

**COST MANAGEMENT, BENEFIT DESIGN
AND ADMINISTRATION COMMITTEE**
7th November 2017

Item 6 Paper C : Late retirement factors

Background

In April 2016, DCLG published a suite of new actuarial factors. It was proposed to include a new set of factors to calculate the additional pension paid for late retirements but this was put to one side because the detrimental impact would adversely affect those who had already agreed to retire based on the earlier, more beneficial factors.

The late retirement factors were eventually published in October 2016 with a coming into effect date of January 2017 on the basis that the 3 month delay would exclude any member who had already agreed to their retirement. However, one fund in particular claimed that they never received details of the new factors in October and that certain members might not have sought retirement had they known that less beneficial factors had been in force.

Correspondence was sent to Marcus Jones, the Minister for Local Government, who subsequently wrote to the Chair of the scheme advisory board on the 27th March 2017. A copy of his letter is at **Annex 1**.

The Secretariat discussed various options for change as requested by the Minister with DCLG officials and the Government Actuary's Department. Based on these discussions, a draft letter for Councillor Phillips to send to Marcus Jones is attached at **Annex 2** for the committee's consideration.

Recommendation – that the committee considers whether the attached draft response to the Minister is an appropriate response to be sent to the Board for its approval on the 16th November 2017 or whether the Secretariat should explore other options for re-consideration by the committee.



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27 MAR 2017

Dear Roger,

I am aware that the implementation of new late retirement factors last year has attracted some criticism. While the new factors were undoubtedly fair, in the sense of being actuarially neutral, some members made representations to me that implementation could have been better. However, even with the three month implementation period I granted, some members still felt that they had less time than they would like to make important decisions about their future.

I am sympathetic to some of the arguments from scheme members that they should have greater security about the entitlements they have built up and to always have a genuine choice about whether to stay on past retirement age.

There are different ways to achieve those aims and any changes to the scheme need to be workable, affordable, fair to members and employers, and offer consistency with our approach to pension entitlements in the wider public sector.

I understand that this matter has also been discussed at the most recent meeting of the Scheme Advisory Board. I would like to invite you to further consider whether it would be appropriate to revise the implementation of late retirement factors, and if so what recommendations you would propose to best give effect to that. I am also content for that consideration to include assumptions about future salary growth.

I understand that the 2016 valuation will be the main focus of the Board in the coming months, but I would welcome recommendations by the end of September 2017, if possible.

Yours sincerely,

Marcus

MARCUS JONES MP

“LOCAL GOVERNMENT PENSION SCHEME LATE RETIREMENT FACTORS

Your letter of 27 March 2017 invited the Scheme Advisory Board to come forward with recommendations to revise the implementation of late retirement factors following the criticism that publication of new factors in October last year attracted.

The Board agrees that scheme members must have greater security and certainty about the entitlements they have built up and this letter sets out a number of options for change that we believe can achieve these key objectives. In summary, the Board recommends to you that :-

- DCLG should publish new actuarial guidance to provide that on retirement, the late retirement factors in force at any time throughout the period of membership after normal retirement age should be applied rather than the current position where the factors in force at the time of retirement are applied to all membership after normal retirement age;
- the Government Actuary’s Department should be invited to review these factors on a more regular basis rather than the existing practice of waiting until a material change has occurred;
- a period of say, 1 month, should be allowed between publication and any new factors coming into effect, and
- communication with administering authorities should be improved to ensure that key information is received by all intended recipients.

These are explained in more detail below.

Publish new actuarial guidance

At present, a member who works for a further 4 years after their normal retirement age of 65 and who retires at the age of 69 is entitled to receive additional pension based on the late retirement factors in force on the date of retirement. If less beneficial factors had been introduced at age 68, the impact would apply to the entire four year period after normal retirement age. The Board believes that this “cliff edge” approach may be unfair and represents a significant risk to both parties in managing the retirement of late retirees.

