

Appendix 'A'

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 Abatement Options

Administering Authorities have a wide discretion to abate pensions using a number of locally-agreed criteria. Taken literally, this means that any pensioner who takes on further employment with a LGPS employer, can have their pension abated according to their fund's discretionary policy.

AAs in developing a policy could, for example, choose to abate as follows:

- do not abate any pensions;
- apply abatement only to 'high earners', e.g. where pension exceeds £30,000
- abate subject to a maximum reduction in pension, say a maximum reduction of £5,000;
- where new salary plus pension cannot be reduced below, say, £20,000;
- only where the pension paid is above the fund average (or any other threshold);
- abating only when a pension has been paid at extra cost to the previous employer (generally speaking this would mean where a member aged 55 or over was made redundant – see below).

Recently Announced Government Consultation – Proposed £95k Redundancy Cap

Any LGPS member aged 55 or above is entitled to receive their pension, however where this is taken before 'normal retirement age' – approximately age 65 upwards – the pension is reduced to reflect the fact that it will be paid for a longer period than would have otherwise been the case.

LGPS members aged above 55, if made redundant, are entitled to receive an unreduced pension. The cost of, in effect, waiving reductions, is borne by the employer by means of making a cash payment into the pension fund. These "pension strain" costs can be significant.

The Government recently announced a consultation with a view to capping redundancy costs within the public sector; in essence the proposal is to limit the total cost of redundancy to £95k

In general redundancy costs comprise a lump sum redundancy payment based upon salary and years of service plus, for those aged 55 or over, the cost of waiving pension reductions. The core proposals include taking into account the cost of waiving pension reductions as part of the cap, and are summarised as follows:

- A cap of £95,000 on the total value of exit payments (before tax) to employees in the public sector;
- A cap covering all forms of exit payments including cash lump sums, the cost of early payment of pension benefits and other non-financial benefits such as additional paid leave; and
- A cap applying to all types of arrangement including formal redundancy schemes, collective agreements and contractual arrangements.

The implications of the potential cap are significant, and could arguably lead to a form of abatement being imposed upon the LGPS outside of the existing discretionary framework. Taken at face value there could be a situation where pre-cap pensioners who have been made redundant benefit significantly over their peers who were made redundant (whether voluntarily or compulsorily) post-cap.

To illustrate how the cap could affect LGPS members, the following illustrations have been provided by actuaries as potentially affected:

A member with 30 years of membership and final pay of £39,000

A member with 10 years of membership and final pay of £75,000

Taken literally the cap if applied to these members would place them in a worse position than peers who were made redundant before the cap was introduced, although the exact mechanics of how this may apply are not made clear in the consultation document. As such it may at present be deemed too difficult to set an abatement policy which took into account any issues around the cost of waiving pension reductions.

The Government's consultation document is not clear on what consequential changes to the LGPS regulations are proposed if the £95k cap is implemented and the option chosen could impact on the practicality of different forms of abatement policy.

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.

Were a decision taken to amend the current abatement policy, consideration would need to be given to any administrative issues arising; for example 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.*

At the same time the uncertainty introduced by the proposed '£95k cap' would suggest that making a change of policy before the impact of the current consultation is fully understood could lead to the need for a subsequent change in policy within a short period.

Recommendation

That a policy be approved and adopted where:

- No change to current abatement policy is considered until the outcome of the '£95k cap' consultation is fully understood.
- Ill-health pensions continue to be abated (i.e. as per current policy).