

Pension Discretion Policies for P&IPC employees

1. Background

P&IPC employees (currently we have just one: the clerk) are enrolled in the Local Government Pension Scheme.

This is a *defined benefit* scheme, as opposed to a *defined contribution* scheme. Schemes of this type are often described as *final salary* schemes, since the benefit is defined in terms of a percentage of the employee's final salary.

As such, the level of contributions made during the member's employment is fixed actuarially: the scheme's administrators look at the profile of all the members of the scheme, most notably their planned retirement dates and life expectancies, and set the level of contributions needed to meet the scheme's expected future liabilities.

Consequently, any change made by an employer to an employee's pension entitlement (for example, agreement for an employee to take early retirement) could give rise to their pension being under-funded. Any such shortfall in funding would have to be met by the employer – in our case, the Parish Council.

For this reason – and so that employees have clarity – employers are obliged to set out in advance (and make public) their policies for exercising discretion in their application of pension arrangements.

There are over 100 ways in which such discretion may be applied. However, by law, there are 5 in which we must have a written policy. This must be published and given to Hampshire Pension Services, who administer the pension on P&IPC's behalf.

This is a legal requirement which we need to fulfil.

I attended a workshop on 16th February 2022 to be briefed on the requirements. As a result, I am setting out my understanding of the things we need to consider and the steps we need to take.

2. Compulsory Policies

The five areas in which we must have a written policy are:

- (i) The Council's discretion to award additional pension (i.e. for someone to receive a pension greater than that which has been funded by contributions made during their employment)
- (ii) The Council's discretion to make additional funding contributions (i.e. to increase the level of contributions made during a person's employment, so that they receive a larger pension when they retire)
- (iii) The Council's discretion to allow flexible retirement: the ability for someone to take flexible (i.e. part time) retirement from age 55

- (iv) The Council's discretion to waive actuarial reductions (i.e. to make additional contributions so that an employee could, for instance, retire early but still receive their full pension)
- (v) The Council's discretion to switch on 'the 85 year rule': a complex and arcane set of arrangements for those whose age plus number of years' contributions into the scheme exceeds 85

3. Recommendation

All 5 of these ways in which we could exercise discretion would, if exercised, impose an additional cost on the Council. Furthermore, the timing and size of the cost could not be determined in advance. It is therefore my recommendation that our policy in each case should be not to allow any of the discretions.

(Note that the Council could revise these policies at any time in the future but the revisions would not take effect for 30 days after their receipt by Hampshire Pension Services. As well as being practical, this mitigates against employers making knee-jerk changes to policy on the basis of individual circumstances.)

4. Next Steps

This recommendation should be discussed by the Council (who may want to ask the HR and/or Finance Committees to undertake a fuller review). Policies should then be drawn up (Hampshire Pension Services usefully provides templates) for approval by Council.

Nicholas Taylor
8th March 2022