Pension Fund Consultative Group

Title: **LGPS Pensions Consultation**

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Electoral divisions affected: N/A

Summary

On 7 October 2011 the Department for Communities and Local Government published a consultation paper, attached at Appendix 2, with proposals to deliver short term savings in the Local Government Pension Scheme (LGPS) of £900m per annum nationally by 2014/15, equivalent to a 3.2% increase in employee contributions. It proposes two options which rather than making all the target savings from increased contributions require a combination of phased increases in employee contributions and reduced accrual rates. A copy of the draft response from the County Council as administering authority to the Fund is attached as Appendix 1.

Recommendation

The Group is asked to COMMENT on the proposals.

Resource implications

1 There are none arising directly from this report.

Other implications/issues

2 Following Lord Hutton's Independent Public Service Pensions Commission review, the Chancellor announced that employees in the unfunded public service pension schemes such as civil servants and teachers would be required to pay increased contributions averaging 3.2%. This would raise £2.8bn a year by 2014/15 and would be phased in from April 2012.

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3 In February 2011 and April 2011 the Local Government Association wrote to the Chancellor to express concern over the impact of the proposed increase in employee contributions to the LGPS of 3.2%. They were concerned that a significant increase in employee contributions at a time of pay restraint and high inflation could increase the number of opt outs and impact on the Scheme's future sustainability and viability.

4 In June 2011 the Government recognised the unique funding arrangements of the LGPS compared to other public sector schemes and agreed to allow separate discussions to see if alternative ways could be found to achieve the equivalent savings of £900m for the LGPS in England and Wales. Following discussion with the local authority trade unions, no agreement has been reached and the Local Government Association has submitted its own proposals to the Government which would provide a choice for employees between increased contribution rates and worsened accrual rates. The key elements of the changes proposed by the LGA are:

- A moderate increase of 1.5% from 1 April 2014 for those earning between £15,000 and £21,000.
- No increase in employee contributions for scheme members whose full-time equivalent earnings are less than £15,000.
- An increase of 2% to 2.5% from 1 April 2014 for those earning over £21,000.
- Recognising that some employees earning over £15,000 may not be able to afford an increase in their pension contributions, they would have the choice to carry on paying contributions at existing levels and have a reduction in the rate that their pension builds up from April 2014 (from the current rate of 1/60th of final pay per year of service to 1/68th per year of service).
- Also, employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet their current level of contribution would have the choice to reduce their contribution rate by around 0.6% to 0.7% and instead have a reduction in the rate that their pension builds up for service from April 2014 (from the current rate of 1/60th of final pay per year of service to 1/68th per year of service).
- Increase the normal age of retirement from 65 to 66 for benefits earned after April 2014 with benefits earned before then retaining a normal pension age of 65.

5 The main thrust of the LGA's proposals is that employees should have choice about how they meet the cost of paying for increased longevity.

6 The DCLG issued a consultation paper on 7 October 2011. The deadline for responses to the consultation is 6 January 2012. The DCLG intends to analyse the submission from the LGA and will also consider any further alternative proposals.

7 The first option from DCLG is a phased increase in employee contributions for those with full-time equivalent pay of £15,101 or more, starting from April 2012. There would be no increase in the employee contribution rate for those with full-time equivalent pay of less than £15,101 a year and no more than a 1.2% increase by April 2014 for those earning between £15,101 and £21,000 a year. Higher earners would pay progressively more than those on lower pay (i.e. an increase of between 1.8% for those earning £21,001 up to a maximum increase of 5% from April 2014 for those earning £150,001 or more).

And

A reduction in the rate at which the pension builds up (reducing from the current rate of 1/60th of final pay for each year of service to 1/64th for service between April 2013 and March 2014, and to 1/65th for service after March 2014).

8 The second option from CLG is a phased increase in employee contributions for those with full-time equivalent pay of £15,101 or more, starting from April 2012. There would be no increase in the employee contribution rate for those with full-time equivalent pay of less than £15,101 a year and no more than a 0.3% increase by April 2014 for those earning between £15,101 and £21,000 a year. Higher earners would pay progressively more than those in lower pay bands, but the level of increase for all but the most highly paid employees (those earning £150,001 or more) would be less than under Option 1.

And

A reduction in the rate at which the pension builds up (reducing from the current rate of 1/60th of final pay for each year of service to 1/67th for service after March 2014).

9 The consultation document, Appendix 2, includes tables within Annex A which set out the existing and proposed contribution tariff bands.

10 Consultees who may wish to submit alternative proposals must notify DCLG by 28 October 2011 and submit any costed options by 25 November 2011. Following a discussion at Pension Fund Committee on 27 October 2011 it was agreed to notify DCLG that the Fund may wish to submit alternative proposals. An alternative response could propose that all the £900m savings required by the Government could be met by worsening the accrual rate from 1/60th to 1/70th with no increases in employee contribution rates. If there is no increase in contributions, then members of the Scheme would be less inclined to opt out. Following further discussions at Pension Fund Committee on 17 November 2011 it was agreed that the administering authority would not submit an alternative proposal to the DCLG.

11 The following table summarises the proposals:

	LGA Option 1	LGA Option 2*	DCLG Option 1	DCLG Option 2
Average increase in member contributions	2%	Varies	1.5%	1.0%
Maximum increase in member contributions	2.5%	Varies	5.0%	5.0%
Accrual rate 2012/13	1/60	1/60	1/60	1/60
Accrual rate 2013/14	1/60	1/60	1/64	1/60
Accrual rate 2014/15	1/60	1/68	1/65	1/67
Increase normal retirement age from 65 to 66	Yes	Yes	No	No
Savings from Contributions	£600m	£300m to £600m*	£450m	£300m
Savings from Accrual Rates	£300m	£300m to £600m*	£450m	£600m
Savings from change to Normal Retirement Age for future service from 1 April 2014	£300m	£300m	£0m	£0m
Total Savings	£900m	£900m	£900m	£900m

* LGA Option 2 gives the member the option to decide whether to pay additional contributions or opt for a lower accrual rate, therefore it is not possible to gauge the balance of how much would be saved from contributions increases or reduced accrual rate.

12 The Pension Fund Committee agreed to support the LGA option 2 since it maximises choice for members of the Scheme. The savings are phased in during the years 2012/13 to 2014/15.

13 The consultation paper invites responses to the following questions:

a. **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings?

b. **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?

c. **Question 3** – Is there a tariff of alternative measures which consultees think would help to further minimise any opt outs from the scheme?

d. **Question 4** – Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

e. **Question 5** – Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with the state pension age as recommended to the Government in Lord Hutton's report.

14 DCLG intends that the additional income achieved from the Scheme amendments will help to rebalance the costs of public sector pension provision between scheme members and employers / taxpayers. To ensure LGPS employers and taxpayers benefit from the savings achieved by the changes when they are introduced, it would be necessary to provide a technical amendment effective from April 2012 to enable scheme-appointed actuaries to vary rates and adjustment certificates between 2010 and 2013 valuations.

15 The Group should note that in response to the Hutton Review the Government is continuing to develop longer term proposals for the reform of public sector pensions.

Feedback from consultation, Local Area Forums and Local Member views (if relevant)

16 Members of the Group, as employers within the Buckinghamshire County Council Pension Fund, are encouraged to respond to the consultation.

Background Papers

LG Group letter in relation to proposed increase in employee contributions 14 April 2011
http://www.lge.gov.uk/lge/core/page.do?pageId=11571866
Independent Public Service Pensions Commission: Interim Report and Final Report
http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm