

LONDON BOROUGH OF BRENT

GENERAL PURPOSES SUB COMMITTEE – 4th DECEMBER 2003

REPORT NO. FROM THE DIRECTOR OF FINANCE

FOR INFORMATION

**WARDS AFFECTED
None Specific**

ANNUAL REPORT ON THE COSTS OF EARLY AND ILL-HEALTH RETIREMENTS

1. SUMMARY

The report details the costs of early and ill health retirements for the year to 31st March 2003. Members previously decided that details of ill health and early retirements should be reported on an annual basis.

2. RECOMMENDATIONS

Members are asked to: -

- a) Note the report and approve the various actions being taken to improve procedures.
- b) Agree that future reports should only be presented if the cost of early or ill health retirements rises sharply.

3. FINANCIAL IMPLICATIONS

Ill health retirement costs have risen during the year to 31st March 2003, whilst those for early retirement through redundancy have fallen. However, the number and cost of both ill health and early retirement cases have fallen sharply compared to 1999/2000. There is some evidence that the number of ill-health retirements have been reduced following revised procedures. Brent Council's improved budgetary position, and the policy of recharging units for additional costs may have reduced the number of redundancies.

4. STAFFING IMPLICATIONS

There are no staffing implications arising directly from the report.

5. DETAIL

- 5.1 In 1997 the Audit Commission published a study 'Retiring Nature – early retirement in local government', examining and contrasting approaches to the allowance and funding of ill health and early retirements in local authorities. The study highlighted the varying practices within authorities, indicating that full costs were not always made clear when early retirements were agreed.
- 5.2 Following an internal study by the Pensions Strategy Group, Policy and Resources Committee agreed that:-
 - (a) Cost centres should be charged for pension strain – the cost of early payment of pensions and of lost contributions – in early retirement

(redundancy) cases, though not for ill-health. The charge is made over a period of three years, starting one year after the date of redundancy.

- (b) The scheme of enhancement for early retirement should be amended.
- (c) An annual monitoring report should be presented to members.

Recent developments

- 5.3 The triennial actuarial valuation of the Brent pension fund as at 31st March 2001 revealed an 84% funding level – i.e. that if the fund were ‘frozen’ as at 31st March 2001 assets would only cover 84% of liabilities, leaving a shortfall valued at £67m. It was agreed that employer contributions should increase to eliminate the deficit over the next thirteen years (the average working life of an employee). Many other local authorities were in a similar position. It is anticipated that the 2004 Actuarial Valuation will reveal a lower funding level following falling equity markets. At current markets levels, the funding level for the Brent pension fund is around 65% - 70%, which will result in higher employer contributions.
- 5.4 The actuary included an indicative ‘budget’ of £1.2m per annum for ill-health retirements within the valuation, allowing the administering authority to monitor the level of ill-health retirements and review with the actuary any requirement to increase employer contributions if costs were excessive. During the period 1998-2001 the annual cost of ill health retirements marginally exceeded the budget, but the reduction in such cases over the last two years has eased pressure on the pension fund.
- 5.5 The CIPFA Pensions Panel issued Guidance on Inter-Valuation Monitoring and Recover Plans in August 1999 to set out best practice in these areas. The main points emphasised are: -
 - (a) The Chief Financial Officer is responsible for establishing procedures for monitoring the outcome of the assumptions included in the valuation – reviewing the impact of ill health and other early retirements, and agreeing appropriate action with the actuary.
 - (b) It is good practice to have a recovery plan to achieve 100% funding over a reasonable period – usually the working life of the average employee. No employer with a funding level of less than 100% should have a contribution rate which is less than the future service rate.
 - (c) The outcome of the process of monitoring the implications of ill health and early retirements and agreeing appropriate action with the actuary should be published in the annual accounts of the authority.
- 5.6 Brent has followed ‘good practice in instituting a recovery programme and setting appropriate contribution rates. Procedures have been implemented to allow monitoring and reporting of data. Service units have received more detailed explanations of charges incurred in the event of early retirement through redundancy. I have commented in paragraphs 5.11 to 5.13 on the data for the year to 31st March 2003.

