

KENNET DISTRICT COUNCIL

Human Resources Committee – 10th April 2008

FLEXIBLE RETIREMENT POLICY

Report By Head of Human Resources

1. PURPOSE OF REPORT

- 1.1 This report outlines the background to proposals to introduce a flexible retirement policy for the Council and seeks approval of that policy.

2. FINANCIAL, STAFFING, RISK AND LEGAL IMPLICATIONS

- 2.1 There are no significant financial implications of this report as the policy is designed to ensure it can be implemented at no cost. The report concerns staff, but no increase in staffing levels. There are no legal or risk implications as the policy is permitted under the Local Government Pension Scheme (LGPS) Regulations.

3. BACKGROUND

- 3.1 As Members will be aware, the LGPS has been undergoing a major review over the last few years to reduce the financial burden on authorities and to enable it to operate in a more flexible way to suit today's ways of working.
- 3.2 Because of the structure of the original scheme staff felt obliged to work full time and to maintain their status and pay until retirement in order to maximise the benefit of the final salary scheme. It would not be in their interests to take a lower graded post or work less hours in the final years of employment. The implications of this in some cases has meant staff have continued to work in well paid positions ineffectively or without enthusiasm, or have sought early release by the Council which has often resulted in augmentation of pensions with the Council meeting the cost.
- 3.3 The new regulations issued last year allow for employees to reduce their grade or hours in order to prepare for retirement and to be able to draw some or all of their pension to supplement their income until they reach their preferred retirement age. To facilitate this a policy has been drawn up (see appendix 1) in line with the regulations.

4. BENEFITS OF A FLEXIBLE RETIREMENT POLICY

4.1 There are a number of identifiable benefits to the Council of introducing a flexible retirement policy including

- It may help avoid redundancies and associated strain on Fund pension costs/redundancy costs.
- It may help succession planning and mentoring of developing staff
- It may offer a solution to employees that may be a blockage to promotion/ reorganisation/ cultural change.
- Help employees keep mentally/physically active and ease them into retirement.

All of these potential benefits will still pertain when the Council becomes part of the new Wiltshire Council.

5. THE PROVISIONS OF THE REGULATIONS AND POLICY

5.1 The regulations are not restrictive – they allow an employee to reduce their hours in their existing post, or they can apply for a different post and request a reduction in hours. The Council can set the policy parameters as they wish, and ask for a minimum reduction in hours and/or grade.

5.2 The regulations allow the Council to waive any reduction in benefits if the pension is drawn before age 65, in whole or part. In the policy it is recommended that flexible retirement will only be granted if no pension costs are generated to the Council.

5.3 Within the regulations the Council may choose to ask the employee to commit to a period of time that the reduced hours/grade should be worked. The Council has not added this to the policy as it's unenforceable and may be restrictive. There is also an option to ask the employee to commit to stay in the Council's employment for a minimum length of time following the granting of flexible retirement. This is also unlikely to be enforceable, however it could deter an employee from getting agreement to flexible retirement then resigning a month later in order to achieve an early release of benefits and therefore this has been included.

5.4 Occupational pension scheme legislation requires pension schemes to ensure that an employee's pension at age 60(women) and age 65(men) is not less than the Guaranteed Minimum Pension (GMP). If by taking flexible retirement the actuarial reduction of the pension benefit falls below the GMP, there is a cost to the Council, as the Council will have to indirectly top up the fund later. For this reason there is a clause in the policy to say the Council may refuse flexible retirement in such cases.

- 5.5 The policy says “If an employee has consent for flexible retirement before the age of 65 the pension benefits will be subject to the same actuarial reductions as if the employee was retiring under the LGPS regulations. This may apply to an employee who satisfies the “85 year rule” before the age of 65. The Council will not waive all or part of the reduction which must be borne by the employee.” This is because actuarial reductions are the same for flexible retirement as they would be if an employee retires in full. This means there’s a fund cost met by the Council for any employee below age 60 where the member has already met the 85 year rule, or will have met the rule by age 60. If the Council turned down these flexible retirement requests on the basis of cost yet agreed to others there is a risk of an age discrimination claim. The policy therefore says clearly that it will not waive all or part of the reduction - all costs are borne by the employee.
- 5.6 An employee can retire flexibly more than once. They can reduce their hours and later reduce them further, obviously after getting agreement to do so from the Council.

