COMMITTEE: Pensions Committee	DATE: 24 February 2015	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Anant Dodia Pensions Manager**		TITLE: **Review of discretions under the Local Government Pension Scheme** Ward(s) affected: N/A		

1. SUMMARY

1.1. The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 required all scheme employers to review their existing discretionary pension arrangements and publish new policy statements.

1.2. On 16 July 2014, Members considered the authority's discretionary pension arrangements and agreed that a further report be brought to this Committee following a detailed review of the discretions.

1.3. A complete review of all the required authority discretion decisions and policies has been undertaken.

1.4. The Pension Regulations require that in preparing or making revisions to its pensions policy statements, the scheme employer must have regard to the extent to which the exercise of any of its policies could lead to a serious loss of confidence in the public service. The exercise of any discretions must therefore be reasonable, affordable, and justified in the circumstances and be consistently applied.

1.5. This report summarises the Pension Policies which need reviewing at this time and make recommendations for the adoption of new policy statements. There are five discretions to reconsider.

1.6. The adoption of current policy in relation to the discretionary provision of the new Scheme will not prevent the Council from reconsidering any of its decisions at a later stage should it be felt prudent to do so for the proper governance of the scheme.

2. DECISIONS REQUIRED

2.1 The Committee is recommended to approve:-

(i) The employer discretions set out in Section 4 of this report, and

(ii) The policy statement set out at Appendix 1.

3. BACKGROUND

3.1 The cost of providing public sector pension schemes has been steadily increasing over many years and the previous Government was concerned about their long term sustainability. As a result the Government appointed

Lord Hutton to chair an independent Public Services Pensions Commission to undertake a fundamental review of public sector pension provision.

3.2 The Government accepted the Commission's recommendations and government departments negotiated with the relevant employer representatives and trade unions, and as a result the LGPS Regulations 2013 came into force on 1st April, 2014.

3.3 The new regulations require all scheme employers to review their existing discretionary pension policy statements and publish new statements effective from 1st April, 2014. It is a requirement that the discretion policy statement is agreed and published.

4. DISCRETIONS TO BE REVIEWED WITHIN THE SCHEME

4.1 There are five 'Employer Discretions' available within the LGPS Regulations 2013 which require a decision by each employing Authority. The first four discretions have previously been agreed by the authority and it is recommended that these are continued. The fifth one is a new discretion and it is recommended, to adopt this discretion. Full details are outlined in the Policy Statement attached at **Appendix 1** and detailed below is a summary of the options for consideration.

- Whether the council will pay towards the cost of Shared Cost Additional Pension Contributions (SCAPC) made by an active scheme member to purchase extra pension benefits of up to £6,500 per annum.
- Whether to permit flexible retirement for staff aged 55 or over.
- Whether to waive in whole or part any actuarial reduction on benefits which a member voluntarily draws before normal pension age.
- Whether to grant an additional pension of up to £6,500 to an active pension scheme member or within six months of leaving to a member whose employment was terminated on the grounds of redundancy or retirement on the grounds of efficiency.
- Whether to apply the '85 year rule' for a scheme member wishing to voluntarily draw benefits on or after age 55 and before age 60.

4.1.1 **Decision 1** - Employees can voluntarily choose to make Additional Pension Contributions; there is the option for the employer to share the cost, under Shared Cost Additional Pension Contributions (SCAPC).

The LGPS regulations allow members to make additional pension contributions (APC) to the LGPS at their own cost either by a one-off lump sum or by regular on-going contributions in order to purchase additional pension. They also allow for shared cost additional pension contributions with costs shared between the employer and employee (SCAPCs).

The amount of additional contributions to be paid is determined by reference to actuarial guidance issued by the Secretary of State. For example a 55 year old female wishing to make contributions over a 10 year period to purchase an additional £6,500 will be required to pay extra £921.05 per month. The employer could decide to pay a certain percentage of the above monthly contributions. Alternatively a one off lump sum cost is £84,968.

- <u>Employer Benefits</u>

  - The provision could be used as a recruitment and retention tool e.g. for hard to fill posts.

