REPORT TO: FINANCE COMMITTEE - 13 NOVEMBER 2000

REPORT ON: COST OF EARLY RETIREMENTS - REIMBURSEMENT TO THE SUPERANNUATION FUND

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 708-2000

1 PURPOSE OF REPORT

The purpose of this report is to seek Committee approval for the method of reimbursing the Tayside Superannuation Fund in respect of the additional cost of the early retirement of members of the Fund.

2 RECOMMENDATIONS

The Committee is asked to agree:-

2.1 That all employing authorities and bodies within the Tayside Superannuation Fund who have approved early retirals effective from 1 April 1999, will be required to pay the appropriate lump sum calculated by the Fund's Actuary, for each such early retiral.

2.2 That the employing authorities and bodies be allowed, at the discretion of the Director of Finance, up to normal retiral age or 5 years from the date of the early retiral to pay the lump sum and interest to the Tayside Superannuation Fund.

3 FINANCIAL IMPLICATIONS

3.1 The Tayside Superannuation Fund will be protected from the additional costs of early retirals, by employing authorities and bodies.

3.2 This report will have no direct financial effect on the City Council, except where the Council agrees to allow officers early retiral. The costs of all early retirals since 1 April 1999, have already been reported to the Personnel & Management Services Committee, when the appropriate retirement decisions were being discussed.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 IMPLEMENTATION OF LOCAL GOVERNMENT PENSION SCHEME (SCOTLAND) REGULATIONS 2000

6.1 The above Regulations were issued to local authorities on 5 July 2000 and included amendments to the Principal Regulations. The effective date when these amendments should come into force was 7 July 2000, however, the Administering authority has discretion to backdate to 1 April 1998 at the earliest.

6.2 A key element of the amended Regulation was the introduction of a new power which allowed local government fund administering authorities, to require employing authorities to pay "upfront" to meet the costs to the Superannuation Fund of the early payment of benefits in cases of early retirement or redundancy.

6.3 Under the amended Regulations, the administering authority, in this case the City Council, may require the employing authorities within the Superannuation Fund it administers, to make additional payments when an employee is given early retirement.

6.4 The purpose of these additional payments is to compensate the Superannuation Fund for the fact than an employee who retires early will be paid their pension and lump sum earlier than planned, and in addition, the fact that the employee and employer will not be paying their contributions into the Superannuation fund as long as was previously planned.

6.5 The Fund's Actuary has provided tables which calculate the lump sum payable by the employing authority or body to compensate for the factors detailed in Paragraph 6.4. In addition, the Actuary has produced tables which allow the fund to recoup the lump sum over a period of years. These tables include an interest factor.

6.6 The City Council has discretion to determine when this policy becomes effective from. As the costs of early retirements prior to April 1999 were taken into account in the actuarial valuation as at 31 March 1999, it is recommended that Dundee City Council commence the relevant recharges from 1 April 1999. This would mean that at the next actuarial valuation in April, 2002, all early retirals in the intervening 3 year period would have been funded through lump sum payments by each appropriate employing authority or body.

6.7 The City Council must also decide over what maximum time period it would allow employing authorities or bodies to repay the aforementioned lump sums, plus interest. The Amended Regulations state that the period for repayment of the lump sum should not exceed the period to normal retiral age or 5 years. The Director of Finance would recommend that each employing authority or body, when agreeing to an early retirement, should be allowed, at the discretion of the Director of Finance, up to normal retiral age or 5 years from the employees retiral date to repay the lump sum and interest.

7 ACCOUNTS COMMISSION REPORT ON MANAGEMENT AND FUNDING OF EARLY RETIRALS

7.1 In December 1997 the Accounts Commission published a report entitled "Bye now, pay later" on the management and funding of early retirements within Scottish local government and made the following recommendations:

"If it has not already done so, an administering authority should:-

1 ensure there is accountability to councillors for decisions

2 identify the full cost of early retirement to both the Revenue Budget and the Superannuation Fund; ensure that each department supporting an efficiency or redundancy early retiral pays for the additional costs, including the strain on the fund; reimburse the pension fund, over a reasonable period of time, for the cost of the early payment of accrued benefits

3 review procedures for approving ill-health retirals

4 disclose procedures for approving ill-health retirals

5 consider alternatives to early retirement, exploring them in good time

6 monitor trends

7 review policies and procedures regularly."

7.2 One of the purposes of this report is primarily to deal with the first two recommendations from the Accounts Commission report. Recommendations 2 to 6 have been addressed and recommendation 7 will be addressed as and when appropriate.

7.3 The main thrust of the Accounts Commission paper is that local authorities should calculate and monitor early retirement costs as they occur within the Local Government Pension Scheme and that these costs should be funded by way of each local authority making a payment to the Pension Fund over a period rather than awaiting the calculation of the triennial actuarial valuation.

7.4 The calculation of these payments to the Superannuation Fund will mean that before an employing authority takes decisions on early retirement on the grounds of efficiency or redundancy, the net additional cost will be known in advance. In addition, the payment of the lump sums, as and when each early retiral occurs, will mean that the Superannuation Fund will be funded on a more stable basis and the employer's contribution rates set by the Fund's Actuary at each triennial valuation should be more predictable and stabilise or reduce from their current levels.

DAVID K DORWARD
DIRECTOR OF FINANCE **DATE: ……………………………..**

Background Papers

No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

DKD/ID/31.10.2000
REPORTS/COST OF EARLY RETIREMENT