

COMMITTEE: ADMINISTRATION

DATE: 7TH JULY 2008

SUBJECT: THE PENSION FUND & COSTS OF EARLY RETIREMENT

REPORT BY: EXCHEQUER SERVICES MANAGER

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IMPLICATIONS:

LEGAL		COMMUNITY SAFETY
EQUALITIES		ENVIRONMENT
FINANCIAL	✓	CONSULTATIONS
STAFFING	✓	OTHER

WARDS AFFECTED: ALL

PURPOSE

1. To advise Members of the costs borne by the pension fund for the early release of employees since April 2007, on the grounds of early retirement due to redundancy, efficiency of the service, or ill health. The external auditors recommend that annual reports are submitted to Members on this subject.

RECOMMENDATION(S)

2. **Administration Committee is recommended to note this report**

REPORT

3. Council employees are entitled to join the Local Government Pension Scheme (apart from Teachers, who are covered by the Teachers Pension Scheme). Those who join contribute between 5.5% and 7.5% of their salaries, dependant upon their earnings, towards their pension. That

money is invested into a pension fund, together with the Council's contribution, since the Council is required by legislation to pay for the rest of the cost of the pension. There is a pension fund for all Bedfordshire authorities, including Luton. The County Council, who are advised by external actuaries, administers that fund.

4. The actuaries calculate how much each Council should pay to cover their pension liabilities. When they make the calculation, they assume that employees working for the Council will continue until they reach retirement age. If employees are given their pension early, not only is there a shortfall in employee contributions, there is also an earlier than expected payment from the fund. A payment that is likely to be made for more years than if the same employee retired at 65, since statistically those who retire earlier live longer.
5. Under the rules of the Local Government Pension Scheme, anyone retiring at age 50 due to redundancy or efficiency of the service can receive a pension from the date they leave. Anyone under 50 who is made redundant is not entitled to receive their pension until their normal retirement age. An employee at any age may be ill health retired if recommended by the Council's Doctor.
6. The Audit Commission have been particularly concerned about the issue of early retirement, and the cost to Councils that result. They produced a report in 1997, amidst much publicity about the number of early retirements allowed by Councils, and a follow up report in 2000. In addition, the Council's external auditors at the time, Deloitte Touche, carried out specific studies on Luton in 1998 & 2002. Thus the issue of the cost of early retirement has a very high profile.
7. The Council has been very concerned about the costs arising from early retirements and has been pro-active in taking a number of actions, including:
 - Introduced a procedure whereby the costs of early retirement, including the strain on the pension fund, are assessed against the saving arising from making a post redundant.
 - Following the issue of the Equalities legislation in October 2006, ceased enhancements to early retirement benefits, known as "added years".
 - Written the Organisation Change Policy, which promotes the re-deployment of employees where possible and actively seeks to avoid compulsory redundancy situations wherever possible.
 - Human Resources throughout the Council work hard to ensure that this policy is carried out, and have been very successful in achieving redeployment and avoiding redundancy.

8. Since the start of the 2007/8 financial year, there have been six early retirements from the Local Government Pension Scheme on the grounds of ill health, the same number as the previous year. There have been nine early retirements on the grounds of redundancy or efficiency of the service - a reduction of six from the previous year.

FINANCIAL IMPLICATIONS

9. The total estimated cost on the pension fund is £424,322.40, a 15% increase when compared to the previous year, which showed an increase when compared to the year before - this is subject to verification by the actuaries. This is made up of £275,377.79 due to the redundancy cases and £212,350.28 due to the six ill health cases. This has been agreed with the Head of Corporate Finance on 13 June 2008.

STAFFING IMPLICATIONS

10. Officers have managed organisational change in line with the Council's new policy, with a focus on redeployment. Therefore the requests for early retirement have been kept to a minimum. This has been agreed with the Head of Human Resources on 16 June 2008.

LEGAL IMPLICATIONS

11. There are no legal implications to this report and this has been agreed with the relevant solicitor in Legal Services on 16 June 2008.

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

There are no background papers relating to this report.