

Abatement of Pensions

The Local Government Pension Scheme (LGPS) regulations allow an Administering Authority (AA) a broad discretion to abate (reduce) any pension in payment where a pensioner obtains further employment with any LGPS employer.

The AA has the discretion to reduce a pension such that the salary in the new employment plus the pension in payment does not exceed the salary the member earned prior to receiving a pension. Any such discretionary abatement ceases when the LGPS employment ends.

However, it should be noted that there is **no** discretion to abate a pension awarded under a flexible retirement agreement where the member is still in the same employment to which the flexible retirement relates.

Current Policy and Practice

The current policy applies abatement where it is required by statute to do so and in respect of ill-health retirements. The table below sets out current practice:

Retirement Type	Statutory Abatement	Discretionary Abatement	LCPF current Practice
Ill Health retirement (benefits are normally enhanced/reductions are waived)	No	Yes	Abatement applied
Redundancy/efficiency retirement with compensatory added years*	Yes**	Yes	Abatement applied **
Redundancy/efficiency retirement (reductions are waived)	No	Yes	No abatement
Retirement Augmented by employer (additional pension/service awarded)	No	Yes	No abatement
Early retirement where reductions waived by employer	No	yes	No abatement
Early retirement where reductions not waived	No	yes	No abatement
Normal Retirement (No reductions. Paid at State Pension Age or protected earliest retirement age)	No	Yes	No abatement

*Compensatory added years are an historic benefit and are no longer applied

**Only the added years element is abated

Potential Change

The Fund pays out around £185m in pensions each year to more than 43,000 pensioners and dependants. At the last actuarial valuation the average annual pension in payment was £4,510.

Clearly, assessing and potentially abating all pensions in payment would be administratively impossible without significant additional resource and, given the average pension in payment described above, it would seem that the additional work would be without material financial gain to the Fund. It could also be confusing, distressing and detrimental for thousands of mature local government workers currently undertaking low paid, part time roles to supplement their income.

However, it would be possible to develop an abatement policy which would affect only certain pensioners such as former high earners, by using an annual pension threshold where for example only annual pensions exceeding £30,000* would be subject to abatement. This would remove the issues involved in applying abatement indiscriminately but would serve to mitigate reputational risk in terms of paying out pensions to former high earning local government employees who potentially retire with unreduced pension benefits and immediately secure further employment with another local government organisation i.e. the so called 'double-dippers'.

**there are currently 385 pensioners receiving a pension of at least £30,000 per annum, whose average salary at retirement was £68,000.*

Recommendation

That a policy be adopted where

- Abatement is applied to all pensions in payment where the annual pension (not including any AVC element) exceeds £30,000 (to be increased each year in line with inflation).
- Ill-health pensions continue to be abated.

NB if approved, the revised policy would apply to all pensions in payment. It is proposed that assessments will first be undertaken with effect from 1 April 2016 relating to the 2016/17 financial year.