

Agenda Item 9

**Pension Committee
3 December 2021**

Gloucestershire Pension Fund – Abatement Policy

Report of the Head of Pensions

Summary

The Local Government Pension Scheme (Administration) Regulations 2008 as amended by SI 2014/44 require that each administering authority must formulate and keep under review its policy concerning abatement (that is, the extent, if any, to which the amount of retirement pension payable to a member from any pension fund maintained by it under the Scheme should be reduced (or whether it should be extinguished) where the member has entered a new employment with a Scheme employer).

Before formulating that policy, an administering authority must consult with the authorities who employ active members for whom it is the appropriate administering authority.

Where, as a result of reviewing its policy concerning abatement, an administering authority determines to amend the policy, it must publish a statement of the amended policy before the expiry of the period of one month beginning with the date of its determination.

In formulating its policy concerning abatement, an administering authority must have regard

- (a) to the level of potential financial gain at which it wishes abatement to apply;
- (b) to the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and
- (c) to the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.

Background & Current Position

Abatement is a method of reducing a pension where a pensioner is re-employed by either a local authority or, another employer who allows that pensioner access to the LGPS and the pay upon re-employment plus pension exceeds the person's pay when they retired.

For this calculation, the pay at retirement is adjusted for inflation and any reduction is on a pound for pound basis.

For example:

Pay at retirement	£20,000
Pension in payment	£8,000
Maximum earnings for new employment	£12,000

Additional example if this person returned to work:

If employee returned to work earning	£15,000
Pension in payment reduced to	£5,000
Total income	£20,000

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This option applies only where an employee re-enters employment which is eligible for membership of the LGPS. It therefore does not apply to new employment as a teacher, fire fighter, employment in the private sector or employment in local government on a self-employed or consultancy basis.

It is not possible, under the current LGPS Regulations, to apply abatement for anyone granted flexible retirement by their employer, as the whole point of this benefit is to allow the employee to draw their pension benefits whilst continuing in employment, albeit on a lower salary grade or reduced hours

The LGPS Regulations also removed the option to abate any benefits earned from 1 April 2014. It is however still possible to abate any benefits earned prior to this date. It must however be remembered that, except for ill-health retirement, all other retirements now require a minimum age of 55 years.

The current policy is to abate any type of retirement, except Flexible retirement.

Temporary Position in response to the Covid Pandemic

On the 19 March 2021, the Fund received a communication from the Chair of the Scheme Advisory Board for the LGPS in England and Wales strongly urging Funds that have a policy on abatement to suspend the policy or at very least amend it in order to support the government's programme designed to encourage health and social care staff who retired in the last two years to return to work. It was the intention that anyone returning to assist in the delivery of vital services at the time of the pandemic should not suffer any impact on the public service pension they receive.

The Chair of the Pensions Committee at that time agreed a temporary recommendation that the Fund suspended the current abatement policy for all retired members returning to Local Government service, with immediate effect and requested that a review of the abatement policy be brought back to Committee to consider

Abatement Review

The LGA undertook a survey of the LGPS Funds and issued the following note:

"We just wanted to say thank you very much to the funds who responded to the abatement survey yesterday – we had 75 responses which is fantastic! We really do appreciate your help.

The survey results show that at least 27 funds still abate pre 2014 benefits, either in some or all circumstances. This demonstrates the need for action to ensure that the Government's drive to encourage recent retirees in health and social work back into the workforce is successful.

As we don't have a complete picture across the whole Scheme, the LGA will write to chief executives of all LGPS administering authorities to ask that they check their abatement policy and to urge them to suspend abatement, if applicable, or at least exclude returning health and social work staff from abatement. In addition, the SAB will write to all chairs of committees to make sure the message gets through".

The current policy of the Gloucestershire Pension Fund is one of the 27 funds that still abate, which is out of line with the majority of Funds.

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There is nothing to stop a pensioner seeking new employment either under a self-employed basis or with a private sector employer and avoid any abatement of their LGPS pension. Arguably, the historical thinking behind abatement now fails to recognise the current relative flexibility of the public sector labour market.

There is a need to be very cautious that people's legitimate expectations and interests are not interfered with. The Administering Authority ought not to be discouraging older members of staff made redundant from seeking new employment and it should be neutral as to whether that is within the public or private sector. Furthermore, there would seem to be no grounds at all for abatement in cases where employees have retired with actuarially reduced pensions.

In accordance with the LGPS Regulations, a consultation exercise was recently undertaken with the Employers participating in the Gloucestershire Pension Fund. We received responses to the consultation from 2 employers, Tewkesbury Borough Council and Gloucestershire County Council, both of which supported the proposal to cease abatement for all future retirees from the Fund.

This discretion effectively involves no cost to the Pension Fund as the benefits have already been funded through both Employee and Employer contributions. The Funds actuary, Hymans Robertson has confirmed that removing abatement has no funding implications for the Gloucestershire Pension Fund.

As the Regulations removed the ability to abate pension in respect of benefits accrued from April 2014 and in the cases of Flexible Retirement, it appears an appropriate time to completely cease all abatement.

Recommendation

That the Committee approves the abatement policy with effect from 3 December to cease abatement for all future retirees from the Fund.

Contact Officer

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