

**Committee:** Scrutiny 2  
**Date:** 9 October 2002  
**Agenda Item No:** 4  
**Title:** Early Retirement: proposals to amend PPN  
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### **Summary**

- 1 At its meeting on 27 March this Committee requested the Director of Resources and the Head of Personnel to review the current Early Pension Payments Policy and Procedure (PPN25) and recommend changes to reflect the increasing costs to the Pension Fund and also have regard to early retirement in the context of the practice of other local authorities (Minute S29(i) refers).
- 2 The revised PPN25, which includes recommended changes, is attached to this report (Appendix 1), with important changes shown in bold italics. The original version is also attached for the purpose of comparison (Appendix 2).
- 3 Appendix 1 is recommended to Members as a replacement PPN25, which if agreed will then need to be approved by the Resources Committee on 21 November 2002.
- 4 Heads of Service and Unison have been consulted in the proposed changes and support the introduction of a document which realistically reflects the current financial climate.

### **Background**

- 5 The current PPN was introduced in April 2000 and includes a range of pension options and payments that may be available to employees when the Council voluntarily or compulsorily terminates their employment. Although the PPN states that each circumstance of early retirement will be judged on its own merits it has been interpreted by some staff as offering enhancements as of right. The expectation has therefore been that some additional years would automatically be considered and awarded.
- 6 PPNs 24 and 26 (covering redundancy and redeployment respectively) are referred to in the revised PPN25 but are written in the context of the existing PPN25. If Members agree to the revised PPN (Appendix 1) then PPNs 24 and 26 will be amended to reflect the new position.
- 7 The main changes are that the revised PPN only allows the payment of redundancy or added years and not both payments. Also the number of added years which could be used to enhance the pension has been

significantly reduced. These proposals are in line with the practice of several other authorities in the County.

### **Amendments (all paragraphs refer to Appendix 1)**

- 8 If Members compare the proposed and existing PPNs they will see that paragraphs 1-3 provide a new introduction. The introduction outlines the financial burden any discretionary elements place on the Council. It is considered that, generally, employees are not sufficiently aware of the significant additional costs that the Council has to fund in cases of early retirement.
- 9 New paragraphs 5-6, on redundancy and early release of pension, remove the opportunity to also have added years awarded to their pension. It is a discretion of Members to offer enhancements on the pension by adding extra years. Due to the financial burden of redundancy it is suggested this element should be withdrawn.
- 10 The efficiency of the service paragraphs, 7-10, vary little from the previous PPN except that paragraph 8 now clearly states that employees have no right to added years.
- 11 Paragraph 11, which deals with ill health retirement, now contains further information to clarify the position. Pension administration authorities have introduced much more stringent rules on this form of retirement including that any ill health must be permanent and redeployment should also be investigated.
- 12 Paragraphs 12-15 offer much more information on early retirement and clearly identify restrictions that were not clear from the previous PPN. It had been interpreted by some staff that the 85 year rule could be instigated prior to age 60. Due to the agreement this Council made with Essex County Council as the administering authority early retirement before the age of 60 must be for compelling and compassionate grounds only. Employees should view the 85 year rule as secondary to the restrictions placed on early retirement.
- 13 The section on approval of ill health retirement has not been amended except to reflect the new Committee structure.
- 14 Due to the financial implications the section on added years, paragraphs 20 – 21, has been reviewed and now offers fewer possibilities for discretionary added years. The proposed amendments provide that only those employees with over 25 years local government service should be considered for the discretionary award of added years. The new information also advises employees that added years have an ongoing cost to the Council in contrast to the one off lump sum payable to the pension fund if an employee retires early on the grounds of efficiency or redundancy.

RECOMMENDED that

- 1 Members approve the proposed amendments to the Early Pension Payments Policy and Procedure (Appendix 1) and
- 2 it is recommended for final approval to the Resources Committee on 21 November 2002.

Background Papers: PPN 24  
Scrutiny Minutes  
Essex County Council Pension Fund details

# PERSONNEL POLICY NOTE

Title: Number: 25

## EARLY PENSION PAYMENTS POLICY AND PROCEDURE

Update:  
Operational: TBC

This note only applies to employees who are members of the Local Government Pension Scheme (LGPS).

PPNS referred to in this document: 24 and 26

### Introduction

1. This note explains the range of pension options and payments that may be available to employees when their employment is terminated by the Council either voluntarily or compulsorily. It in no way implies that the Council has any intentions or plans to seek reductions in the staff employed, but it is purely to act as a broad guide to the complex set of regulations that apply to such payments, and the procedures which must be followed.
2. *Employees should be aware that if the Council approves early retirement before age 60 the Council has to pay an amount to the Pension Fund. This amount compensates the pension fund for the short fall of employee contributions. In addition if any additional years are awarded the Council has to make a further ongoing yearly contribution to the Pension Fund in order to compensate the Pension fund for the additional payments made during retirement.*
3. Personnel Services must be consulted concerning any of the options below and certainly before any discussion with employees progresses. In order to follow best practice guidelines personnel will undertake to consult with Unison in all relevant situations.