- <u>Employer/Employee Disadvantages</u>

  - The cost of purchasing additional pension could be substantial.

  - There might be potential tax implications for the member in relation to annual and lifetime allowances.

Options suggested are:

(a) To make use of the discretion in exceptional circumstances where there is a clear financial or operational advantage for the Authority in doing so. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.
(b) Continue not to exercise this discretion and not to fund on Shared Cost Additional Pension Contributions (SCAPCs)

This discretion was not previously adopted due to material cost implications. It is therefore proposed that at this time the Council will continue not to exercise this discretion and will not fund SCAPC on the basis of affordability

Recommendation:

It is recommended that option (b) is adopted.

4.1.2 **<u>Decision 2</u>** - The discretion to allow Flexible Retirement.

The LGPS Regulations allow a member aged 55 or over who reduces their working hours or grade, with their employer's consent, to receive immediate payment of all or part of their retirement benefits. Additionally, the employer may decide to waive any actuarial reduction that applies.

Flexible retirement allows a pension scheme member who has attained the age of 55 to request payment of their accrued pension benefits even though they have not ceased to be employed. This request can only be considered if the member of staff either reduces their working hours and or their grade. Payment of pension benefits under this provision is not automatic and can only be made if the Council consents to that payment. There is no provision to subsequently withdraw benefits granted under this provision. The LGPS also allows the member to build up new pension rights in the LGPS based on the new hours and or grade. A member requesting flexible retirement is not required to draw all of the benefits due to them instead s/he may choose to receive all, some or none of the benefits built up on membership from 1 April 2008 onwards. However, s/he must draw all of the pre-April 2008 accrued benefits. As the member has a choice of partial drawdown, the cost to the employer may be affected by this choice.

The Council's current policy is to permit flexible retirement on the merit of each individual case. The Council has the discretion to waive the early retirement reduction, but has stated that it will not normally be exercised other than in exceptional circumstances or on compassionate grounds.

- Benefit to the Employer

  - Flexible retirement can enable the employer to retain the services of a skilled and experienced employee in a situation where the employee may, due to factors outside the workplace, have previously chosen to resign or take full retirement. It can act as a useful retention tool, particularly in hard to fill posts, as part of the Council's Corporate Workforce Strategy, particularly in areas which combine an aging workforce with recruitment and retention difficulties, and act as a beneficial enhancement to the Council's existing Flexible Working provisions.

  - Flexible retirement acts as a useful tool for the employer when managing organisational change or staffing reductions, and could provide an alternative solution in situations which otherwise might have involved redundancies or efficiency retirements with associated employer costs. It offers a means to manage capacity, to assist with succession planning and to potentially create career opportunities for younger employees who are currently underrepresented in the workforce.

  - Savings can be made through a reduced salary but it would depend on the needs of the Service and individual factors which need to be taken into account when considering requests for flexible retirement as well as the budget impact and on-going revenue savings.

Benefit to the Employee

  - For the employee, it becomes possible to 'partially' retire, to draw pension benefits but in the meantime remain in employment in a changed capacity which can offer greater flexibility. The flexibility can help employees manage their work-life balance, help them step-down towards full retirement and/or help them manage commitments outside the work place. It should be noted however that any new pension scheme entitlements in the 'step down' post are built up in the new scheme LGPS 2014 and will have a later normal retirement age linked to the state pension age (SPA).

Issues:

There is a potential cost to the employer as any existing 85 year rule protections apply for flexible retirement; generally retirements over age 55 when membership of the LGPS started pre October 2006. The length of service/age will determine whether there is protection. The 85 year rule is determined by adding the employee's age to the calendar length of pensionable service in whole years and applies, prevents or limits actuarial reduction where the total exceeds 85 at retirement or before reaching normal retirement age. Whilst Flexible Retirement can bring many benefits, there are some practical issues which could present difficulties for the employer.

