 Audit Scotland report "Buy Now Pay Later" made a series of recommendations in relation to early retirements, including a requirement that Councils should rigorously appraise individual cases to ensure the expected savings associated with a retiral outweigh the costs. These recommendations have been incorporated into the governance arrangements within Perth & Kinross Council which are subject to regular internal and external audit.

- 2.9 It should be recognised that, for many employees, there will be a significant financial benefit when the employer meets the strain on the fund pension costs associated with early retirement on grounds of efficiency of the service or redundancy. In these circumstances, employees avoid the significant financial penalties imposed through actuarial reductions to their pension. In general terms, actuarial reductions can reduce an employee's pension by approx. 4% for each year they retire early before their normal pension age. By way of illustration, a man wishing to retire 7 years before his normal pension age would see his pension reduced by up to 33%. A woman in the same situation would see her pension reduced by up to 31%. Normal pension age within the LGPS was aligned with State Pension Age as a result of the changes introduced in 2016 and will ultimately rise to 67 by 2028.
- 2.10 Therefore, in light of the significant financial benefit to an employee in being able to immediately access an unreduced pension when taking early retirement on grounds of efficiency of the service or redundancy, it is **proposed** that the Council removes the LGPS discretion to award added years to any employee with a leaving date beyond 31 March 2020. In effect, the delayed effective date allows consideration of an award of added years for employees who retire early on the grounds of efficiency of the service by 31 March 2020, ensuring consistency with the terms offered under recent voluntary severance schemes where employees have agreed retirement dates within the same time period.

#### Accessing Preserved LGPS Benefits

- 2.11 Scheme regulations allow former employees to request early release of their preserved pension benefits prior to attaining age 60 and payment of these benefits is made if employer's consent is given. Perth & Kinross Council is contacted by Dundee City Council when former employees submit a request for their preserved benefits to be released from the Tayside Pension Fund. The Council has refused all requests which would incur any cost by the Council as the former employer. Currently, the Executive Officer Team has delegated authority to make decisions in respect of such requests. In order to streamline the process, it is **proposed** that the Pension Discretion Policy is amended to give delegated authority to the Corporate Human Resources Manager, in consultation with the Head of Finance, to assess and respond to these requests in the future.

#### Pension Discretion Policy

- 2.12 The LGPS Regulations require employers to publish a statement of policy in relation to a range of pension discretions. The Council's Pension Discretion Policy Statement was approved in 2009 and updated in 2015. The Local Government Pension Scheme (Scotland) Regulations 2018 will require a further review of these pension discretions. Amendment Regulations to address some omissions and drafting errors are going through the legislative process; when approved, a further report will be submitted.

### 3. CONCLUSION AND RECOMMENDATION

- 3.1 The Council's Retirement Scheme requires to be updated to ensure that it complies with updated LGPS Regulations and meets the future requirements of the organisation in relation to workforce and business change.
- 3.2 The changes proposed to the Retirement Scheme are in accordance with LGPS Regulations and ensure that the Council continues to provide a range of retirement options for employees, including flexible options for those employees who may wish to improve their work-life balance or may no longer feel they are able to cope with the demands of their job.
- 3.3 Employees have a personal responsibility to plan for their retirement and need to be aware that accessing their pension early will result in a level of reduction unless being granted early retirement on grounds of efficiency of the service or redundancy. The changes proposed to the Retirement Scheme reflect the significant financial challenges facing the Council in future years and ensure that exit costs remain affordable in the context of these financial constraints.
- 3.4 A further report will be presented to the Strategic Policy & Resources Committee updating LGPS pension discretions following implementation of legislation relating to the Local Government Pension Scheme (Scotland) Regulations 2018.
- 3.5 It is recommended that:

The Strategic Policy & Resources Committee approves the revised Retirement Scheme attached as Appendix 1.

#### Author(s)

Name	Designation	Contact Details
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#### Approved

Name	Designation	Date
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	4 April 2019

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	<b>Yes</b>
Corporate Plan	<b>Yes</b>
<b>Resource Implications</b>	
Financial	<b>Yes</b>
Workforce	<b>Yes</b>
Asset Management (land, property, IST)	<b>n/a</b>
<b>Assessments</b>	
Equality Impact Assessment	<b>Yes</b>
Strategic Environmental Assessment	<b>n/a</b>
Sustainability (community, economic, environmental)	<b>n/a</b>
Legal and Governance	<b>n/a</b>
Risk	<b>n/a</b>
<b>Consultation</b>	
Internal	<b>Yes</b>
External	<b>n/a</b>
<b>Communication</b>	
Communications Plan	<b>Yes</b>

### 1. Strategic Implications

#### Community Plan/Single Outcome Agreement

- 1.1 This report supports the priorities detailed in the Community Plan/Single Outcome Agreement.

#### Corporate Plan

- 1.2 This report supports the priorities detailed in the Council's Corporate Plan Priorities and the Corporate Workforce Plan 2018-2021.

### 2. Resource Implications

#### Financial

- 2.1 The Head of Finance has confirmed there are no financial costs directly associated with the proposals contained in this report. The Head of Finance will be consulted on the financial implications of any retirements involving cost for the Council.

## Workforce

- 2.2 There are no workforce implications associated with the proposals contained in this report. The Retirement Scheme will continue to provide employees with a number of retirement options and will continue to be an important part of workforce planning arrangements, supporting business change and organisational transformation. The revised Retirement Scheme supports the workforce priorities set out within the Corporate Workforce Plan 2018-2021.

## Asset Management (land, property, IT)

- 2.3 Not Applicable

## **3. Assessments**

### Equality Impact Assessment

- 3.1 The proposals contained within this report have been considered under the Corporate Equalities Impact Assessment process (EqIA) and assessed as relevant with the following positive outcome:
- a) The Local Government Pension Scheme (Scotland) Regulations 2018 removed the requirement for employer consent where a member elects to retire voluntarily on or after age 55 but before they reach their normal pension age.
  - b) Removal of the LGPS discretion under the Council's Voluntary Early Retirement provisions to award added years where an employee retires early on the grounds of efficiency of the Service/Redundancy.
- 3.2 This will, in effect, eliminate any potential inconsistency or bias on the grounds of age or gender.
- 3.3 The Equality Impact Assessment undertaken in relation to this report can be viewed clicking [here](#).

## **4. Consultation**

### Internal

- 4.1 The Head of Finance has been consulted in the preparation of this report. The Corporate Management Group and Executive Officer Team have also been consulted in the preparation of this report. The trade unions who represent employees covered by the Retirement Scheme have been consulted on the changes and their feedback incorporated, where appropriate.

## External

- 4.2 The Pension Team at Dundee City Council has been consulted in the preparation of this report.

## **5. Communication**

- 5.1 Once approved, the revised Retirement Scheme will be published on the Retirement pages on ERIC. There will be specific workforce communications around the removal of the award of added years with effect from 1 April 2020. All other changes in the Retirement Scheme will be effective for new requests.

## **2. APPENDICES**

Appendix 1 – Perth & Kinross Council Retirement Scheme