- 5.7 In September 1999 the Department of Environment, Transport and the Regions (DETR) released Circular 73 on Ill-Health Retirement, to be implemented from 1st April 2000. The main issues raised were:-
- (a) Independent registered medical practitioners who certify that employees are permanently incapable on the grounds of ill health must be qualified in occupational health medicine.
 - (b) The practitioner must be convinced that a member of staff cannot recover before age 65 (normal retiring age) before granting ill-health retirement. The result is that only chronic health problems will qualify for retirement.
- 5.8 Although a previous local study indicated that ill-health processes in Brent were good when compared with those adopted by neighbouring authorities, the issues raised in Circular 73 have made an impact. First, the authority regularly monitors its one occupational health practitioner. Second, there is evidence that the revised definition of permanent incapacity has reduced the number of retirements.
- 5.9 The Director of Human Resources and Diversity has agreed a contract with the occupational health practitioner to supply a comprehensive service to the council. This will involve improved communication between the council (as employer) and the practitioner, and the establishment of new sickness absence procedures – including improved support for long-term cases.
- 5.10 In 2002 it was agreed that the Director of Finance agree any proposals for early retirement as a result of redundancy. It is too early to comment on the impact of the revised procedures. However, it is apparent that the cost and value of early and ill health retirements has reduced sharply since 1999/2000. It is therefore suggested that further reports should only be brought to members if the situation deteriorates.

Early retirements

- 5.11 Table 1 analyses the costs of Ill-health retirement over the three years to 31st March 2003.

Table 1 – Analysis of the Costs of Ill-Health Retirement

	Nos. of Staff	Accrued Retirement Pensions per Annum £000	Compensatory Pensions per Annum £000	Capital Value of Accrued and Compensatory Pensions £000	Average Capital Value of Accrued and Compensatory Pensions £000
	(1)	(2)	(3)	(4)	(5)
1999/00	50	117	49	1274	25.5
2000/01	20	90	34	492	24.6
2001/02	27	74	38	374	13.9
2002/03	19	53	22	184	9.7

5.12 'Accrued' pensions are those which have been funded by employers' contributions on the basis of normal retirement at 60 or 65. 'Compensatory' pensions are added years occasioned by the ill-health retirement. In the case of ill-health retirement, compensatory pensions are also paid for by the pension fund. The table indicates that the number and average cost of ill-health early retirements has reduced when compared with the previous year, so that the indicative 'budget' set by the actuary (£1.2m per annum) was 'underspent'. These details compare well with those for 1999/2000, both in terms of numbers retiring and average cost. Costs and numbers will continue to be monitored closely to determine the trend of ill-health retirements, but the evidence indicates that revised procedures and more rigorous standards are reducing the incidence of ill-health retirement.

Table 2 – Analysis of the Costs of Early Retirement through Redundancy

	Nos. of Staff aged 50 or over	Accrued Retirement Pension per Annum £000	Compensatory Pension per Annum £000	Capital Value of Accrued Pensions £000	Capital Value of Compensatory Pensions £000	Average Capital Value of Compensatory Pensions £000
	(1)	(2)	(3)	(4)	(5)	(6)
1999/2000	20	20	26	587	491	24.5
2000/2001	8	55	4	278	86	10.8
2001/2002	8	77	15	374	316	39.5
2002/2003	11	133	27	577	523	47.5

5.13 The number of early retirement (redundancy) cases has remained low following the sharp decline from 20 cases in 1999/2000. It is suggested that this is due to the improved budgetary position of the authority, revised procedures, and charging units for the additional costs falling on the pension fund. The increased average cost per case in 2002/3 reflects the seniority of two of the officers made redundant.

6. BACKGROUND INFORMATION

Reports to Policy and Resources Committee 21st October 1997 (UKSC Advice on Early and Ill-Health Retirement), 16th February 1998 (Early Retirement in Local Government), 13th July 1998 (Early Retirement in Local Government), 17th November 1998 (Annual Report on Early and Ill Health Retirement Cost).

Report to General Purposes Sub Committee 2002 – Annual Report on Early and Ill Health Retirement Costs.

CIPFA Pensions Panel - Intervaluation Monitoring and Recovery Plans.
UKSC Circular No.73 - Ill-Health Retirement

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