### What are the payments and options available?

4. Paragraphs a-d, outline the different types of pension release which may apply if an employee's contract is terminated due to redundancy or retirement or in the interests of the efficiency of the service. ***It must be noted that the Council's policy only allows the payment of redundancy or added years and not both payments.*** An explanation of the options open to the employee is also covered.

#### (a) Early release of pension due to redundancy

5. This will involve the deletion of the employee's post from the Council's establishment. The employee must be aged 50 or over (with a minimum of 2 years pensionable service) to be eligible for the immediate release of accrued pension entitlement.
6. Please refer to Personnel Policy Notes 24 and 26 for further information on redundancy and redeployment.

**Redundancy can be initiated by either employee or management.**

**(b) Efficiency of the Service**

7. Early retirement with release of accrued pension can be agreed by the Council for an employee aged at least 50 with a minimum of 2 years service, in the interests of the efficient exercise of the authority's functions.
8. The pension payment may be enhanced at the discretion of the Council, as detailed in the criteria for considering whether added years should be awarded (see below). ***However employees have no right to added years nor a right to expect they will be offered.***
9. Alternatively, the Council may award a one-off discretionary lump sum (pension) compensation payment of up to 45 weeks pay in accordance with the attached table, instead of awarding added years pensionable service.
10. The post may remain after the employee's departure where it is in the Council's interests that a mutually agreed termination takes place.

**Efficiency of the Service retirement can be initiated by either employee or management.**

**(c) Ill Health Retirement**

11. In accordance with the LGPS, an employee who is permanently incapable of performing their contractual duties (subject to certification by the Council's Occupational Health Physician) may be retired on the grounds of ill health. ***“Incapable of performing” effectively means the condition must be one that will prevent the employee from working until age 65. It is also usually expected that all forms of treatment will have been considered and, where considered medically reasonable, followed. The process towards ill health retirement can be lengthy due to the stages involved. Ill health which prevents an employee from performing their contractual duties is not an automatic indication that ill health retirement will be offered, medical redeployment may occur instead.*** See PPN 26.

**Ill health retirement can only be initiated by management following Occupational Health advice.**

**(d) Early Retirement**

12. If an employee has at least 2 years pensionable service or has brought a transfer value or equivalent into the LGPS, he/she can elect, in writing, to retire and receive the accrued LGPS benefits from age 60 onwards.
13. If you retire before you have reached the normal retirement date, your pension and lump sum may be reduced. The reduction is calculated in accordance with guidance issued by the Government Actuary. The reduction depends on the aggregation of your age at retirement and your total LGPS membership, both counted in whole years only, and calculated in accordance with the "**85 year rule**". This rule means that if, when added together, your age and LGPS membership total at least 85, then there is no reduction in your pension entitlement. If they equal less than 85, both your pension and lump sum payment will be reduced. Please see the Guide to the Local Government Pension Scheme for guidelines on reductions.
14. Between and including the ages of 50 and 59 an employee can elect to retire and receive LGPS benefits but only if the Council gives its consent. This applies even when the 85 year rule also applies. ***Retirement in this age range is an employer discretion and consent will very rarely be given and only if there are compelling compassionate reasons as there will be a cost to the Council.***
15. Due to the fact that this type of pension release is based on an employee's wish to retire early, unless the 85 year rule applies, as set out in paragraph 13 above, the Council **will apply the reductions in all cases.**

**Early retirement requests can only be initiated by the employee.**

**Who has the authority to approve the above options?**

16. In a **redundancy** situation - either compulsory or voluntary, and for termination due to **efficiency of the service**, approval will be given either by the Chief Executive in consultation with the Leader of the Council and the Chairman of Resources Committee, where the cost of all delegated retirements in a financial year does not exceed £40,000 net (index linked), i.e. including savings that would arise; or by Resources Committee for cases where the net cost individually is more than £20,000 or where the net cost collectively is more than £40,000 in a financial year. The cost includes both the redundancy and the additional pension cost to be borne where appropriate.
17. For **ill health retirement**, the Chief Executive in consultation with the Leader of the Council and the Chairman of Resources Committee can authorise retirement, subject to the necessary certification described above.
18. For **early retirement**, an employee must apply formally in writing to the relevant Head of Service and copied to the Head of Personnel and Office

Services. The authority for approving early retirement applications will be as above. (**Please note:** paragraph (d) 12-15 on Early Retirement above).

