Ponsanooth Parish Council
Employer Discretions Policy

With the introduction of the Local Government Pension Scheme (LGPS) and within the associated regulations from April 2014, came a number of employer discretions for payment of benefits which require employers to prepare a written statement of policy on how they intend to exercise these discretions. The following discretions are specific to employers and determine what, if any, benefits employers intend to provide under each particular situation

Shared Cost Additional Voluntary Contributions (regulation 17)

An Additional Voluntary Contribution (AVC) scheme gives individuals the ability to pay extra contributions (which receive tax relief) in order to receive additional pension and cash at retirement.

The total paid into the AVC cannot exceed 100% of monthly pay. Cornwall Pension Fund currently has arrangements with Standard Life. This discretion allows the employer to pay into an AVC on behalf of an individual.

There is a requirement that the individual must also pay a contribution, but this can be any proportion of the total contribution. The cost of paying into an AVC would be an immediate charge to the employer.

Granting this discretion will result in an immediate increase to an employee’s pension benefits. This could increase the employee’s benefit growth in that scheme year above the annual allowance limit which could result in an additional tax liability for the employee.

This could be a useful discretion, perhaps in certain recruitment situations.

POLICY REQUIRED | Ponsanooth Parish Council will not apply this policy

Early Payment of Retirement Benefits – Waiving Actuarial Reduction (regulation 30(8))

The regulations allow retirement benefits to be payable if a Scheme member leaves employment between ages 55 and 60 because of redundancy, efficiency or ill health. If redundancy or efficiency applies then the employee must be aged at least 55 at the time of leaving in order to receive retirement benefits.

Under these circumstances, the employer is required to cover the additional cost to the pension fund for early release of unreduced benefits. For permanent ill health there is no age restriction and at present, no immediate additional employer cost.

Any additional employer cost is included at the next triennial actuarial valuation. Provided the above criteria are met then the retirement benefits must be paid.

If however the above criteria are not met then the accrued benefits at date of leaving are preserved and normally payable from age 60. They can however be paid early on compassionate grounds or if the person is age over 55. Preserved benefits are index linked during deferment.

Regulations allow employees from age 55 onwards, without employer consent, to elect to receive their benefits immediately in cases where the above criteria are not met e.g. voluntary resignation. Employers have the option to waive this actuarial reduction either in whole or part for retirements at any age. Waiving this reduction will result in a cost to the employer.

Allowing early retirements with no reduction to the earned pension could prove a useful management tool but clearly only where it was in the interest of the employer both financially and operationally. This could for example prove financially beneficial compared to a redundancy situation.

POLICY REQUIRED Ponsanooth Parish Council will not waive any actuarial reduction for early retirement

Early Payment of Retirement Benefits between age 55 and 60 (Transitional provisions regulations)

Employees no longer require the consent of their employer to retire between the age of 55 and 60. It is likely that for some retirements between these ages there would be a cost to the employer, as some employees would qualify for unreduced benefits under the 85 Year Rule. This is where their age and length of service totals 85.

As the decision now rests entirely with the employee, the LGPS 2014 Regulations automatically provide for the 85 Year Rule to be "switched off" resulting in a reduction to ALL of an employee's benefits.

This of course means there is no cost to the employer. There is however a discretion that would allow the employer to "switch on" the 85 Year Rule thereby eliminating or reducing any reduction to an employee's benefits. Allowing this discretion will however incur an immediate charge for the employer.

If granting this discretion still resulted in some benefits being subject to a reduction then the employer could also waive that reduction under the previous discretion titled "Early Payment of Retirement Benefits – Waiving Actuarial Reduction".

There is no doubt that employees would welcome the opportunity to retire from age 55 onwards with little or no actuarial reduction to their benefits. However, such a policy would not make sense financially or managerially. However, a policy allowing early retirements where it is clearly in the interest of the employer both financially and operationally would possibly be a useful management tool, especially compared to a potential redundancy cost.

POLICY REQUIRED | Ponsanooth Parish Council will not switch on the 85 year rule for early retirement

Early Retirement on Compassionate Grounds (regulations 30(5))

This discretion allows early payment of benefits on compassionate grounds. The considerations that could be taken into account include such things as extreme financial hardship, the need to give up work in order to provide constant care for an immediate family member, availability of other family members to assist, future life expectancy of sick relative, assistance from National Health Service or Social Services and the possible receipt of State Benefits.

This discretion mainly relates to any of your employees that either left employment or opted out of the LGPS prior to April 2014 and are entitled to preserved benefits. It can however also be applied to the earlier discretion titled "Early Payment of Retirement Benefits – Waiving Actuarial Reduction" where it would also apply to your current employees. If the early payment was based upon compassionate grounds then the employer may waive any actuarial reduction that would otherwise apply.