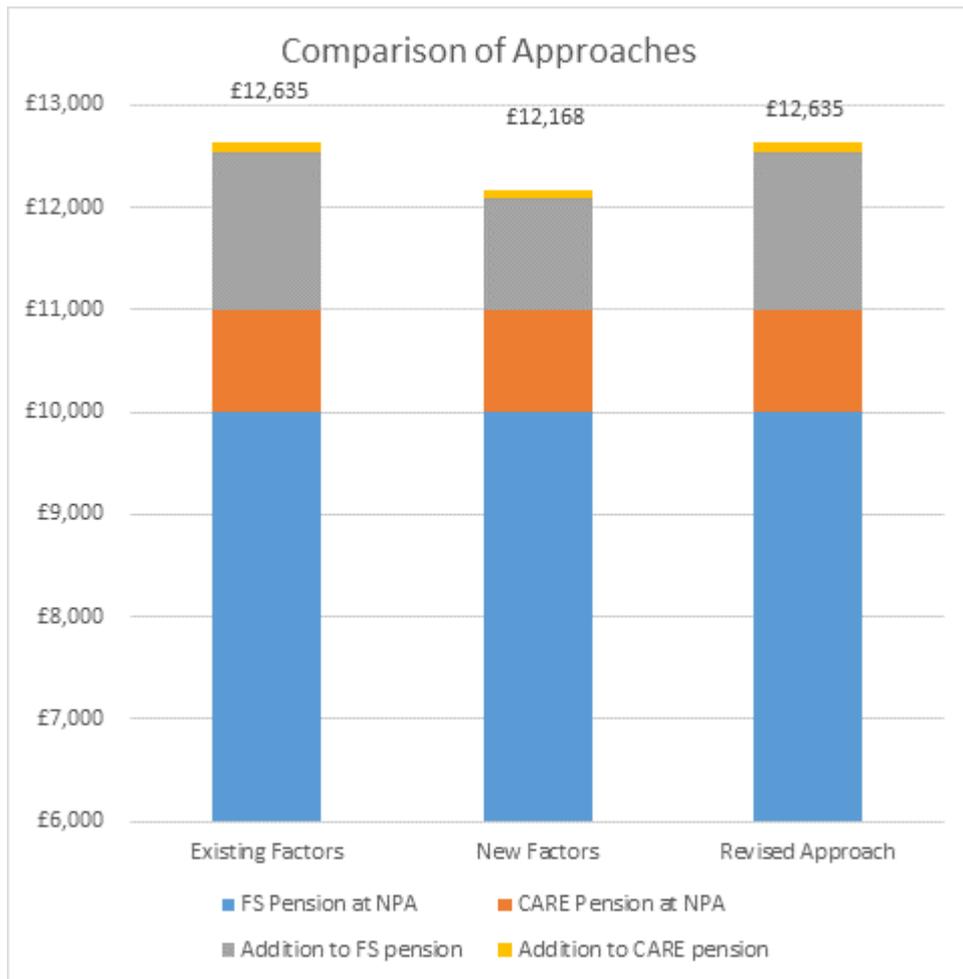
To achieve more certainty and fairness, the Board recommends that the Department’s actuarial guidance on late retirement factors should be amended to instruct administering authorities to apply the late retirement factors that were current throughout the period of membership after normal retirement age. In

this way, any favourable or adverse impact would only relate to the period worked after normal pension age following the introduction of any new factors, with all the enhancement to pension for the period worked after normal pension age but before the change in the factors fully protected. The impact of this change is shown in the example below :-