6. CONCLUSIONS

- 6.1 There are potential benefits both to the employee and the Council in permitting staff to take advantage of flexible retirement. The introduction of this policy may assist some staff and the new Council in the move to a single unitary authority by offering flexible retirement to staff in order to retain their skills during the period of transition.

7. RECOMMENDATIONS

- 7.1 The Human Resources Committee are recommended to approve the policy as set out on the appendix to this report.

Anne Ewing
Head of Human Resources

Background papers

LGE Circular No 193, January 2007 “Changes to the LGPC in England and Wales

APPENDIX 1

Flexible Retirement Policy

Kennet District Council

The Council has a regulatory responsibility to operate a policy on flexible retirement. The concept of flexible retirement became permissible within the regulations of the LGPS from April 2006. This policy will be kept under review and a copy will be held by our pension fund administrators at Wiltshire County Council.

The benefits of flexible retirement

Flexible retirement is the opportunity for an employee to continue working whilst reducing their hours of work or grade, and whilst accessing their pension before normal retirement age. This can help an employee to ease gradually into retirement and adjust to life without a regular work routine. It can enable the transfer of valuable knowledge and skills; support a balanced age profile at the Council and also help stress reduction.

Principles

Flexible retirement can only be given with the consent of the Council. The Council must give their consent to the reduction in hours or grade and agree to the release of the accrued pension benefits.

To be considered for flexible retirement an employee must;

- Be aged 50 or more but not have reached aged 75 as this is ceiling for an employee to be in the LGPS. From 1st April 2010 employees must be aged 55 or over to be eligible.
- Have 3 or more months membership of the LGPS or have transferred other pension rights into the LGPS.
- Have identified a suitable opportunity – this means the opportunity to formally reduce the hours of their current job or to carry out another available job which has either less hours or is at a lower grade.
- Request flexible retirement and the payment of the accrued pension benefits from the date of the reduction in hours or grade. The employee may continue to accrue further benefits by continuing their employment.

Restrictions

- It is expected that a flexible retirement request would be for a reduction of at least 20% of working hours and/or a reduction in a full grade.
- Agreement to a request for flexible retirement by the Council will be treated as a permanent change/variation to the employment contract. The employee will be required to commit to remain employed by the Council for at least one year from the commencing flexible retirement.
- An employee may request a reduction in hours in their existing job, or to both a change in job and a reduction in hours if a suitable opportunity is identified.
- Requests may not be granted if the benefits payable to an employee from 65 (women) or from 70 (men) fall short of the Guaranteed Minimum Pension (GMP) level.
- Once flexible retirement is granted an employee cannot apply for a future position that may result in
 - The employee receiving an increase in contractual hours above those agreed in the flexible retirement package.
 - The employee gaining a promotion so that the grade and post would be above that agreed in the flexible retirement package.

Pension regulations are highly complex and it is essential that employees discuss their pension details at length with the Pension Team in Wiltshire County Council prior to making a request for flexible retirement. The situation for each employee may differ considerably, e.g. some may have Additional Voluntary Contributions (AVCs), others may have added years contracts or Earmarking Orders all these could impact on the option to request flexible retirement.

Any benefits paid as a result of flexible retirement shall not be subject to abatement (under the Wiltshire County Council pension fund Abatement Policy), during such time as the individual remains employed by the Council.

Employee Pension Benefit

If an employee has consent for flexible retirement before the age of 65 the pension benefits will be subject to the same actuarial reductions as if the employee was retiring under the LGPS regulations. This may apply to an employee who satisfies the “85 year rule” before the age of 65. The Council will not waive all or part of the reduction which must be borne by the employee.

Cost Considerations

The Council will consider all applications for flexible retirement on the basis of their individual merit. The Council will only agree a request if it is beneficial to service provision, or of sound economic benefit. The Council will only give consent to flexible retirement requests that;

- Generate no pension costs to the Council as a result of the flexible retirement.
- Benefit the Council. For example, the retention of key skills, the improvement of succession planning, or achievement of financial savings.

Procedure

Any flexible retirement requests should be made formally by the employee to Human Resources. The request should be made in writing and include information such as the reduced hours of work requested, an identified different job/grade opportunity where this is applicable and a date for the flexible retirement to start. Prior to making a request the employee should seek advice and information from the pension team at Wiltshire County Council.

Appeal

The outcome of the flexible retirement request will be shared in full with the employee. The employee will have a right to appeal formally against the decision, using the Council's Appeal Process.

April 2008