



**Exit Pay Consultation
Local Government Workforce and Pay Team
MHCLG
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Date: 27 October 2020
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Dear Sirs

Leicestershire Local Government Pension Fund
Consultation Reply – Reforming Local Government Exit Pay

I write in reply to the consultation on reforming Local Government exit pay. The reply is on behalf of the Leicestershire Local Government Pension Fund. The Fund has over 150 employers with approximately 28,000 active scheme members.

I reply to the 12 questions;

Question 1 – Are there any groups of local government employees that would be more adversely affected than others by our proposed action on employer funded access to pensions?

- If so, please provide data/evidence to back up your views?
- How would you mitigate the impact on these employees?

Answer 1 – No, the Leicestershire Pension Fund does not believe there are any groups more adversely affected. However, those members made redundant age 55 with substantial pensionable service, as a broad rule, have the highest pension fund capital cost. This is because they are furthest away from their normal retirement age and therefore likely to receive payment of their pension for longest.

These individuals are therefore likely to suffer the greatest reduction to their previously unreduced benefits under the proposals if they take immediate payment. That said, the reductions applied should be proportionate to all scheme members ages, at their dates of leaving, so actuarially all cases should be treated evenly.

Assuming the actuarial factors applied provide this consistency across members ages from 55, the Leicestershire Pension Fund believes the proposal is reasonable.

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Question 2 – What is the most appropriate mechanism or index when considering how the maximum salary might be reviewed on an annual basis?

Answer 2 – The Leicestershire Pension Fund understands not all Local Government employees receive the same annual pay increases. This is because different pay negotiations take place for differing colleagues, sometimes resulting in differing pay increases. Given these differences, The Leicestershire Fund suggests the annual CPI should be used on the £80,000 maximum salary. This will provide a consistent approach across all groups of colleagues.

In line with standard practice for pay this should have a floor of 0%, rather than allowing a reduction.

Question 3 – Are there any groups of local government employees that would be more adversely affected than others by our proposed ceiling of 15 months or 66 weeks as the maximum number of months' or weeks salary that can be paid as a redundancy payment?

- If so, please provide data/evidence to back up your views?
- How would you mitigate the impact on these employees?

Answer 3 – No

Question 4 – Are there any groups of local government employees that would be more adversely affected than others by our proposal to put in place a maximum salary of £80,000 on which an exit payment can be based?

- If so, please provide data/evidence to back up your views?
- How would you mitigate the impact on these employees?

Answer 4 – No

Question 5 – Do you agree with these proposals? If not, how else can Government's policy objectives on exit pay be delivered for local government workers?

Answer 5 – The Leicestershire Pension Fund appreciates the need to cap total exit payments to scheme members to £95K to protect tax payers and broadly accepts this view. However, considering points from 4.6 to 4.16 in the consultation, the Leicestershire Pension Funds believes there is a simpler way to achieve this.

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- Regulation 31 of the LGPS Regulations 2103 should be removed. It seems inappropriate to be capping the limit of total exit benefits to £95K, yet still allowing an award of additional pension under the pension regulations, which could in turn then be negated if this (along with other exit benefits) exceeds the cap.
- The Leicestershire Fund is concerned about the administrative impact on the proposals. The proposals require additional steps between the employer and the Pension Fund. This is likely to delay payment of pension benefits to the scheme members, at a time when they are being made redundant and require financial support and assurance.
- The Leicestershire Fund is concerned about the various options being proposed to members. This is likely to create more enquiries from scheme members and will require further calculations and options from the Pension Fund administrator.
- The Leicestershire Fund is concerned employers within the Pension Fund could choose to treat cases differently, depending on how they decide to calculate their employer exit packages. Therefore, the Pension Fund feels the reduction (assuming the £95K has been breached) should be via the pension strain, thereby providing consistency to the reduction to members pensions.
- The Leicestershire Fund is concerned about the cost of programming and testing the pensions administration system to account for these proposed changes.
- The Leicestershire Fund suggests a simpler solution that mitigates most of the points raised above:
 - If a scheme member is not in the LGPS and their employer exit package is more than £95K (albeit extremely unlikely) their employer exit package is reduced to the £95K cap.
 - If a scheme member is in the LGPS and their pension strain and employer exit package is more than £95K (more likely), their employer package remains as is, and their “unreduced” LGPS benefits are reduced by a proportion to account for the excess over

