

Avon Pension Fund

Local Government Pension Scheme

Post: Avon Pension Fund, Bath & North East Somerset Council,
Lewis House, Manvers Street, Bath, BA1 1JG

Web: www.avonpensionfund.org.uk

Email: avonpensionfund@bathnes.gov.uk

Tel: 01225 395100

Fax: 01225 395258



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LGPensions@communities.gov.uk

FAO:- Thahira Khatun

Re: Consultation on implementation of late retirement factors

I write on behalf of the Avon Pension Fund in its capacity of administering authority in response to the above consultation, which was published on 28 March 2019.

Question 1: Consultees are invited to comment on whether the proposed methodology achieves the aim of smoothing the impact of changes in factors?

We believe that it does achieve the aim of smoothing the impact of the change in factors for members, however, the proposed methodology seems overly complex compared to the method it is replacing. Could the smoothing of the impact be more simply achieved by one of the following:-

- Keeping the current methodology but giving more notice of the intention to change the late retirement factors, in 2017 this was attempted by giving 3 months' notice, but maybe this should have been longer?
- Keeping the current methodology and factors for any pension built up before the date of implementation of the new factors and then applying any change in the factors to any pension benefits built up from the date they are implemented but keeping the same methodology as before the factors change?

Keeping the current methodology as opposed to switching to the new more complex methodology would be welcomed from an administrative perspective and also easier for members to understand when it shows on their statement of benefits.

Question 2: Consultees are invited to comment on this approach and provide any evidence which supports their view?

We understand that our actuary will be commenting on this and have nothing further to add.

Question 3: Consultees are invited to comment on the proposed implementation of the new late retirement factors?

We feel very strongly that the proposed implementation date of 1 May 2019 is extremely unrealistic without causing significant administrative burden. We have contacted our pension administration software provider who has advised that the earliest this change in calculation methodology could be accommodated within the system is likely to be Autumn. Therefore, should the proposed changes be implemented before software providers are given the opportunity to make the necessary amendments, this would mean manual calculations would need to be carried out by administrators for all late retirements with a further requirement to then amend the system and any documentation to be sent out to the member to reflect the change in the late retirement increases. This is particularly worrying for us, as an administering authority, due to the complex and time consuming nature of this new calculation methodology, which would require pension administrators to firstly work out the number of years and

days between up to 3 different periods (NPA – 31 March 2019, NPA – date of retirement for pre 2014 benefits and NPA – date of retirement for post 2014 benefits) then subsequently carry out up to 4 steps, with each step having multiple stages within, often involving interpolation of factors, and then applying the potentially differing late retirement increases to the pension benefits depending on the tranche of membership that it relates to. Not to mention the subsequent knock on effect of having to recalculate the Lifetime Allowance & maximum commutation available to the member as a result of the late retirement increases to the pension being incorrect on the system and requiring manual intervention. Therefore, we strongly feel that any such methodology change should not be implemented until the software providers are given adequate time to accommodate this.

Further Comments:-

Point 2.6 of the GAD guidance states *'The increase should be applied to the benefits after Pensions Increases have been added in relation to any period of deferment'*. Is this also the case for Pensions Increases that have been added due to a previous years' pay being used in a calculation where retiring from active status? If so, it would be good if this could also be clarified in the guidance.

Point 2.8 of the GAD guidance states *'Where the member is entitled to a retirement grant, Grant uplift B should be calculated as follows'*, however, we believe this is a typo and it should say Grant uplift A.

We hope our responses are useful in taking the proposals forward and look forward to being updated in due course.

Kind Regards,

Kate Shore
Technical & Compliance Advisor
Avon Pension Fund

Tel: 01225 395283

Email: Kathryn_Shore@bathnes.gov.uk