

## **Early Retirement on the Grounds of Efficiency**

### **Report of the Director of Human Resources and Organisational Development**

#### **1.0 Purpose of Report**

- 1.1 To update Members on the current process for early retirement on the grounds of efficiency and the number of applications received to date.

#### **2.0 Background**

- 2.1 Regulation 19 of the Local Government (Benefits, Membership and Contributions) Regulations 2007 (formerly Regulation 26 of the Local Government Pension Scheme Regulations 1997) allows for a pension scheme member who is aged 55 or more to retire from local government employment with immediate payment of pension and lump sum grant if his/her employer certifies the reason for his/her retirement is efficiency.
- 2.2 Personnel Committee on 28 September 2006 and 27 March 2007 considered the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 which revised the Local Government Pension Scheme to reflect the Age Discrimination Regulations which came into force on 1 October 2006. In light of these Regulations, Members approved a policy governing the use of employer's discretions in respect of efficiency.
- 2.3 Historically requests for early retirement on the grounds of efficiency were considered by the Personnel Committee once each year, usually in February or March. At their meeting in February 2011 Members of Personnel Committee approved a report proposing that delegated authority be given to the Director of Human Resources and Organisational Development in consultation with the Executive Director of Commercial and Corporate Services, to consider, and where appropriate, approve those future requests for early retirement on the grounds of efficiency which achieve a pay back period of two years or less, with requests that are declined by officers and all other requests continuing to be determined by Personnel Committee.
- 2.4 The decision was taken on the basis that during 2011 it was anticipated that a very large number of requests were to be received as a result of the council reminding eligible employees about their right to make a request whilst at the same time undertaking multiple service reviews and restructures as part of the Sunderland Way of Working. The change in process allowed for the increased number of requests that

were received and required determination, to be dealt with very rapidly in line with the target implementation dates of the new structures and allow accurate workforce planning.

2.5 The pay back period in paragraph 2.3 above refers to the “Capitalised Cost of Early Payment” (The strain on the Fund) and represents the cost to the Pension Fund of paying pension and lump sum before an individual’s normal retirement date (usually 65). The cost arises from the following factors:-

- (a) benefits are paid early;
- (b) sums are not in the fund attracting investment income and growth;
- (c) assuming a particular age at death pension is payable for a longer period.

### **3.0 Current Position**

3.1 Members may be aware that the default retirement age of 65 no longer exists and therefore it is possible to make any assumptions in respect of the retirement dates for employees. In this case it is however still important that as an organisation we are able to understand our likely workforce resources from a workforce planning perspective.

3.2 Since the change in process in February last year there have been in excess of 170 applications for early retirements on the grounds of efficiency submitted and approved.

3.3 However there are currently 1800 employees in the non-schools workforce who are aged 54 or over. In respect of our workforce planning needs it is important that we need to have a clearer understanding of potential turnover levels and individuals aspirations in terms of work.

3.4 In order to understand this at an individual level it is planned that those 1,800 employees will be having meetings in the coming weeks with a project team set up to better explain early retirement options to those who are eligible. This will not include those employees who are in roles where we already have a shortage of suitably qualified people and where early retirement could not deliver an efficiency.

3.5 As well as providing relevant information, in each meeting we will look to ascertain when an employee expects to retire, although this will be done without a commitment on behalf of the employee. This is an important element of our workforce planning, and will help us to prepare for the savings targets we face in future years.

- 3.6 As early retirement is “on the grounds of efficiency”, there must be a net financial benefit to the council. When an application is approved, there is usually a cost to the council in meeting the strain on the pension fund caused by the employee accessing their pension benefits at an early date. The council, therefore, will weigh up the cost of meeting the strain on the fund against the potential to realise efficiencies through the employee leaving their post early.
- 3.7 Each application will continue to be considered on its individual merits using the following criteria:
- The employee must be 55 or older at the date of their retirement to access their pension
  - The employee must have been in the local government pension scheme for at least 3 months
  - The employing directorate must be able to identify the potential of realising efficiency by allowing the employee to retire early
  - The cost of meeting the strain on the pension fund must not outweigh the potential to realise efficiency
- 3.8 The workforce planning interview process is still in its early stages although early indications are suggesting that employees are finding the opportunity very positive and that there have already been some expressions of interest.

#### **4.0 Recommendation**

- 4.1 Members are asked to note the content of the report.

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