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**Report of the Director of Resources**

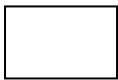
**Member Management Committee**

**Date: 1st June 2009**

**Subject: Local Government Pension Scheme – Councillor Membership**

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**Electoral Wards Affected:**



Ward Members consulted  
(referred to in report)

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

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**Executive Summary**

The Local Government Pension Scheme and Discretionary Compensation (Local Authority Members in England) Regulations 2003 were introduced with effect from 1<sup>st</sup> May 2003. This legislation allowed councillors to become members of the Local Government Pension Scheme for the first time.

This report outlines the history of the Local Government Pension Scheme for Elected Members, the benefit structure of the pension scheme, and the differences in benefit provision between the councillor pension scheme and the pension scheme provided to Leeds City Council employees.

## **1.0 Purpose Of This Report**

- 1.1 Following a number of requests for information regarding the Local Government Pension Scheme for Elected Members, this report has been prepared to provide details of the councillors pension scheme and outlines the differences between the councillors pension scheme and the pension scheme provided to employees of Leeds City Council.

## **2.0 Background Information**

- 2.1 The Local Government Pension Scheme and Discretionary Compensation (Local Authority Members in England) Regulations 2003 were introduced with effect from 1<sup>st</sup> May 2003. These regulations set out the pension provision for councillors and the role of the Independent Remuneration Panel in deciding who may be eligible for membership of the scheme.
- 2.2 The Independent Remuneration Panel had to advise which Elected Members should be entitled to join the Local Government Pension Scheme and whether the basic allowance or special responsibility allowance, or both, should be classed as pensionable pay.
- 2.3 The Independent Remuneration Panel recommended that all Leeds City Council Elected Member's should be eligible to join the Local Government Pension Scheme and that the basic allowance and special responsibility allowance should be classed as pensionable pay. This was ratified by full council on 4<sup>th</sup> November 2003.
- 2.4 All eligible councillors were contacted on 5<sup>th</sup> November 2003 and asked if they wished to join the pension scheme and return an option form confirming their decision. Prior to this all councillors were invited to a seminar in the Civic Hall which was delivered by the West Yorkshire Pension Fund and outlined the changes in regulations and benefit structure of the pension scheme.
- 2.5 All newly elected councillors are sent a pension scheme booklet providing them with details of the Local Government Pension Scheme and also an option form to complete if they wish to join. The Head of Pension Services also attends the new councillor briefing sessions and delivers a presentation on the pension scheme.

## **3 Main Issues – Benefits of the Pension Scheme**

- 3.1 The main pension scheme benefits provided to elected Members by the Local Government Pension Scheme are:

- A tax free lump sum
- A pension based on career averaging pay
- Ability to increase pension by paying Additional Voluntary Contributions
- Optional retirement from age 60
- Retirement from age 50 (aged 55 from 1<sup>st</sup> April 2010) if Leeds City Council consent
- Ill Health Retirement at any age
- A death in service lump sum of two times career average pay
- Widow's, widowers or civil partner's pension

- Children's pensions
- Index linking of benefits

In addition, all pension contributions attract tax relief at the time they are deducted from allowances and, up to state pension age a lower rate National Insurance Contribution is deducted.

3.2 Following a lengthy review a new Local Government Pension Scheme was introduced with effect from 1<sup>st</sup> April 2008. However, Communities and Local Government (CLG) decided that Elected Members should remain with the existing pension scheme and a separate review should take place for the councillors pension scheme. To date there has been no information or consultation regarding such a review. The benefits provided by the Local Government Pension Scheme for employees and Councillors are now prescribed by different legislation issued by CLG attached is a comparison of the pension benefits provided to councillors and employees at Appendix 1.

3.3 At Appendix 2 are examples of different benefit calculations

## **4 Implications For Council Policy And Governance**

4.1 None

## **5 Legal And Resource Implications**

5.1 None

## **6 Conclusion**

6.1 The benefits provided by the Local Government Pension Scheme to councillors are different to the pension scheme benefits provided to employees of Leeds City Council. However, the regulations of both pension schemes are governed by Communities and Local Government and the Authority have no discretion to offer any other benefits than those prescribed in legislation.