Where a reduction in hours is requested this may have an impact on the delivery of services, particularly where the request is to reduce by only a few hours per week and it is therefore difficult to recruit a replacement. A request to reduce hours may also be difficult to agree to where part-time working is not suitable in meeting business demands or where the member is already working reduced hours.

Agreement to a request to reduce grade may be dependent on whether there is suitable work available at the lower grade, and whether the duties no longer performed can be covered by other means.

Any decision to waive all or some of the actuarial reduction that may apply to the member’s benefits would require the employer to meet the additional cost incurred by the pension fund. It should be noted that in all cases, once agreed, the payment of flexible retirement benefits is irrevocable regardless of whether the member resigns after only a short time in the new post.

The likely level of future take-up of flexible retirement is not known. There may be risks that should a large proportion of employees request flexible retirement there could be a detrimental impact to services although this has not been apparent in the operation of the scheme so far. On the other hand, there could be potential saving of redundancy pay.

As the level of likely take-up is not known, the potential costs are also impossible to estimate, although costs are mitigated by assessing each case on its merits e.g. cost/benefit.

Options suggested are:

(a) Not to continue with the discretionary power to adopt a flexible retirement scheme.
(b) To continue to permit a flexible retirement scheme where there is a clear financial or operational advantage for the Authority in doing so. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was previously adopted by the Council and is only agreed if it is in the economic and /or operational interest of the Council’s service to do so. The Council currently operates a Flexible Retirement Scheme as part of its flexible working arrangements and it is proposed that at this arrangement should continue. A summary of the policy is detailed below:

Flexible retirement policy allows a member of the Local Government Pension scheme aged 55 or over, to reduce their contractual hours (the reduction in hours should normally be at least 40 per cent of the previous hours worked or moved to), to work in a lower graded post (the reduction in grade should normally be at least two grades or 25 per cent drop of gross salary), and draw their pension benefits from that time, whilst continuing if they wish, to accrue further benefits in the continuing employment. The reduction in hours or grade should not be temporary and will require their manager's consent. Their request will be considered on its merits (e.g. failing health/work life balance) and will only be agreed if it is in the economic interest and/or operational interests of the service to do so.

Recommendation:

It is recommended that option (b) is adopted.

4.1.3 **<u>Decision 3</u>** - The Council has the discretion to waive actuarial reduction to pension, the costs of which will be borne by the Council.

The LGPS 2014 regulations include a significant change in that an active member of the LGPS or a deferred member, can choose to retire voluntarily from age 55 without the employer's consent. Currently employer's consent is required for retirements before age 60, with no employer consent required from age 60. Actuarial reductions will apply to pensions taken from age 55 up to normal retirement age using actuarial guidance issued by the Secretary of State.

For some members employers may agree to waive all the actuarial reduction on compassionate grounds or part of the actuarial reduction on any grounds. Waiving the reduction would require the Council to make a payment to the pension fund for the shortfall created by paying the pension early without reduction, known as a pension strain payment or employer pension cost. For pre LGPS 2014 members with 85 year rule protections on membership to April 2014 [April 2016 if will be age 60 before this date or April 2020 if will be age 60 between April 2016 and April 2020], the Council may choose to waive all actuarial reductions applicable to this membership on the grounds of compassion. In relation to membership built up from April 2014 [April 2016 or April 2020] onwards, the Council may choose to waive all or some of the reductions on any grounds.

Currently the policy on waiving any reduction in benefits arising from early payment is that the discretion will not normally be exercised, but the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative will consider applications on a case by case basis.

- <u>Benefits to the Employer</u>

  - The employer costs of waiving any actuarial reduction would be the same as if an employee were to be made redundant between the ages of 55 – 60. However, in circumstances where redundancy was not an immediate option, but potentially possible in the medium term, there could be a saving in cost through avoiding any future redundancy payment and mitigation of on-going salary payments.

- <u>Benefits to the Employee</u>

  - If a request to retire early is granted without actuarial reduction, the employee receives pension as earned without the reduction ahead of normal retirement age.

