

LGPS Heads of Agreement Q&A

On 22nd of December an agreement reached by the Local Government Association (LGA) and local government unions on how to take forward the future reform of the Local Government Pension Scheme (LGPS) in England and Wales was accepted by the Government. The agreement consists of:

- A set of principles covering:
 - the design of a new LGPS
 - the future management of the cost of the scheme, and
 - governance of the LGPS
- A timetable for implementing the new scheme by April 2014
- A project outline for managing the process of agreeing, by April 2012, the 'big ticket' elements of the new scheme.

The agreement together with an accompanying ministerial statement can be found at <http://www.lge.gov.uk/lge/core/page.do?pageId=15185675>

All parties involved in these continuing discussions are committed to ensuring that whatever the outcome the LGPS will still be one of the best pension schemes available.

Here we attempt to answer some of the questions about the agreement that have been raised.

Q. Will there still be contribution increases for scheme members in 2012?

A. Hopefully not. Although the Government's consultation on proposals to increase employee contributions closed on 6th January, the Government have agreed to hold back on taking any action whilst the talks between the LGA and the unions are continuing. However should the talks break down without further agreement then increases may well be implemented, possibly before the end of 2012-13.

Q. When will the new scheme come into effect?

A. The proposal is that the new scheme will be implemented from April 2014 but that the regulations governing the scheme will be in place by March 2013.

Q. Why 2013 for regulations?

A. Having regulations in place by 2013 will enable the pension fund actuaries to take the new scheme into account as part of the 2013 scheme valuation. This will enable adjustments to be made to employer contributions in 2014.

Q. Will scheme member contributions in the new scheme be more than now?

A. Possibly, although various options will be explored to keep any contribution increases to a minimum.

Q. What will the benefits be in the new scheme?

A. These will be determined by discussions taking place between now and April. There will be regular updates on the progress of these discussions and consultation with all stakeholders. Remember however that pension benefits built up in the current scheme will continue to be calculated as 1/60th of final pensionable pay at retirement for each year of service..

Q. What are the 'big ticket' items to be agreed by April 2012?

A. These are as follows:

- Confirmation of the basis of the scheme design (e.g. CARE, being a scheme where benefits are based on career average revalued earnings, rather than final pensionable pay)
- The accrual rate for the scheme (being the rate at which the pension is built up for each year of service in the scheme e.g. 1/60th of pay for each year)
- The revaluation rate (being the rate by which, during employment, each year's worth of pension is subsequently increased after it has been built up)
- The actuarial methodology for reducing or increasing benefits if they are drawn before or after Normal Pension Age
- The amount and timing of any employee contribution increases
- Any transitional protections for older scheme members
- The parameters for the maximum and minimum employer contribution to the new scheme (sometimes referred to as the employer "cap and collar")
- The mechanism for varying elements of the scheme design in the future to ensure costs are maintained within the cap and collar values
- Recommendations on best practice in scheme governance and procurement of services by pension funds.

Q. When will members be able to retire?

A. The proposal is for benefits to be able to be taken at any age from 55 to 75 with the value of those benefits to be adjusted up or down dependant on how far either side of the Normal Pension Age they are taken.

Q. What will Normal Pension Age be?

A. For the new scheme this is proposed to be the later of age 65 or State Pension Age but remember that all benefits built up in the current scheme will retain the current Normal Pension Age (which, for nearly all scheme members, is age 65).

Q. Will any benefits be protected?

A. All benefits built up to the date of implementation of the new scheme will be protected in full including the age at which they can be taken and the method of calculation. The Government has proposed extending protection to members who will be within 10 years of age 65 by April 2012.

Q. What is the employer 'cap and collar'?

A. The discussions will come to an agreement on an acceptable maximum and minimum range for future employer contributions. This will apply only to

the benefits being built up in the new scheme and will be measured at a national level using data from the notional model fund (which includes data from all the LGPS funds in England and Wales). Individual employer contributions will continue to also contain elements for past service funding deficits and local factors which may result in an individual employer's total contribution rate falling outside of the range.

Q. How will the cost of the scheme be managed within the cap and collar?

A. A mechanism will be agreed by which elements of the scheme design can be varied in the future to ensure costs are maintained within the cap and collar values. It is proposed that the mechanism be within the scheme and under the control of its stakeholders to ensure that the process we are currently going through should not have to be repeated.

Q. What kind of recommendations on best practice are envisaged?

A. These are proposed to cover both the potential effect of the cap and collar at individual pension fund level as well as encouraging a greater degree of member involvement, joint working and effective procurement of services by pension funds.

Q. What are the next steps?

A. A project team consisting of unions, the LGA and the Department for Communities and Local Government (DCLG) will meet weekly to work up costed options and make recommendations to a project board (again with representatives from the same bodies) which will meet fortnightly. The aim is to reach an agreement which each party to the process can put to their respective memberships in good time for final proposals to be accepted by the Government in April so that drafting of new scheme regulations can commence.

The next stages of the process would then commence to agree the finer points of the new scheme design in time for a statutory consultation process to commence in the early autumn.

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