

Employee Pension Provision

Background

The Parish Council has recently stated its intent to work toward becoming a good employer. It should be said this was not because previously it was trying to be a poor employer but that the terms of conditions of its staff were not subject to review, the turn-over of staff was low and everyone's focus was on delivering on behalf of Clipstone. In the interim, staff's terms and conditions got left behind. There was recognition by the Parish Council that it needed to focus on staff, and so the journey toward being a better employer commenced. Pension provision is important to employees, and this report reviews the Council's current pension offering 'Smart Pension' and the option of the Local Government pension scheme.

Currently, permanent employees above the threshold criteria set by the Government are offered the opportunity to join the Smart Pension scheme with contributions set at:

Employer contribution	Employee contribution
3%	5%

This report investigates retaining the current Smart Pension and seeking to increase the contributions, and the option of joining the Local Government Pension scheme.

Employer Contribution Liability

A key consideration of improving the pension provision is the potential cost liability to the Parish Council. All comparisons below are based on the payroll data from August 2022.

The Smart pension scheme allows for the employer contribution to be chosen. The Parish Council makes the minimum contribution. Whereas the Local Government pension scheme is a defined contribution of 20.2%. At the present time, due to a deficit in the LGPS pension pot, extra contributions are taken by the Local Government pension scheme which are estimated to be between £1,500 and £3,000 per annum. The cost table below has been calculated at £3,000 to show the potential liability, although it has been confirmed that these are estimates and the final amount could be higher or lower.

Local Government pension	Monthly liability	Annual liability
Employer contribution liability 20.2%	£1,130.12	£13,561.46
Monetary deficit (approx.)	£250.00	£3,000.00
TOTAL	£1,380.12	£16,561.46

By comparison, the Smart Pension liability has been calculated using various contribution percentages to display cost liability. 20.2% is the standard Local Government pension Employer contribution.

Employer contribution liability	Monthly liability	Annual liability
3.00%	£167.84	£2,014.08
10.00%	£559.47	£6,713.59
15.00%	£839.20	£10,070.39
20.00%	£1,118.93	£13,427.18
20.20%	£1,130.12	£13,561.46
25.00%	£1,398.67	£16,783.98

The liability of Smart Pension is lower per annum, however there are other considerations to take into account when looking at which pension provision would be best for both the Employer and Employee. These are explored further in this report.

It is noted that the current budget for pension contributions is £5,000, and this would need to be revision if a change to the current pension provision is approved.

Pension projections

For illustration purposes, all projections are based upon the following information for an average employee:

Age:	35
Hours:	20 per week
Salary:	£1,098 per month
Annual salary:	£13,176
Years paying in:	33
Annual pay rise:	2.50%

The Local Government pension scheme states that for each full year of contributions, and an employee would accumulate 1/49 of their income as pension income. The table below displays pension income based on average employee information.

Year	Salary	Pension
Start	£13,176.00	£268.90
Year 1	£13,505.40	£275.62
Year 2	£13,843.04	£282.51
Year 3	£14,189.11	£289.57
Year 4	£14,543.84	£296.81
Year 5	£14,907.43	£304.23
Year 6	£15,280.12	£311.84
Year 7	£15,662.12	£319.64
Year 8	£16,053.68	£327.63

Year 9	£16,455.02	£335.82
Year 10	£16,866.39	£344.21
Year 11	£17,288.05	£352.82
Year 12	£17,720.26	£361.64
Year 13	£18,163.26	£370.68
Year 14	£18,617.34	£379.95
Year 15	£19,082.78	£389.44
Year 16	£19,559.85	£399.18
Year 17	£20,048.84	£409.16
Year 18	£20,550.06	£419.39
Year 19	£21,063.81	£429.87
Year 20	£21,590.41	£440.62
Year 21	£22,130.17	£451.64
Year 22	£22,683.42	£462.93
Year 23	£23,250.51	£474.50
Year 24	£23,831.77	£486.36
Year 25	£24,427.57	£498.52
Year 26	£25,038.26	£510.98
Year 27	£25,664.21	£523.76
Year 28	£26,305.82	£536.85
Year 29	£26,963.46	£550.27
Year 30	£27,637.55	£564.03
Year 31	£28,328.49	£578.13
Year 32	£29,036.70	£592.59
Year 33	£29,762.62	£607.40
TOTAL		£14,147.50

Our illustrative average employee would have a pension of £14,147.50 per annum if they contributed to the Local Government pension scheme for 33 years. This figure factors in a salary increase of 2.5% each year. The Local Government Pension scheme also adjusts the contributions each year against the cost-of-living index.

The Smart Pension Scheme projection is based on the same assumptions of 33 years of contributions and pay increases of 2.5% each year.

<u>Employer contribution</u>	<u>Employee contribution</u>	<u>Pot income</u>
3.00%	5.00%	£2,620.00
10.00%	5.00%	£4,908.00
15.00%	5.00%	£6,565.00
20.00%	5.00%	£8,221.00
20.20%	5.00%	£8,281.00
25.00%	5.00%	£9,877.00

The comparisons below show there is a significant difference between the pension income an employee would receive between the two pension schemes.

Pension scheme	Annual Pension income
Smart Pension	£ 8,281.00
Local Government	£14,147.50

Pension scheme benefits

The benefits of Smart Pension and Local Government schemes are compared below:

Benefit	Smart Pension	LGPS
Option to increase Employee contributions	Yes	Yes
Option to reduce employee contributions	No	Yes
Death in service life cover*	No	Yes
Funds returned on death in service	Yes	See above
Pension can be taken if seriously ill*	No	Yes
Taken after 55 if in ill health	Yes	Yes
Taken after 55 if made redundant	No	Yes

**3x assumed pension income*

**After 2 year vesting period*

Additional information

Many Parish Councils and Local Authorities offer their employees the Local Government Pension Scheme. The extract below is the Town and Parish Councils in the local area who were part of the Local Government Pension Scheme when the last audit was published in 2021.

Schedule 2 - Town & Parish councils

Aslockton Parish Council

Balderton Parish Council

Beckingham cum Saundby Parish Council

Bingham Town Council

Blidworth Parish Council

Burton Joyce Parish Council

Calverton Parish Council

Cotgrave Town Council

Cropwell Bishop Parish Council

Dunham & District Parish Council

Eastwood Town Council

Edwinstowe Parish Council

Fernwood Parish Council
Greasley Parish Council
Harworth & Bircotes Town Council
Kimberley Town Council
Laneham Parish Council
Langar Cum Barnstone PC
Misterton Parish Council
Newark Town Council
Nuthall Parish Council
Ollerton & Boughton Town Council
Radcliffe on Trent Parish Council
Rainworth Parish Council
Rampton Parish Council
Ravenshead Parish Council
Ruddington Parish Council
Selston Parish Council
Southwell Town Council
Stapleford Town Council
Trowell Parish Council
Tuxford Town Council
Warsop Parish Council
Woodborough Parish Council
Worksop Charter Trustees

Recommendation

That the Personnel Committee recommends that Clipstone Parish Council considers improving the current pension provision and works toward joining the Local Government Pension scheme. This will give employees confidence and assurance that they are valued and that the Council is planning for their future.