Options suggested are:

(a) Not to make use of discretion to waive all or part of the actuarial reduction

(b) To consider the use of the discretion, the Council will waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was previously adopted by the Council, and is only agreed if it is in the economic and /or operational interest of the Council's service to do so. The Council will continue to waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds would this be considered. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

Recommendation:

It is recommended that option (b) is adopted.

4.1.4 **<u>Decision 4</u>** - The discretion to award additional pension (whole cost to employer).

This provision enables the employer to award an additional pension to an active member. Under the LGPS 2014 regulations, the discretion to award an additional pension of £6,500 per annum (from the previous maximum of £5,000) has been introduced. The Council's current policy is generally not to award additional years of service or added pension to employees. The former is no longer applicable and therefore does not need to be reviewed.

➢ <u>Benefits to Employer</u>

- The provision could be used in a range of circumstances, including as a recruitment and retention tool or as part of the compensation for dismissal on the grounds of redundancy (including business efficiency). In the latter case, arrangements must be made within 6 months of the date that the employee's employment ended. Where an award is made on these grounds, no additional lump sum compensation can be paid in excess of a maximum severance payment of statutory redundancy with weekly pay limit waived.

➢ <u>Benefits to Employee</u>

- The employee receives an increased pension without needing to voluntarily purchase it.

Issues:

The cost of awarding additional pension could be substantial and once awarded the pension cannot be taken away i.e. the employee could leave with the benefits intact. As a guide the cost of purchasing a pension of £6,500 for a male aged 40 years is £50,310 and for a female aged 40 years is £54,418. These costs increase the older the individual, for example rising to £71,158 for a female aged 50 years. There can be potential tax implications for the member in relation to annual and lifetime allowances. There are possible age and sex discrimination risks. The amount of employer contribution may vary in relation to the member's normal retirement age, which may cost less for women than a comparator male due to variations in the state retirement age. Possible age discrimination risks might occur if younger employees were directly excluded or any discretion was exercised on age factors alone.

Options suggested are:

(a) Not to make use of the discretion on additional pension contribution.
(b) To consider each application for additional pension on its merits, where it is in the employer's interests and taking into account the employer costs of the additional pension. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This discretion was not previously adopted by the Council due to material cost implications. It is therefore proposed that the Council will continue not to exercise this discretion on the basis of affordability.

Recommendation:

It is recommended that option (a) is adopted.

4.1.5 **<u>Decision 5</u>** – The "85 year rule" can be activated for individual employees, prior to age 60 in the case of Early Voluntary Retirement, the cost of which will be borne by the Council.

The 85 year rule was introduced to the Local Government Pension Scheme from 1 April 1998 replacing the previous 'rule of 25', and allowed pension benefits to be paid unreduced once the member's age and service added together totalled 85. It was subsequently removed by Statutory Instrument with effect from 1 October 2006, but those with membership when it was part of the scheme still retain a protection to have it applied.

The degree of protection varies dependant on age and members are accordingly split into groups, with different periods of membership attracting different degrees of protection.

The 2014 LGPS scheme removed from the regulations the requirement for the employer to give consent to the release of pension benefits when requested by a member between the ages of 55 and 60.

In the previous scheme the 85 year rule would automatically apply to a member whose benefits were released before age 60 if they met the requirements of the 85 year rule. This would have generated a cost as it meant the benefits were paid without the expected reductions (because of the 85 year rule protection) before the members earliest normal retirement date. The cost of releasing benefits before age 60 would be taken into account when deciding whether or not the employer consented to the early release.

Under the 2014 scheme, now that a member can choose to draw their benefits before age 60 without the consent of their employer, the 85 year rule does not automatically protect their benefits from reduction before the age of 60. Instead the member suffers a reduction up to the point their benefits would have been payable unreduced (i.e. age 60 or the date the 85 year rule is met if later).

As the 85 year rule does not automatically apply to members who would otherwise be subject to it and who choose to voluntarily draw their benefits at age 55 and before 60, this provision allows the employer to switch the rule back on and thus bear the cost of this decision.