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- £95K. Thereby, the pension strain is reduced to bring it (including the employer package) to the £95K cap.
- If a member's unreduced pension is completely extinguished because the employer exit package is over £95,000 (therefore leaving no scope for any unreduced pension to remain), then the member should only be able to have a preserved pension benefit in the LGPS. The member can then decide when they wish to take payment of the preserved benefit, with actuarial factors applied accordingly at that time.
 - The member should not be able to make payment of the excess value themselves from their own income, because who is this payment too? Is it the Pension Fund or their employer, and what HMRC tax implications, if any, would apply? Could this be deemed "recycling" under HMRC pension tax rules?
 - The Leicestershire Pension Fund accepts there may be exceptional circumstances where an employer may decide, the power to relax the cap is needed. The Pension Fund deems this an employer decision and the Pension Fund would pay the pension benefits in accordance with the employer's direction.

Question 6 – Do you agree that the further option identified at paragraph 4.8 should be offered?

Answer 6 – No, the Leicestershire Fund does not agree with the option in paragraph 4.8. Please refer to our answer in question 5.

Question 7 – Are there any groups of local government employees that would be more adversely affected than others by our proposals?

Answer 7 – The Leicestershire Fund wishes to raise pension strains associated with flexible retirement, permitted within the LGPS Regulations. Flexible retirements can create a pension strain cost, like those produced for redundancy and efficiency retirements.

Although flexible retirement pension strain costs are usually comparatively lower, there are extremely rare cases where the costs could trigger the £95K cap.

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If a scheme member retires on flexible retirement without meeting the rule of 85, the actuarial reduction is applied to the members benefits, so there is no pension strain.

However, if the member has achieved the rule of 85, or the employer has chosen to waive the actuarial reduction (either in full or in part) via their own employer discretion (within the LGPS Regulations), and the member is granted flexible retirement before their normal retirement date, a strain is created.

The Leicestershire Fund would propose the £95K exit cap should include pension strain costs, created for flexible retirements under the LGPS Regulations.

Question 8 – From a local government perspective, are there any impacts not covered at Section 5 (Impact Analysis), which you would highlight in relation to the proposals and/or process above?

Answer 8 – No

Question 9 – Are these transparency arrangements suitably robust? If not, how could the current arrangements be improved?

Answer 9 – Yes

Question 10 – Would any transitional arrangements be useful in helping smooth the introduction of these arrangements?

Answer 10 – No transitional arrangements should be implemented to smooth the introduction of the arrangements; however, a significant period should be afforded before the proposed changes comes into effect. This provides employers time to complete any staff reduction exercises they are currently carrying out, especially with the Covid-19 financial burdens.

It also affords time for the pension administrators and the system providers to programme the system changes and prepare the communications to scheme members.

It also provides time for the actuarial firms to prepare and agree with GAD, a standard set of actuarial factors needed for these cases.

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The Leicestershire Fund suggests the changes should come into effect with a minimum of 12 months' notice.

Question 11 – Is there any other information specific to the proposals set out in this consultation, which is not covered above which may be relevant to these reforms?

Answer 11 – I refer you to answer 7 in regards flexible retirements under the LGPS.

Question 12 – Would you recommend anything else to be addressed as part of this consultation?

Answer 12 – No

Please treat this letter as the official reply of the Leicestershire Local Government Pension Fund.

As required, my details are as follows;

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Yours sincerely

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