**What other options will be considered as an alternative to retirement?**

19. In all circumstances of redundancy, ill health retirement or efficiency of the service the Head of Service in conjunction with the Head of Personnel and Office Services will investigate the possibility of redeployment. Please refer to PPN 26 for further information on redeployment.

**Can years be added to my pension?**

- 20. The LGPS does allow years to be added to your pension, but at the discretion of the Council. Due to the ongoing costs to the Council if added years are given they will only be considered for efficiency of the service cases and only when Members feel there are compelling reasons including benefits to the Council. Discretionary additional years will not be applicable in cases of ill health retirement. If years are added then up to the following could be added after 25 years of continuous local government service:***

<b>Continuous Years of Local Government Pension Service</b>	<b>Added Pension Years</b>
More than or equal to 30	Up to 6 2/3
More than or equal to 25 but less than 30	Up to 3

For part time employees, the added years will be reduced pro-rata to full time equivalent.

**Criteria which will be taken into consideration in awarding added pension years in respect of early retirement on the grounds of efficiency of the service**

21. Each circumstance of early retirement will be judged on its own merits. The Chief Executive will take account of the following example factors to demonstrate the benefits to the Council when making a decision on the award of additional pensionable service :-
- a. Additional cost to be borne by the Council to the pension scheme
  - b. Loss of skills, experience and knowledge to the Council
  - c. Consequential organisation restructuring
  - d. Planned future projects/workload demands
  - e. Performance of employee
  - f. Identified savings/benefits that will arise
  - g. Compelling compassionate grounds

**How will the Policy and Procedure be monitored?**

22. In order to monitor the impact of retirements on the pension fund and the Council's services, an annual report will be produced by the Corporate Management Team and presented to Committee.

**What should I do if I want to make a formal application for early retirement?**

23. If an employee wishes to apply for voluntary retirement, **the request must be made in writing to the appropriate Head of Service and a copy sent to the Head of Personnel and Office Services.**

The issues surrounding retirement can be complex and confusing. If you have any queries please contact Personnel Services.



# PERSONNEL POLICY NOTE

<b>Title:</b>	<b>Number:</b>	<b>25</b>
<b>EARLY PENSION PAYMENTS POLICY AND PROCEDURE</b>	<b>Update:</b>	<b>3</b>
<b>6.4.2000</b>	<b>Operational:</b>	

This note explains the range of pension options and payments that may be available to employees when their employment is terminated by the Council either voluntarily or compulsorily. It in no way implies that the Council has any intentions or plans to seek reductions in the staff employed, but it is purely to act as a broad guide to the complex set of regulations that apply to such payments, and the procedures which must be followed. This note only applies to employees who are members of the Local Government Pension Scheme (LGPS).

Personnel Services must be advised of any severance proposals before any consultation takes place.

## What are the payments and options available?

The following is an explanation of the different types of pension release which may apply if an employee's contract is terminated due to redundancy or retirement or in the interests of the efficiency of the service.

### (a) Redundancy

This will involve the deletion of the employee's post from the Council's establishment. The employee must be aged 50 or over (with a minimum of 2 years pensionable service) to be eligible for the immediate release of accrued pension entitlement which may be enhanced by the Council through granting added years service.

Alternatively, the Council may award a one-off discretionary lump sum (pension) compensation payment based on up to 66 weeks pay in accordance with the attached table, instead of awarding added years pensionable service. This payment would be inclusive of statutory redundancy payment.

**Redundancy can be initiated by either employee or management.**

The statutory definition of redundancy is as follows:-

"..... an employee who is dismissed is taken to be dismissed by reason of redundancy if the dismissal is wholly or mainly attributable to:

- (i) the fact that the employer has ceased, or intends to cease, to carry on the business for the purposes of which the employee was employed by him, or has ceased or intends to cease to carry on that business in the place where the employee was so employed, or
- (ii) the fact that the requirements of the business for employees to carry out work of a particular kind or for employees to carry out work of a particular kind in the place where they were so employed, have ceased or diminished or are expected to cease or diminish."

Please refer to Personnel Policy Note 24 for further information.

(b) **Efficiency of the Service**

Early retirement with release of accrued pension can be agreed by the Council for an employee aged at least 50 with a minimum of 2 years service, in the interests of the efficient exercise of the authority's functions.

The unreduced pension payment may be enhanced at the discretion of the Council, as detailed in the criteria for considering whether added years should be awarded (see below).

Alternatively, the Council may award a one-off discretionary lump sum (pension) compensation payment of up to 45 weeks pay in accordance with the attached table, instead of awarding added years pensionable service.

The post may remain after the employee's departure where it is in the Council's interests that a voluntary termination takes place.