- Benefits to Employer

  - Switching the 85 year rule back on might be a mechanism employers would wish to consider to encourage members to retire early to, for example, help achieve a balanced age profile within the workforce or to avoid possible redundancies later (which have attendant greater costs). Whilst also exercising the discretion to waive actuarial reductions would be more expensive than just switching back on the 85 year rule, it would still (in nearly all cases) be less expensive than redundancy.

- Benefits to Employee

  - The employee avoids some or all of the actuarial reduction and receives increased pension benefits.

Issues:

If the employer does agree to switch back on the 85 year rule, the employer will have to meet the cost of any strain resulting from the payment of benefits before age 60.The cost would vary on a case by case basis depending on the employee's degree of protection.

Options suggested are:

(a) Not to make use of this discretion.
(b) To consider each case on its merits, where it is in the employer's interests in doing so and taking into account the employer costs. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

This is a new discretion. It is therefore proposed to adopt this discretion.

Recommendation:

It is recommended that option (b) is adopted.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

5.1 Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the fund. Strain costs are the capitalised financial value of the impact on the fund when a member draws their pension benefits before their Normal or State Pension Age.

5.2 Factors that influence the strain costs are the members' age, length of service, gender and marital status. The impact on the fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than anticipated.

5.3 Whenever individual decisions are taken in the use of discretions the potential cost implications have to be taken into account as part of the consideration process.

5.4 The discretions can only be exercised if there is a minimal impact on the Fund's financial position.

5.5 The Council has a duty to ensure that it is spending public money wisely and any expenditure that arise from decisions taken under the pensions regulations would have to be funded from existing resources.

5.6 Additional comments of the Chief Financial Officer have been incorporated elsewhere in the report.

6. LEGAL COMMENTS

6.1.1 The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Regulation 60 requires Scheme Employers participating in the LGPS to formulate, publish and keep under review a written statement of policy about the exercise of discretionary functions. Those discretions relate to:

a. funding of additional pension;
b. flexible retirement;
c. waiving of actuarial reduction; and
d. award of additional pension.

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6.1.2 In accordance with paragraph 2(2) of Schedule 2 to the Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014, the Council must prepare a written statement on whether to agree to waive in full or part, any actuarial reduction applied to the benefits of a member (pre 1st April 2014 membership) who voluntarily retires and elects to draw their benefits on or after the age of 55 but before the age of 60.

6.2 In preparing, or reviewing and making revisions to its statement, the Council must have due regard to the extent to which exercising the discretions unless properly limited could lead to a serious loss of confidence in the public service.

6.3 The policies do not confer any contractual rights on scheme members and the employer reserves the right to change policy at any time.

6.4 When deciding whether or not to proceed with the scheme, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). A form of equality analysis will be required which is proportionate to the proposed scheme and its potential impact on scheme members, particularly in relation to any decision to award additional pension. The award of additional pension could lead to age or sex discrimination. The amount of an employer's contribution may vary in relation to a member's normal retirement age, which may cost less for women than a male comparator due to variations in the state retirement age. Possible age discrimination might occur if younger employees were directly excluded from the benefit of additional pension or any discretion was exercised on age factors alone.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 The Pension Fund Accounts demonstrate the financial stewardship of the scheme members and employers assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The recommendations ensure that there is no risk to the pension fund and mitigates budgetary risks to revenue.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no any Crime and Disorder Reduction implications arising from this report.

11. EFFICIENCY STATEMENT

11.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	Name and telephone number of holder And address where open to inspection
None	*Anant Dodia* *Tel: 020 7364 4248*

APPENDIX 1

LONDON BOROUGH OF TOWER HAMLETS

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

STATEMENT OF POLICY - EXERCISE OF DISCRETIONARY FUNCTIONS

The Local Government Pension Scheme (LGPS) 2014 effective from 1 April 2014 introduces or amends a number of discretionary elements over which the Council as the employing body can exercise its discretion.

These policy discretions are, where appropriate, as close to the discretions previously applied by the Council.

