

TECHNICAL BULLETIN

NO.21

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TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

Policy on Abatement of Pensions for Re-employed Pensioners

Strathclyde Pension Fund Committee has approved a revision to the Fund's Policy on Abatement of Pensions for Re-employed Pensioners to the effect that abatement will cease as from 1 March 2007. This policy revision applies to re-employed pensioners from this date, however there has been no change to abatement as a result of an award of Compensatory Added Years (CAY) and any abatement due to an award of CAY will still be applied. Any pensions currently in abatement, subject to the CAY exception, will no longer be subject to abatement unless the policy changes.

Background

The Local Government Pension Scheme (Scotland) Regulations require the administering authority to have a policy on abatement when a pensioner becomes re-employed within a Local Authority or in an employment which is subject to the LGPS.

The policy up to 28th February 2007, which has been operated by Strathclyde Pension Fund since 1998, is to apply abatement in all cases where the previous pay is exceeded. So, on re-employment, if the member's new pay and pension combined exceeds previous pay, the pension is reduced for the duration of that employment to the rate of the member's pay at their original retirement date (but with an allowance for inflation).

The Administering Authority is responsible for formulating and keeping under review their policy concerning abatement, but the regulations require that they must first consult the employing authorities. To this end, a letter was sent during October 2006 to all Chief Executives and Heads of Finance at the Fund's participating local authorities asking for their views. Responses were requested by 20th November but none was received, although 2 were received after that date.

The main trigger to reviewing the policy was the introduction in The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2006 of 'flexible retirement' from October 2006. Flexible retirement allows an employee who is aged 50 or over to reduce his hours or grade and receive his pension and lump sum while continuing in employment, with the agreement of his employer. The amendment regulations specifically provide that any benefits paid following flexible

retirement are not subject to abatement in respect of any subsequent employment with 'the person who is his employer at the date of election'.

The amendment regulations created an apparent anomaly whereby members with broadly similar circumstances would be treated differently. A member who takes flexible retirement with his own employer will not suffer any abatement. However, under the existing policy, abatement would be applied where a member retires and becomes re-employed with a different scheme employer. In light of this it seemed appropriate to review the policy.

The objective of the new flexible retirement provisions is to encourage members to stay in employment for longer. This is entirely consistent with broader UK pension policy which is aimed at extending working lives in order to address demographic changes which are producing a steadily ageing population. Abatement seems to run contrary to these policy objectives. It therefore no longer seems likely that a policy not to apply abatement could lead to a serious loss of confidence in the public service.

The existing policy on abatement seemed appropriate when it was introduced. But given the new flexible retirement regulations, and in light of changing pensions policy objectives there is no longer a compelling case for the application of abatement. Given the administration costs involved in maintaining the existing policy the Strathclyde Pension Fund Committee agreed that it would be preferable to revise the policy so that abatement is no longer applied.

If you have any questions regarding this matter please contact your usual SPFO Liaison Officer. Alternatively you can contact Tom Hammond on 0141 287 7441 or Sarah Mallon on 0141 287 7348 to discuss any issues this raises.