

COMMITTEE: ADMINISTRATION
DATE: 4TH MARCH, 2003
SUBJECT: THE PENSION FUND AND 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 2002, on the grounds of early retirement due to redundancy 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 6% of their salaries toward their pensions. That money is invested into a pension fund, together with the Council's contributions, 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 the Bedfordshire authorities, including Luton. That fund is administered by the County Council, who are advised by Watson Wyatt, one of the major firms of actuaries.
4. The actuaries calculate how much each Council should pay to cover their pension liabilities. When they make the calculation, they assume that the staff working for the Council will continue until they reach retirement age. If staff are given their pension early, not only is there a shortfall in staff contributions, there is also an earlier than expected payment from the fund. A payment that is likely to be made for more years

that if that same member of staff 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 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 as being permanently incapable of carrying out any Council job.
6. The Audit Commission have been particularly concerned about the issue of early retirement, and the costs to Councils that result. They produced a report in 1997, amidst much publicity about the number of early retirement allowed by Councils, and a follow up report in 2000. In addition, Deloitte Touché, the Council's auditors, 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.
 - In 1997 the Council introduced a procedure whereby the costs of early retirement, including an estimate of the effect on the pension fund, are assessed against the saving arising from making a post redundant.
 - In 1998 it limited the enhancements that could be provided, and introduced a policy of no "voluntary" early retirements
 - In 2002, it further limited the enhancements that could be provided in an attempt to further minimise costs.
 - During the last twelve months the Redundancy & Sickness Absence Policies have been revised.
 - Human Resources staff throughout the Council work hard to ensure that this policy is carried out, and in general have been very successful in achieving redeployment and avoiding redundancy.
8. Since the start of this financial year, there have been 43 early retirements from the Local Government Pension Scheme on the grounds of ill health. There have been 11 early retirements on the grounds of redundancy for Local Government Pension scheme members.

FINANCIAL IMPLICATIONS

9. The total estimated cost on the pension fund is £339,927 (29% reduction when compared to last year) for the redundancy cases and £121,070 (212% increase when compared to last year) for the ill health cases – this is subject to verification by the actuaries.

LIST OF BACKGROUND PAPERS **LOCAL GOVERNMENT ACT 1972, SECTION 100D**

There are no background papers relating to this report.