

Employee Pension Provision

Background

The Personnel committee has previously been presented with a report considering the options of Smart Pension and the Local Government Pension Scheme. More detailed costings were requested which this document should provide.

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%

Employer contributions

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 February 2023.

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 currently a defined contribution of 20.2% which is rising to 21.3% from 1st April 2023 in line with the cost of living. At the present time, due to a deficit in the LGPS pension pot, extra contributions are taken by the Local Government pension scheme which were previously estimated to be between £1,500 and £3,000 per annum. Since the last Personnel meeting the indicative results from the 2022 funding valuation show that the deficit has improved and now the extra contributions would be in the hundreds and not the thousands. The deficit liability is calculated by the size of the employer and is different depending upon which 'pool' the employer falls into. Clipstone Parish council would be in the smallest pool. The cost table below has been calculated at £1,000 to show the potential liability, although it has been confirmed that these are estimates and the final amount could be higher or lower. It is also using Employer contributions of 21.3% so it is comparable to the 2023/24 budget.

Local Government pension	Monthly liability	Annual liability
Employer contribution liability 21.3%	£1,428.15	£17,137.80
Monetary deficit (approx.)	£83.33	£1,000
TOTAL	£1,511.48	£18,137.80

By comparison, the Smart Pension liability has been calculated using various contribution percentages to display cost liability. 21.3% is the standard Local Government pension Employer contribution.

Employer contribution liability	Monthly liability	Annual liability
3.00%	£226.60	£2,719.20
10.00%	£713.33	£8,599.98
15.00%	£1,061.00	£12,731.98
20.00%	£1,408.66	£16,903.97
21.30%	£1,446.15	£17,353.80
25.00%	£1,756.33	£21,075.96

It is noted that the budget for pension contributions for next financial year is £15,450.

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 shows there is a significant difference between the pension income an employee would receive between the two pension schemes.

<u>Pension scheme</u>	<u>Annual Pension income</u>
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*

Summary

The liability of Smart Pension is lower by around £800 per annum (based on an estimate of the money deficit amount), there are other considerations to take into account when looking at which pension provision would be best for both the Employer and Employee. The Local Government pension scheme provides death in service which Smart Pension doesn't and this would come at an extra cost if we were to provide this.

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

Summary

The Local Government Pension scheme is more comprehensive than Smart Pension, offers a better pension provision for staff members at retirement and includes a death in service benefit.

The Local Government Pension scheme deficit amount has decreased, and the difference in the liability between the two schemes funded to the same level is approximately £800 per annum.

Recommendation

That the Personnel Committee recommends to full Council that Clipstone Parish Council joins the Local Government Pension scheme.