

## **Report on Changes to the Local Government Pension Scheme (LGPS)**

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**Summary:** The government proposes to make changes to the Local Government Pension Scheme (LGPS). The overall cost to the Board in the short to medium term is unlikely to change significantly. Employee contribution rates may fall or rise depending upon salary.

**Purpose of Report:** To advise the Board of proposed changes to the scheme. At this stage no action is required on the part of the Board.

### **Background**

1. The Minister for Local Government and Social Cohesion Phil Woolas MP announced in November 2006 a series of proposals to be introduced from April 2008. The changes are intended to address the needs of a longer-living workforce and find a solution that is affordable and realistic.
3. The solution is largely based upon a revision to the benefits linked to early retirement in order to control the costs of the scheme. The main changes are set out below.
  1. The new pensions will still be a final salary scheme, based upon the better of the final year's salary or an average of the best three consecutive years' salary in the last 10 years (adjusted for inflation).
  2. The accrual rate is going up from 1/80<sup>th</sup> to 1/60<sup>th</sup> which means that pensions earned should be bigger on retirement.
  3. The tax free lump sum is no longer automatic but can be "purchased" by the employee by giving up some of the pension benefit at a rate of £1 of annual pension for £12 of lump sum.
  4. Death in service benefits will rise from twice to three times salary.
4. Average employee contributions will rise from the current 5.8% to 6.3%, although for those on lower incomes the rate will reduce.
5. Employer contributions are predicted to average 13.2% in future plus the cost of transitional protection. The current CCB rate is 14.1%.
6. The "Rule of 85" was removed on 1 October 2006. This previously enabled employees with a combined age plus length of service calculation of 85 to retire earlier than 65 on full pension.
7. Arrangements will be provided which will protect the rights of existing scheme members (according to age and date of joining the scheme) both under the new scheme and as a result of the removal of the "Rule of 85".

8. Phased retirement arrangements will allow members to draw down some or all of their pension whilst still continuing to work.
9. All staff have been advised on the proposed changes and been given an explanatory newsletter published by the Dept for Communities and local government.

### **Conclusions**

1. The changes are intended to make the LGPS more affordable. The costs to the Board will not change significantly. Employee contribution rates for most employees will rise slightly, by up to 1% but this will vary according to salary.
2. The tri-annual revaluation of the pension fund is due in 2007. Employer rates may change in the light of that valuation, which will be available by December 2007.

### **Recommendations**

1. **To note the proposed changes**
2. **To ensure the staff are aware of the proposals.**