## **7 Recommendations**

7.1 MMC are requested to note the contents of this report.

## APPENDIX 1

LGPS - BENEFIT PROVISION	COUNCILLORS	LEEDS CITY COUNCIL
EMPLOYEE CONTRIBUTIONS	6% of basic and special responsibility allowance	Based on salary bandings <b>Whole Time Pay contribution rate</b>  Up to £12,600 5.5% £12,601 to £14,700 5.8% £14,701 to £18,900 5.9% £18,901 to £31,500 6.5% £31,501 to £42,000 6.8% £42,001 to £78,700 7.2% More than £78,700 7.5%
EMPLOYER CONTRIBUTION	For 09/10 13.3% For 10/11 14.1%	For 09/10 13.3% For 10/11 14.1%
TRANSFER OF PREVIOUS PENSIONS IN	No, but can link previous councillor membership if in the same LGPS	Yes
TRANSFER OF PENSION BENEFITS OUT	No, but can link previous councillor membership if in the same LGPS	Yes
NORMAL RETIREMENT DATE	Age 65 but can claim benefits at age 60 with reductions	Age 65 but can claim benefits at age 60 with reductions
BENEFIT ACCRUAL	1/80 <sup>th</sup> Pension 3/80 <sup>th</sup> Lump sum Can give up pension for bigger lump sum	1/60 <sup>th</sup> Pension only Can give up pension for bigger lump sum
PENSIONABLE PAY	Career Average – This is the pay for each year or part year ending 31 <sup>st</sup> March increased by the rise in RPI. The revalued pay is then divided by the number of years and part years in the scheme – see examples at Appendix 2.	Best of the last 3 years pay calculated to the date of retirement.
ILL HEALTH RETIREMENT	Yes, if at least 2 years in pension scheme. If 5 years in scheme enhancements awarded up to 6 2/3 <sup>rd</sup> 's added years.	If 3 months in scheme benefits paid straight away, and could be increased if employee is unlikely to be capable of gainful employment within 3 years of leaving.
EARLY RETIREMENT	From Age 50 (age 55 from 1/4/2010) with Council's consent	From Age 50 (age 55 from 1/4/2010) with Council's consent
DEATH IN SERVICE	Lump sum death grant of two times career average pay. Widow, widower, civil partner and children's pensions payable.	Lump sum death grant of 3 times pensionable pay. Widow, Widower, civil partner, nominated cohabiting partner and children's pensions payable

GUARANTEED PENSION	5 years	10 years
ADDITIONAL VOLUNTARY CONTRIBUTIONS	Yes, payable to Scottish Widows and will increase pension at retirement	Yes, payable to Scottish Widows and will increase pension at retirement
BUYING ADDED YEARS	No	No, removed from the regulations on 1 <sup>st</sup> April 2008.
ADDITIONAL REGULAR CONTRIBUTIONS	No	Yes, can buy additional pension in multiples of £250 up to a maximum of £5,000.
ANNUAL PENSION BENEFIT STATEMENT	No, due to complex calculation of career average pay it has not been possible to provide to date. However WYPF have recently reviewed this and hopefully will be sending benefit statements as at 31/3/08 within the next 3 months. They will then be sent annually thereafter.	Yes

**BENEFIT CALCULATIONS****Example 1**

Councillor has been in the scheme for 4 years, the average pay calculation would be:

£12,000 plus inflation = £12,360

£12,500 plus inflation = £12,875

£13,100 plus inflation = £13,493

£13,600 plus inflation = £14,008

Career average pay = £12,360 + £12,875 + £13,493 + £14,008 divided by 4 = £13,184

Pension Benefits Payable

**Pension** -  $1/80 \times £13,184 \times 4$  (years membership) = £659.20 per annum

**Lump sum** -  $3/80 \times £13,184 \times 4$  (years membership) = £1,977.60

**Example 2**

Councillor has been in the scheme for 8 years, the average pay calculation would be:

£12,000 plus inflation = £12,360

£12,500 plus inflation = £12,875

£13,100 plus inflation = £13,493

£13,600 plus inflation = £14,008

£14,600 plus inflation = £15,038

£14,600 plus inflation = £15,038

£14,600 plus inflation = £15,038

£14,600 plus inflation = £15,038

Career average pay = £12,360 + £12,875 + £13,493 + £14,008 + £15,038 + £15,038 + £15,038 + £15,038 divided by 8 = £14,111

Pension Benefits Payable

**Pension** -  $1/80 \times £14,111 \times 8$  (years membership) = £1,411.10 per annum

**Lump sum** -  $3/80 \times £14,111 \times 8$  (years membership) = £4,233.30