**Efficiency of the Service retirement can be initiated by either employee or management.**

(c) **Ill Health Retirement**

In accordance with the LGPS, an employee who is permanently incapable of performing their contractual duties (subject to certification by the Council's Occupational Health Physician) may be retired on the grounds of ill health.

**Ill health retirement can only be initiated by management.**

(d) **Early Retirement**

If an employee has at least 2 years total pension membership or has brought a transfer value or equivalent into the LGPS, he/she can elect, in writing, to retire and receive the accrued LGPS benefits from age 60 onwards.

Between and including the ages of 50 and 59 an employee can elect to retire and receive LGPS benefits but only if the Council gives its consent.

**Early retirement requests can only be initiated by the employee.**

**Who has the authority to approve the above options?**

In a **redundancy** situation - either compulsory or voluntary, and for termination due to **efficiency of the service**, approval will be given either by the Chief Executive in consultation with the Leader of the Council and the Chairman of the Internal Services Sub Committee, where the cost of all delegated retirements in a financial year does not exceed £40,000 net (index linked), i.e. including savings that would arise; or by Internal Services Sub-Committee for cases where the net cost individually is more than £20,000 or where the net cost collectively is more than £40,000 in a financial year. The cost includes both the redundancy and the additional pension cost to be borne where appropriate.

For **ill health retirement**, the Chief Executive in consultation with the Leader of the Council and the Chairman of the Internal Services Sub Committee can authorise retirement, subject to the necessary certification described above.

For **early retirement**, an employee must apply formally in writing to the relevant Business Centre Manager and send a copy to the Head of Personnel and Contract Services. The authority for approving early retirement applications will be as above.

**What other options will be considered as an alternative to retirement?**

In all circumstances of redundancy, ill health retirement or efficiency of the service the Business Centre Manager in conjunction with the Head of Personnel and Contract Services will investigate the possibility of redeployment, i.e. moving the employee to another established post in the Council which is agreed by all parties as being suited to the knowledge and skill level of the individual taking into account reasonable training which may be provided. Redeployment may be on a trial period.

**How many years will be added to my pension subject to the criteria overleaf?**

(a) Redundancy and Efficiency of the Service

<b>Continuous Years of Local Government Pension Service</b>	<b>Added Pension Years</b>
More than or equal to 30	Up to 10
More than or equal to 25 but less than 30	Up to 8
More than or equal to 20 but less than 25	Up to 6

More than or equal to 15 but less than 20	Up to 4
More than or equal to 10 but less than 15	Up to 2
More than or equal to 5 but less than 10	Up to 1
Less than 5	Nil

For part time employees, the added years will be reduced pro-rata to full time equivalent.

(b) Ill Health Retirement

Please refer to the Guide to the Local Government Pension Scheme for details.

(c) Early Retirement

If you retire before you have reached the normal retirement date, your pension and lump sum may be reduced.

The reduction depends on the aggregation of your age at retirement and your total LGPS membership, both counted in whole years only, and calculated in accordance with the "**85 year rule**". This rule means that if, when added together, your age and LGPS membership total at least 85, then there is no reduction in your pension entitlement. If they equal less than 85, both your pension and lump sum payment will be reduced.

The reduction is calculated in accordance with guidance issued by the Government Actuary. Please see the Guide to the Local Government Pension Scheme for guidelines on reductions.

Due to the fact that this type of pension release is based on an employee's wish to retire early, the Council **will apply the reductions in all cases** unless it considers that there are exceptional circumstances, e.g. that the retirement will result in identifiable savings/benefits or that there are significant compassionate grounds which justify additional pensionable service being granted, in accordance with a retirement on the grounds of the efficiency of the service.

**Criteria which will be taken into consideration in awarding added pension years in respect of early retirement on the grounds of redundancy or efficiency of the service**

Each circumstance of early retirement will be judged on its own merits. The Chief Executive will take account of the following example factors to demonstrate the benefits to the Council when making a decision on the award of additional pensionable service :-

- a) Additional cost to be borne by the pension scheme
- b) Loss of skills, experience and knowledge to the Council
- c) Consequential organisation restructuring

- d) Planned future projects/workload demands
- e) Performance of employee
- f) Identified savings/benefits that will arise
- g) Compassionate grounds

#### **How will the Policy and Procedure be monitored?**

In order to monitor the impact of retirements on the pension fund and the Council's services, an annual report will be produced by the corporate management team and presented to Committee.

#### **What should I do if I want to make a formal application for voluntary retirement?**

If an employee wishes to apply for voluntary retirement, **the request must be made in writing to the appropriate Business Centre Manager and a copy sent to the Head of Personnel and Contract Services.**

The issues surrounding retirement can be complex and confusing. If you have any queries please contact Personnel Services.