The employer would need to carefully consider whether or not to pay any additional cost to the pension fund associated with waiving the actuarial reduction. Where it was decided not to pay then this would be taken into account at the next actuarial valuation.

POLICY REQUIRED | Ponsanooth Parish Council will not allow early retirement on compassionate ground

Flexible Retirement (regulation 30(6))

Employees aged at least 55 may request payment of their accrued pension benefits from their employer whilst remaining in employment. Payment of flexible retirement can be permitted only where the employee subsequently reduces either their hours of work and/or moves to a lower pay grade.

The employer may therefore wish to clarify how they intend to meet this requirement. Employees may elect to receive all or just part of their accrued benefits whilst continuing in employment. This option is however somewhat limited because the only benefits that can be taken in part relate to just those earned from April 2008 onwards. All benefits earned prior to this date must be taken. Employees being awarded flexible retirement below Normal Pension Age will be subject to an actuarial reduction to their benefits. Employers have the option to waive the actuarial reduction for early payment of benefits either in whole or part. Waiving this reduction will result in a cost to the employer.

Allowing flexible retirements with no or little reduction to the earned pension could prove a useful management tool but clearly only where it was in the interest of the employer both financially and operationally. This could for example prove financially beneficial compared to a redundancy situation or assist with the retention of experienced staff whilst allowing employees to ease down into retirement.

POLICY REQUIRED | Ponsanooth Parish Council will not permit flexible retirement

Parish Council will not permit the member to draw all, part or none of the pension benefits built up after April 2008

Ponsanooth Parish Council will not waive any actuarial reduction

Increase of Pension by Employer Regulation 31

This gives the employer the discretion to award an employee an additional amount of pension. The current maximum amount of total additional pension is £7,026 per annum however, this is increased each April.

The regulations stipulate that no survivor benefits are payable with this additional pension and the employer must pay the full cost by a one-off payment.

Granting this discretion will result in an immediate increase to an employee’s pension benefits.

This could increase the employee’s benefit growth in that scheme year above the annual allowance limit which could result in an additional tax liability for the employee.

This could be a useful tool for perhaps attracting or retaining key members of staff.

Employers may consider allowing employees made redundant to have the option of converting any Compensation payment into additional pension. The Pensions Committee have already approved this action if employers wish to utilise it.

POLICY REQUIRED | Ponsanooth Parish Council will not purchase additional pension for an employee

Transfer of Service into the LGPS (regulation 100)

Employees joining the LGPS have an initial period of 12 months in which to request us to investigate the option of transferring any pension benefits from previous employments into the Cornwall Pension Fund.

In exchange for a transfer payment the employee is awarded an additional amount of pension. This pension is calculated in accordance with the employee's age, sex and rate of pay.

The employer and also the Administering Authority has discretion to extend this 12 month time limit.

Extending the time limit could have adverse cost implications for the employer. Allowance is made for future investment return, price inflation, and Normal Pension Age when calculating the additional pension. Where for instance an employee age 57 is being made redundant or is retiring under ill health grounds, the pension is paid early with no reduction. If this employee decided to transfer previous benefits into the Cornwall Fund just before leaving, the additional pension would be overstated as it would be assumed that payment of benefits would not be until at least age 65. As a result, there would be an additional cost to the pension fund which would be passed onto the employer.

Where the employee is unhappy with the employer's decision not to extend the 12 month time limit, they have the ability to invoke the scheme's Internal Disputes Resolution Procedure (IDRP). Ultimately the employee has the ability to refer the matter to the Pensions Ombudsman for determining.

POLICY REQUIRED | Ponsanooth Parish Council will not extend the 12 month time limit

Shared Cost Additional Pension Contributions (Regulation 16(6))

Following a period of authorised unpaid leave, an employee can elect within 30 days of returning to work to pay a shared cost additional pension contribution (SCAPC) to cover the amount of pension 'lost' during that period of absence.

The SCAPC is calculated in accordance with the employee's age, sex and rate of pay.

The Scheme employer must contribute 2/3rds of the cost to a SCAPC.

If the absence is un-authorised e.g. due to a strike, then the SCAPC would not apply and the employee must pay the full cost of the additional pension.

Ponsanooth Parish Council
Employer Discretions Policy

Any extra annual pension granted by the Scheme employer under a SCAPC arrangement would be subject to an actuarial reduction for early payment where, other than in a case of ill health retirement, that extra pension is drawn before the member's Normal Pension Age.

The employer has discretion to extend the SCAPC 30 day time limit. Extending the time limit could have adverse cost implications for the employer.

POLICY REQUIRED | Ponsanooth Parish Council will not extend the 30 day deadline for a member to elect for a SCAPC upon return from a period of absence from work with no pensionable pay