

Pension Fund Consultative Group

Title: Update on LGPS Reform

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Electoral divisions affected: N/A

Summary

On 9 January 2012, the Local Government Association announced that a proposed way forward for reform of the Local Government Pension Scheme had been agreed. This followed discussions between the Chief Secretary to the Treasury, Danny Alexander, the Secretary of State for Local Government, Eric Pickles, the Chairman of the Local Government Association, Sir Merrick Cockell and representatives of the TUC, GMB and Unison. As a result of the agreement the local government trade unions and the LGA, with the Department for Communities and Local Government, commenced detailed negotiations in the New Year.

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 On 7 December 2011 the Pension Fund Consultative Group discussed the Department for Communities and Local Government consultation paper issued on October 7 2011; this set out 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.
- 5 On 9 January 2012, the Local Government Association announced that a proposed way forward for reform of the Local Government Pension Scheme had been agreed. This followed discussions between the Chief Secretary to the Treasury, Danny Alexander, the Secretary of State for Local Government, Eric Pickles, the Chairman of the Local Government Association, Sir Merrick Cockell and representatives of the TUC, GMB and Unison. As a result of the agreement the local government trade unions and the LGA, with the Department for Communities and Local Government, commenced detailed negotiations in the New Year. Unite has subsequently joined the discussions.
- 6 The core parameters of the agreed new scheme design set out in a written ministerial statement, attached as Appendix A, are:
 - A single solution to both the short and long term issues by the early introduction of the new Scheme in April 2014, with regulations in place by April 2013;
 - The single solution to be built on the basis of career average earnings;
 - Can include zero increases in employee contributions for all, or the vast majority of members, provided that overall financial constraints set by the Government are met;
 - Some elements of choice to encourage retention of existing membership and encourage new membership; and
 - Flexible retirement age built around the Scheme's normal retirement age equal to the State Pension Age or age 65, whichever is later, and applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then normal pension age will do so too for all post 2015 service.
- 7 Appendix B is the Employer and Union Agreement on the Future of the LGPS. It sets out the principles for the designing the new Scheme and the timescales, milestones and actions required.
- 8 A significant principle currently under discussion by union officials and LGA is the meeting of both short and long term pensions reform objectives by a single step to a new scheme earlier than the 2015 date – the "single step" solution. This is principle 1 and the timescale for this process is determined solely by

the requirement to have regulations in place by the 31st March 2013. The implication of this date is that if regulations are not in place by that date fund actuaries will not be able to take the effect of scheme changes into account for the 2013 triennial valuation and therefore short term reform objectives will not be able to be met.

- 9 The timescale envisages a four stage approach:
- Stage 1 – agreement on principles and timescales
 - Stage 2 – agreement on “big ticket” items (contributions, accrual rate, revaluation rate, protections, employer cap, cost management mechanism – outline)
 - Stage 3 – agreement on remainder of scheme design and cost mechanism details
 - Stage 4 – agreement on mechanism to provide assurance of effective management of individual funds.
- 10 In order for the process to be achieved successfully the following milestones need to be met:
- By 31 December 2011 – stage 1 principles for scheme design and cost management agreed by unions and employers and accepted by government as a robust direction of travel.
 - By April 2012 – agreement on stage 2: the “big ticket” items for the new scheme. Acceptance by government of cost management mechanism. Achievement of this milestone to be managed as set out in Stage 2 decision management process.
 - By September 2012 – commencement of process required to draft regulations and complete statutory consultation. Recognising that consultation may overlap the process below.
 - By November 2012 – agreement of and consultation on stages 3 and 4, recognising that consultation may overlap the DCLG process above.
 - By 31 March 2013 – new regulations in place
- 11 Appendix C to this report includes answers to some of the questions that have been raised about the agreement.

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

12 N/A

Background Papers

Pension Fund Consultative Group 1 December 2011 agenda item 3 – Local Government Pension Scheme Consultation

<http://moderngov/ieListDocuments.aspx?CId=520&MIId=4433&Ver=4>

Independent Public Service Pensions Commission: Interim Report and Final Report

http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm
