

PENSION POLICY

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PENSION POLICY

1.0 INTRODUCTION

- 1.1 The purpose of this report is to seek Committee approval for the adoption of certain discretionary elements contained within the Local Government Pension Scheme (Scotland) Regulations 1998, which came into force on 1 April 1998.

2.0 BACKGROUND

- 2.1 The Secretary of State, consistent with the position in England and Wales, has made changes to the current Local Government Superannuation (Scotland) Regulations 1987. The new scheme will apply to all existing scheme members and to new entrants on and after 1 April 1998. All current members of the Local Government Superannuation Scheme will transfer to the new scheme. The new regulations will consolidate or replace most of the provisions of the previous Local Government Superannuation Scheme.
- 2.2 The 1998 Regulations provide increased scope for the exercise of discretion by Authorities with due regard to cost, fairness and consistency of application.

3.0 MAIN DISCRETIONARY ELEMENTS

3.1 Reduction of Members Contributions After 40 Years Service

- 3.1.1 This gives the Association discretion to reduce or waive the standard pension contributions for employees with more than 40 years service before they reach the age of 60 years. In these circumstances the Association would become more responsible for meeting the cost to the pension fund of contributions not continuing during the period after the member has accrued 40 years of service and reached age 60.
- 3.1.2 It is unlikely that any Association employee would qualify for such a benefit.

3.2 Voluntary Early Retirement (Rule of 85)

- 3.2.1 Any scheme member aged between 50 and 60 years can request early payment of pension benefits. Where the employee is under age 60, the Association must first authorise this. In these circumstances the employee's pension benefits would be actuarially reduced, to compensate the Pension Fund for the loss of contributions.

3.2.2 Where, however, an employee's scheme membership (total years), added to his/her age, amounts to 85 or more, then the employee's benefit will be paid without reduction, with the Association re-imbursing the pension fund for the early payment of benefits. (This is known as Rule of 85).

3.2.3 Rule of 85 can prove to be an expensive discretion and it is recommended that it only be used where it can be clearly demonstrated to be in the Association's interests and is less expensive than other options available. The Pension Fund will recharge its costs from 1st April 1998.

3.3 Augmentation of Benefit

3.3.1 Augmentation of benefit allows the Association to award extra years of scheme membership (up to a maximum of 6.67 years) to an employee within 6 months of first joining the scheme or within 6 months of an employee over the age of 50 leaving the scheme. It may be granted as an alternative to added years but not in addition to added years.

3.3.2 At the commencement of employment augmentation could be used as an inducement, where particular difficulty is being experienced in recruiting a key post, although full justification for doing so would be required.

3.3.3 Perhaps one of the few circumstances where augmentation may be considered at the end of employment would be in ill health retirement cases, where an automatic enhancement of service does not apply (e.g. an employee with less than 5 years service).

3.3.4 The cost of augmentation on joining must be paid for "up front" but the cost of augmentation on leaving will be recharged on a similar basis to compensatory added years. This is considered an expensive discretion and should only be used in exceptional circumstances.

3.4 Shared Cost Additional Voluntary Contribution Arrangement

3.4.1 At present, pension schemes must allow members to pay additional voluntary contributions (AVC's). Contributions from the employer are not permitted.

3.4.2 This provision allows the Association to contribute towards the employee's AVC scheme. Whilst there is no set amount that the Association must contribute, it need not match the employee's contribution nor can the Association pay all the contributions.

3.4.3 Shared cost of AVC's again could be used as an inducement, where particular difficulty is being experienced in recruiting for a key post, and only where this can be fully justified.

3.4.4 Similar to augmentation, whilst less expensive, it is considered that it would not be widely used, and where it is being

considered, should only be done so in exceptional circumstances.

4.0 WIDOWER'S PENSION IN RESPECT OF SERVICE BETWEEN 1972 & 1988

- 4.1 Women with pensionable service before 1988 are currently disadvantaged by a restriction on Widower's benefit payable. It is, therefore, proposed that the Association resolve this. For all married women with pensionable service before 6th April 1988, they shall be treated in a similar fashion to males in respect of their pre 88 service and that, as a consequence, if widower's benefit's become payable they will not suffer any reduction.
- 4.2 Similarly, for women who are presently unmarried but have pensionable service before 6th April 1988, the administering authority will accept "late applications" and so any widower's benefits will be paid without reduction.
- 4.3 There will be no cost falling directly on the Association.

5.0 CONSIDERATIONS

- 5.1 Whilst the Committee is asked to consider adopting the above discretionary elements for application in certain circumstances, some of the provisions may prove expensive to the Association. It is important, therefore, that the Association adopt a consistent approach to the application of these discretionary provisions, in order to ensure cost effectiveness and fairness. To ensure consistency it is proposed that any request for these discretionary powers must obtain the approval of the Chief Executive.

6.0 RECOMMENDATIONS

- 5.2 The Committee approves the adoption of the above discretionary provisions.
- 5.3 The authority for granting any of these discretionary provisions is delegated to the Human Resources & Equality Sub Committee acting on a recommendation from the Chief Executive.