In accordance with Regulation 60 of the above regulations the Council must formulate, approve, publish and keep under review changes to the Council's Policy in relation to the exercise of its employer discretions under regulations:

- 16(2)(e) and 16(4)(d) (funding of additional pension);
- 30(6) (flexible retirement);
- 30(8) (waiving of actuarial reduction); and
- 31 (award of additional pension).

In addition and in accordance with Paragraphs 2(2) of Schedule 2 to the Local Government Pension Scheme (Transitional Provisions, Savings & Amendment) Regulations 2014 the Council must also prepare a written statement on whether, in respect of benefits relating to pre 1 April 2014 membership, to 'switch on' the 85 year rule for a member who voluntarily retires (leaves employment) and elects to draw their benefits on or after the age of 55 and before the age of 60 thereby agreeing to waive in full or part any actuarial reduction applied to the member's benefits.

The Council is required to send a copy of this Statement to the Pensions Administering Authority and publish it in a place that is easily accessible to all of its eligible scheme employees. There is also the requirement to keep this Policy Statement under review and make such revisions as are appropriate following a change of policy.

Where a revision is made a copy of the revised statement must be supplied to the Pension Administering Authority before the expiry of one month beginning with the date that any such revision is made. The Council must also publish its revised statement ensuring that it is equally accessible.

In preparing, or reviewing and making revisions to its statement, the Council must have regard to the extent to which the exercise of its discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service.

This document outlines London Borough of Tower Hamlets policy on the employer discretions specified in LGPS 2014, effective from 1 April 2014.

PART A – Formulation of <u>COMPULSORY</u> policy in accordance with Regulation 60 of the Local Government Pension Scheme Regulations 2013

Regulation 16 – Additional Pension Contributions
Where an active Scheme member wishes to purchase extra annual pension of up to £6,500* (figure at 1 April 2014) by making Additional Pension Contributions (APCs), the employer can choose to (voluntarily) contribute towards the cost of purchasing that extra pension via a Shared Cost Additional Pension Contribution (SCAPC)

The Scheme employer may resolve to fund in whole or in part any arrangement entered into by an active scheme member to pay additional pension contributions by way of regular contributions in accordance with *Regulation 16(2)(e)*, or by way of a lump sum in accordance with *Regulation 16(4)(d)*.

The Scheme employer may enter into an APC contract with a Scheme member who is contributing to the MAIN section of the Scheme in order to purchase additional pension of not more than the additional pension limit (£6,500 from 1 April 2014 subject to annual increase in line with the Pensions (Increase) Act 1971). The amount of additional contribution to be paid is determined by reference to actuarial guidance issued by the Secretary of State.

<u>London Borough of Tower Hamlets policy concerning the whole or part funding of an active member's additional pension contributions - Regulation 16(2)(e) and 16(4)(d)</u>

The Council's policy is not to establish a Shared Cost Additional Pension Contribution Scheme for its employees either on the basis of regular ongoing contribution or by a one off lump sum. This would be costly and as such the Council <u>will continue not to exercise this discretion</u> on the basis of affordability.

Regulation 30(6) – Flexible Retirement
An active member who has attained the age of 55 or over and who with the agreement of their employer reduces their working hours or grade of employment may, with the further consent of their employer, elect to receive immediate payment of all or part of the retirement pension to which they would be entitled in respect of that employment as if that member were no longer an employee in local government service on the date of the reduction in hours or grade *(adjusted by the amount shown as appropriate in actuarial guidance issued by the Secretary of State – separate policy required under Regulation 30(8)).*

As part of the policy making decision the Scheme employer must consider whether, in addition to the benefits the member may have accrued prior to 1 April 2008 (which the member must draw), to permit the member to choose to draw all, part or none of the pension benefits they built up after 31 March 2008 and before 1 April 2014 and all, part of none of the pension benefits they built up after 1 April 2014.

Due consideration must be given to the financial implications of allowing an employee to draw all or part of their pension benefits earlier than their normal retirement age.

