

PENSION FUND COMMITTEE – 3 DECEMBER 2010

REVIEW OF ABATEMENT POLICY

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. Oxfordshire County Council, as Administering Authority, of the Oxfordshire Local Government Pension Scheme (LGPS) is required to formulate and keep under review its Abatement Policy.
2. The requirement for an abatement policy was introduced many years ago to bring the superannuation regulations into line with the tax regime at that time.
3. The Abatement Policy sets out the extent, if any, to which the amount of retirement pension payable to a member should be reduced, or extinguished, in cases where the member has started a new employment with a scheme employer where the member is eligible to join the LGPS. This could apply to any retirement, except for those members taking flexible retirement, since this is excluded within the regulations.
4. This policy only applies to funded pensions and not any awarded under the former Compensation Regulations.

Current Policy

5. In accordance with Regulation 109 of the 1997 Pension Regulations, the policy of Oxfordshire County Council concerning the abatement of retirement pensions in new employment is as follows:
 - (a) No abatement to be applied to pensions of less than £1,500 a year or when awarded to someone retiring on their own benefits; and
 - (b) In other cases, abatement will only apply if new earnings and pension in payment exceed 125% of the leaving pay, increase by the appropriate pension increases.
6. No abatement to be applied to pensions of less than £1,500 a year or when awarded to some one retiring on their own benefits; and
7. In other cases, abatement will only apply if new earnings and pension in payment exceed 125% of the leaving pay, increased by the appropriate pension increases.

Consultation on the Policy

8. The LGPS (Administration) Regulations state that before formulating that policy, an administering authority must consult with the authorities who employ active members for whom it is the appropriate administering authority.
9. A short questionnaire was sent out to scheme employers. Ten replies were received, although one of these related to the Teachers' Pension Scheme rather than the LGPS.
10. Seven of the nine respondents agreed that the administering authority should have an abatement policy.
11. Four respondents supported maintaining the protection on a pension value of £1,500. Although other replies suggested increasing this to £2,000 or £3,000.
12. Eight of the nine replies agreed that no abatement should be applied in instances where a member has retired on their own benefits.
13. Asked whether there should be a change to the formula for calculating abatements, one response suggested a straight pound for pound reduction; one response suggested a slight decrease to 120% whilst the majority were in favour of maintaining the current 125% level.

Financial and Staff Implications

14. At retirement members are advised of the abatement policy and asked to contact Pension Services should they become re-employed. Pension Services will then provide the maximum earnings which a member can receive without impacting on their pension benefits.
15. There are occasions when members do not advise Pension Services of their re-employment – these cases are highlighted via the National Fraud Initiative for investigation and recovery of any overpayments.
16. Under the current tax regulations member benefits are assessed in accordance with the lifetime allowance at the point benefits are brought into payment.

Formulating a New Policy

17. In formulating a policy concerning abatement, an administering authority must have regard:
 - (a) To the level of potential financial gain at which it wishes abatement to apply

The current policy is set at £1,500 which would with the application of pension increase (using RPI since CPI is not yet available) now be just under the £2,000, as suggested by one survey respondent.

- (b) To the administrative costs which are likely to be incurred as a result of abatement in the difference circumstances in which it may occur;

Pension Services have dealt with 21 cases during the past financial year. On average these cases would take no more than half an hour to calculate and check.

In instances where, for example, re-employment has not been declared the administrative costs can be much higher since the calculations are more complex and there may be a recovery of any overpaid pension from members.

- (c) To the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service

This potential loss of confidence needs to be considered against the fact that the pensions, which are or could be subject to abatement, have already been fully funded and the general move towards encouraging people to work for longer to supplement their pension incomes.

RECOMMENDATION

18. The Committee is ASKED to decide:

- (a) **whether it wishes to have an abatement policy, and if yes;**
(b) **the value at which the pension should be protected; and**
(c) **what level should be used in the formula for calculating abatement.**

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Assistant Chief Executive & Chief Finance Officer

Background papers: N/A

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