# BRIEFING NOTE

**TO :** **BUDGET AND PERFORMANCE PANEL**

**FROM :** **HEAD OF FINANCIAL SERVICES AND HEAD OF LEGAL & HUMAN RESOURCES**

**SUBJECT :** **PENSION LIABILITIES**

**DATE :** **06 SEPTEMBER 2010**

## 1. INTRODUCTION

The purpose of this briefing note is to provide the Panel with a response to the issues raised at their meeting on 08 June 2010 in respect of pension liabilities. Given the nature of the request this response focuses on liabilities in relation to early retirements, rather than the general annual costs arising from employer contribution rates.

## 2. IMPACT OF PENSION LIABILITIES FROM 2010 TO 2015

The tables below provide summaries of budgeted/forecast pension costs associated with early retirements over the 5 year period in question and how those costs will be financed.

**Charged to Annual Revenue Budget**

| | **Pre April 08 Early Retirements** |
|---|---|
| | £ |
| **2010/11** | 314,600 |
| **2011/12** | 311,600 |
| **2012/13** | 311,600 |
| **2013/14** | 311,600 |
| **2014/15** | 311,600 |

The above costs all relate to early retirements effected prior to 31 March 2008, and are in respect of "added years" granted at the time the early retirements were approved. The granting of added years was allowed under previous Local Government Pension Scheme (LGPS) Regulations and indeed for many years it was the norm, but these Regulations were superseded on 01 April 2008 and after that date no further added years have been awarded. There are still some discretionary provisions applicable on an individual basis but their use has not been approved in any cases to date - and it is very difficult to envisage any circumstances in which their use would be approved.

The costs as shown above will continue until the death of the person to whom the award was granted; for the purposes of projecting forwards, no assumptions have been made regarding mortality rates.

As added years have now generally ceased to be awarded, the only direct pension cost falling on the Council as a result of any early retirement is known as the Pension Fund Strain. This is payable to the Pension Fund, effectively to compensate it for the contributions that would have been made by employer and employee between the early retirement date and the normal retirement date, and to reflect also the costs associated with the fact that pension is being paid earlier than normal. Sometimes the Pension Fund Strain is referred to as a 'capital cost' but it is actually charged to revenue.

For the five year period in question, only costs arising from approved early retirements are known. Whilst further changes will be made to the Council's establishment over time, it is not known to what extent further early retirements may be considered. For that reason, no costs are shown beyond 2011/12.

The table below shows current estimated costs in 2010/11 to be £471K, but these will be chargeable to the Restructuring Reserve and not the Revenue Budget directly. As these are one-off costs no further payments are due to the Pension Fund and so there will be no ongoing costs to the revenue budget. There will, however, be savings arising, as covered in the Corporate Financial Monitoring report, included in the agenda for the September meeting.

**Funded from Restructuring Reserve**

| | £ |
|---|---|
| **2010/11** | 470,900 |
| **2011/12** | 0 |
| **2012/13** | 0 |
| **2013/14** | 0 |
| **2014/15** | 0 |

## 3. RELATIONSHIP BETWEEN VOLUNTARY REDUNDANCY ON PENSION LIABILITIES (WHETHER IT IS FINANCIALLY BENEFICIAL TO THE COUNCIL TO EMBARK ON VOLUNTARY SEVERANCE/REDUNDANCY TAKING INTO ACCOUNT LUMP SUMS AND PENSION ENHANCEMENT OF STAFF LEAVING COUNCIL SERVICE)

There is no relationship between the cost of voluntary severance/redundancy on pension liabilities as each is calculated independently. Redundancy payments are based on age and length of service and are subject to the statutory/enhancement provisions within the ER/VR policy, and pension costs relate to the number of years membership the employee has had with the Pension Fund.

In terms of the whether it is financially beneficial to grant voluntary redundancy / early retirement (ER/VR), the ER/VR policy stipulates that each request for ER/VR must achieve a payback of no more than 3 years, or less if the employee is eligible to retire sooner. Therefore, all costs must be covered within this period and thereafter, if not before, savings will accrue annually from deleted posts etc. The 3 year period is therefore the current basic test for financial viability.

## 4. BLUE SKY THINKING ABOUT HOW TO REDUCE PENSION LIABILITIES (TAKING INTO CONSIDERATION HOW OTHER LOCAL AUTHORITIES HAVE TACKLED THIS ISSUE)

Pension liabilities arising from ER/VRs approved in line with current policy cannot be reduced (other than by not approving applications, which would result in the loss of future savings).

The Early Termination of Employment Policy was reviewed in 2009 and approved by Personnel Committee on 29 July 2009. One of the objectives set at that time was to review the policy following the senior management restructure.

This review has commenced and has been informed by the application of the arrangements within the policy document over the past 12 months.

## 5. INITIAL FINDINGS AND COMMENTS

Although in the main the features of the policy are clear, further detail is needed in relation to Voluntary Redundancy applications, as there is the potential for particular points to be disputed. This will be addressed as part of the review process.

Consideration is being given as to the appropriateness of enhanced rates of redundancy pay, although this is a contentious matter. At present, the policy allows for voluntary redundancies to receive an enhanced payment based on a multiplier of 2.2 to the statutory formula. This is a discretionary element within the policy and would require consultation and Member approval to amend it.

It should be noted that as referred to earlier, there are discretionary provisions still in force to provide greater pension benefits to individuals in certain circumstances but as no cases have been approved, no costs have arisen.

In certain circumstances an employee who is made redundant (compulsory or voluntarily) is eligible to realise of pension benefits. Although the age limited for eligibility has just changed from 50 years of age to 55 years of age, this is not a discretionary feature of the pension's scheme; therefore this will remain in place, subject to any changes in the Local Government Pension Regulations.

In some circumstances a significant part of the cost burden which the Council will incur when an employee is dismissed due to redundancy, is the additional Pension Fund Strain. There is no flexibility in relation to this cost.

Although informal discussion have take place with the recognised trade unions, formal consultation will follow as part of the normal procedures within the Council once the revised document has been developed.