

**REPORT TO:** Cabinet

**MEETING DATE:** 13 November 2012

**BY:** Executive Director (Support Services)

**SUBJECT:** Annual Pensions Report 2011/12

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## **1 PURPOSE**

- 1.1 To summarise the early retirement activity within the financial year 2011/12, in accordance with External Audit requirements and Council Policy.

## **2 RECOMMENDATIONS**

- 2.1 That Cabinet notes the content of the report with regard to the pension activity in the financial year 2011/12.

## **3 BACKGROUND**

### **3.1 Council's Retirement Activity in Financial Year 2011/12**

There are currently four types of pensionable retirements available to the Council for all employees excluding Teaching employees (see paragraph 3.2), they are:

- **Due to Efficiency or Redundancy at the discretion of the Council** - This allows the individual, aged over 55 years (50 if in the Scheme before 5 April 2006), at the discretion of the Council to retire early drawing their pension without any actuarial reduction being applied. In this case the strain costs relating to the early release of the pension are borne by the Council. With effect from 1 April 2009, strain costs are paid by the Council in full at the date of retirement, previously this was repaid to the pension fund over a maximum period of five years.

Following a report to East Lothian Council on 7 December 2010 the Council does not award any added years.

- **Ill-Health retirement** - This occurs where an employee is confirmed by Occupational Health as being permanently incapable of

discharging efficiently their duties because of ill-health or infirmity of mind or body. The employee is permitted early access to enhanced pension in accordance with the Superannuation regulations and requires no exercise of Council discretion. The costs are fully borne by the pension fund.

- **Rule of 85** - This is where an individual aged between 50 and 60 can ask to be considered for voluntary retiral if their service and age combined comes to 85 or over. In this instance there is no enhancement to the pension the individual receives, however there are costs to the council for the early release of the pension. The final decision rests with the Council. The Council bears the strain costs to the pension fund for the early payment of the benefits.
- **Flexible Retirement** – This is a discretionary element of the pension regulations which allows employees who meet certain criteria to draw their pension and continue working on a reduced hours basis. To qualify the employee must be over 55 years old and have a minimum of 2 years pensionable service and they must reduce their working hours by a minimum of 40%. They must however have the Councils agreement as there can be cost to the Council for the early release of the individuals pension. If agreed the employee then continues working on the reduced hours and may opt to rejoin the pension fund while drawing the pension benefits they have already accrued. Alternatively in exceptional circumstances the employee may reduce their grade. This is most likely to happen as a result of a service review and must be to an existing vacancy within the Council.

3.2 **Teaching Employees** - Cabinet approved a report on 9 March 2004 establishing the Policy for Retirement of Teaching Staff within the Council encompassing the “Teachers (Compensation for Premature Retirement and Redundancy) (Scotland) Regulations 1996” for Teaching pensions. This discretion allowed the Council to enhance teachers retirement packages by crediting up to 10 added years of service before calculating the pension entitlement. Cabinet in 2004 limited this enhancement to 4 added years. In a report to East Lothian Council on 7 December 2010 the Council removed this discretion and does not now award any added years.

3.3 A summary of the pension retirements in the financial year 2011/12 is as follows:

- **Compulsory/Voluntary Early Retirement/Severance** – There were 20 Compulsory/Voluntary Early Retirement/Severances in the financial year 2011/12. Eight of which were compulsory redundancies.

Department	Total	Compulsory	Voluntary
People	10	1	9
Communities	2	2	0

Support	8	5	3
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- **Medical Retirement** – There were 17 superannuated medical retirements in the financial year 2011/12 including 1 teaching post, across the Council departments.

Department	Total
People	7
Communities	9
Support	1

- **Rule of 85** – There were no Rule of 85 retirements in the financial year 2011/12.
- **Flexible Retirement** – There were 8 flexible retirements approved in the financial year 2011/12.
- **Teaching Retirement Policy** – in the financial year 2011/2012 there were no voluntary early retirals under the teacher’s retirement policy.

3.4 Details of the Council’s financial commitments relating to pensions are included in the 2011/12 Financial Statements. As a result of ongoing pension costs arising from decisions taken in earlier years, in addition to the “up-front” strain costs now due in the year they accrue, during 2011/12 the Council spent £2.128 million (in 2010/11 £1.175 million) on early retirements for Local Government Workers and £591,848 (in 2010/11 £606,000) on early retirements for teachers.

3.5 The Council has a liability to pay pension costs in the future. At 31 March 2012 this liability was actuarially assessed at £94.03 million (and in 2011 at £79.9 million). As this liability is unfunded, it is a liability to be met from future Council Tax and grant income. The intention of the Pension Fund is to recover this liability over the next 20 years.

3.6 In addition to the above figures, the Council also makes ‘ex gratia’ pension payments to 136 former employees who worked less than 16 hours per week and were aged under 50 at 31 December 1993 and were unable to join the LGSS pension scheme under the statutory rules at the time. The value of these payments during 2011/2012 was £66,870 (and in 2010/11 it was £66,843). The Council took the decision to remove this discretion at Cabinet on 9 June 2009. No new ex gratia pension payments will arise and the existing estimated value of future liabilities based on actuarial mortality estimates is £898,862 - and will therefore reduce over time.

#### **4 POLICY IMPLICATIONS**

- 4.1 The Council is required to report its pension activity annually to Elected Members.

#### **5 EQUALITY IMPACT ASSESSMENT**

- 5.1 It would not be applicable to undertake an Equality Impact Assessment. However, any relevant associated policies would be subject to an Equality Impact Assessment.

#### **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - Early retirement decisions taken in earlier years have created a significant liability for current and future Council Tax payers. In the future it may be necessary to make provisions against the liability.
- 6.2 Human Resources - Finance and Human Resources continue to ensure that any retirements are in accordance with Council Policy and within the Standing Orders and the supporting Scheme of Delegation and also that managers are aware that any pensionable retirement meets the strict efficiency or redundancy requirements and generates the necessary savings.
- 6.3 Other - none

#### **7 BACKGROUND PAPERS**

- 7.1 Future Application of Discretionary Policies relating to Early Retirement and/or Severance – East Lothian Council 7 December 2010.
- 7.2 Policy on Enhanced Compensation for early Retirement on Grounds of Redundancy and Efficiency– December 2010
- 7.3 Lothian Pension Fund Website: [www/lpf.org.uk](http://www/lpf.org.uk)

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