London Borough of Tower Hamlets policy concerning flexible retirement

The Council currently has a policy in place to consider applications for Flexible Retirement which is linked to the Council's policies on retirement and flexible working. The Authority relies upon the knowledge and skills of its employees and as such this policy provides the opportunity for retaining skills and experience as part of a transition towards retirement.

Flexible Retirement allows scheme members age 55 and over to apply to transfer to a lower graded post or to reduce hours of employment and at the same time access their retirement benefits. Both the transfer to a lower graded post or reduction in hours of work and the early release of retirement benefits is employer discretion.

The Council currently operates a Flexible Retirement Scheme and as such this arrangement will continue.

Regulation 30(8) – Waiving of Actuarial Reduction

Where a Scheme employer's policy is to consent to the immediate release of benefits in respect of an active member who is aged 55 or over, those benefits must be adjusted by an amount shown as appropriate in actuarial guidance issued by the Secretary of State (commonly referred to as actuarial reduction or early payment reduction).

A scheme employer (or former employer as the case may be) may agree to waive in whole or in part and at their own cost, any actuarial reduction that may be required by the Scheme Regulations.

Due consideration must be given to the financial implications of agreeing to waive in whole or in part any actuarial reduction.

London Borough of Tower Hamlets policy concerning the waiving of actuarial reduction

The Council will continue to waive reductions only in exceptional circumstances where there is a clear financial or operational advantage for the Authority in so doing or on compassionate grounds would this be considered. This would require authorisation by the Corporate Director of Resources and Head of Human Resources & Workforce Development or their nominated representative.

Regulation 31 – Award of Additional Pension

A Scheme employer may resolve to award

(a) an active member, or

(b) a member who was an active member but dismissed by reason of redundancy, or business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency, additional annual pension of, in total (including any additional pension purchased by the Scheme employer under Regulation 16), not more than the additional pension limit (£6,500 from 1 April 2014 subject to annual increase in line with the Pensions (Increase) Act 1971).

Any additional pension awarded is payable from the same date as any pension payable under other provisions of the Scheme Regulations from the account to which the additional pension is attached.

In the case of a member falling within sub-paragraph (b) above, the resolution to award additional pension must be made within 6 months of the date that the member's employment ended.

<u>London Borough of Tower Hamlets policy concerning the award of additional pension</u>

The Council's policy is not to fund additional pension at whole cost to the employer given the substantial costs associated with introducing an equitable scheme. This would be a costly and as such the Council <u>will continue not to exercise</u> this discretion on the basis of affordability.

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 Schedule 2 – paragraphs 2 and 3

Where a scheme member retires or leaves employment and elects to draw their benefits at or after the age of 55 and before the age of 60 those benefits will be actuarially reduced unless their Scheme employer agrees to meet the full or part cost of those reductions as a result of the member otherwise being protected under the 85 year rule as set out in previous regulations.

So as to avoid the member suffering the full reduction to their benefits the Scheme employer can 'switch on' the 85 year rule protections thereby allowing the member to receive fully or partly unreduced benefits but subject to the Scheme employer paying a strain (capital) cost to the Pension Fund.

<u>London Borough of Tower Hamlets policy concerning the 'switching on' of the 85 year rule</u>

The Council's policy is to consider each case on its merits, where it is in the employer's interests in doing so and taking into account the employer costs. This would require authorisation by the Corporate Director of Resources and the Head of Human Resources & Workforce Development or their nominated representative.

The discretions contained within this Policy Statement are applicable to all eligible members of the Scheme. The Scheme rules allow for a revised statement to be issued at least one month in advance of the date that any new policy takes effect.

The revised statement must be sent to the Pensions Administering Authority and published in a place that is accessible to all of its eligible scheme members.

The policies made above have regard to the extent to which the exercise of the discretions could lead to a serious loss of confidence in the public service and will be exercised reasonably and only used when there is a real and substantial future benefit to the Council for incurring the extra costs that may arise.

The Council retains the right to change this Policy Statement at any time and only the version which is current at the time a relevant event occurs to an employee will be the one applied to that employee.

24 February 2015