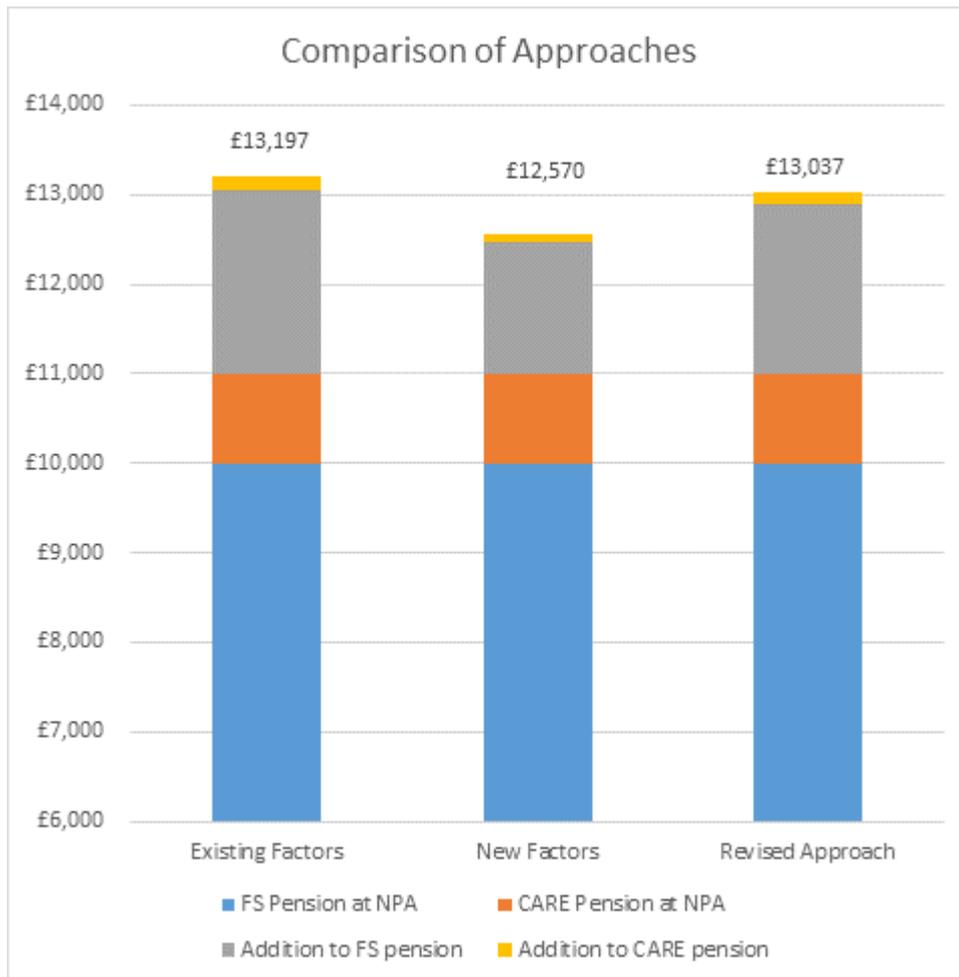
Member's Actual Retirement Age	69
Members State Pension Age (CARE)	66
Member's NPA (Final Salary)	65

Base Data		Amount	Normal Pension Age	Years Late
Final Salary Pension	=	£10,000.00	65	4
CARE Pension	=	£1,000.00	66	3
Final Salary (Pre 2008) Lump Sum	=	£20,000.00	65	4

If the member retires on the effective date of the factors change (4 January 2017), the revised approach leads to exactly the same pension, as shown in the following chart.



For a member retiring a year later (with the same pension details), the revised approach produces a pension slightly lower than if the old factors had applied, but higher than that generated by the new factors.



We do not envisage that any changes to the scheme’s regulations would be needed to introduce this change, although the Department may wish to take legal advice as appropriate. It should also be noted that making this change would bring the LGPS in England and Wales into line with the approach taken by other unfunded public service pension schemes for late retirement from their reformed CARE schemes.

The Board also recommends that subject to any consultation, any agreed actuarial guidance should be published at the earliest possible opportunity to remove the cliff edge provision from the scheme.

Regular review of factors

The regular review of late retirement and other factors used by scheme administrators is essential to ensure that scheme members are not subject to drastic, detrimental changes when new factors are introduced. . The Board therefore recommends that you invite GAD to review their processes and come forward with proposals to ensure that all factors are subject to regular review.

Commencement date for new factors

The proposed removal of the cliff edge provision would eliminate the risk of scheme members being unable to plan their retirement with any reasonable degree of uncertainty. All additional pension accumulated up to the date when any new factors are introduced would be fully protected and unaffected by the change. New factors could therefore come into effect on the day they are published but the Board takes the view that a limited period of, say 1 month, between publication and their effective date, would be a better way forward.

The Board also takes the view that any agreed change should be communicated by administering authorities to all scheme members to ensure that the membership is fully aware of how any agreed change will work in practice.

Improved communication

You will be aware that one administering authority in particular was unaware that the new late retirement factors had been published and that dispensation was given to them to extend the commencement date. On examination, it is clear that both our email circulation lists are less than robust and that for a variety of reasons, they are not as up to date as they need to be.

To overcome this, the Board is willing to consult with administering authorities on ways of improving communication on key issues. One option we would like to explore would be for authorities to move away from personal email contacts towards generic, shared email accounts which are less likely to change over time.

If you are content, we will work with your pensions' team and other stakeholders to prepare a discussion paper for consultation.”