Pension Fund Committee

6 December 2011

Government Consultation on Changes to the Local Government Pension Scheme

Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1 The purpose of the report is to provide Members with information on the Government's consultation on changes to the Local Government Pension Scheme (LGPS), including details of recently published plans for longer term reform.

Background

2 As part of the Government's Spending Review the following savings are required public sector pension schemes:

2012/13	£1.2 billion
2013/14	£2.3 billion
2014/15	£2.8 billion

This is equivalent to an average contribution rate increase for contributing members of 3.2% of pensionable pay.

3 The LGPS has been tasked with delivering £900 million of savings by 2015. In recognition of the LGPS's unique position as the only major public sector pension scheme that is funded, the Government allowed the representatives of the LGPS employers and LGPS scheme members to negotiate and agree a way to deliver these savings. Unfortunately, as it was not possible for the employer representatives and scheme member representatives to reach a consensus, the Government has issued its own proposals set out in the current consultation.

Consultation Document

4 On 6th October 2011 the Government issued a consultation document which set out two options for achieving the £900 million saving by 2015. These were as follows:

Option 1

- Employee contributions to increase from 1 April 2012, with different increases applying dependent on what full-time equivalent rate of pay in individual is getting, and with increases phased in over three years :

Whole-time equivalent pay	*Rate Now*	*April 2012*	*April 2013*	*April 2014*	*Overall increase*
£0 - £12,900	5.5%	5.5%	5.5%	5.5%	0.0%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%	0.0%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%	0.1%
£19,401 to £21,000	6.5%	6.7%	7.2%	7.7%	1.2%
£21,001 to £32,400	6.5%	7.2%	8.0%	8.3%	1.8%
£32,401 to £43,300	6.8%	7.5%	8.3%	8.7%	1.9%
£43,301 to £60,000	7.2%	8.2%	8.7%	9.0%	1.8%
£60,001 to £81,100	7.2%	8.7%	9.2%	10.0%	2.8%
£81,101 to £100,000	7.5%	9.0%	9.8%	11.0%	3.5%
£100,001 to £150,000	7.5%	9.5%	11.0%	12.0%	4.5%
£150,001+	7.5%	10.0%	12.0%	12.5%	5.0%

- Change rate pension is earned from $1/60^{th}$ pay to $1/64^{th}$ from April 2013 and $1/65^{th}$ from April 2014

Option 2

- Employee contributions to increase (by slightly less) from 1 April 2012, with different increases applying dependent on what full-time equivalent rate of pay in individual is getting, and with increases phased in over three years :

Whole-time equivalent pay	*Rate Now*	*April 2012*	*April 2013*	*April 2014*	*Overall increase*
£0 - £12,900	5.5%	5.5%	5.5%	5.5%	0.0%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%	0.0%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%	0.1%
£19,401 to £21,000	6.5%	6.5%	6.8%	6.8%	0.3%
£21,001 to £32,400	6.5%	6.8%	7.2%	7.5%	1.0%
£32,401 to £43,300	6.8%	7.1%	7.8%	8.2%	1.4%
£43,301 to £60,000	7.2%	7.8%	8.4%	8.8%	1.6%
£60,001 to £81,100	7.2%	8.7%	8.8%	9.5%	2.3%
£81,101 to £100,000	7.5%	9.0%	9.8%	10.5%	3.0%
£100,001 to £150,000	7.5%	9.3%	10.8%	11.5%	4.0%
£150,001+	7.5%	9.5%	11.8%	12.5%	5.0%

- Change rate pension is earned from $1/60^{th}$ pay to $1/67^{th}$ from April 2014

5 The consultation document also included as an annex a copy of the (employer representatives) Local Government Group's proposals for achieving the savings. These were more complex and involve an increase to the LGPS normal retirement age from 65 to 66 for service earned after April 2014, an increase to contribution rates and the option for employees to choose a lower accrual rate for service from April 2014 instead of paying higher contributions.

6 The consultation document sets out the forecast savings from options 1 and 2. Interestingly, while both options achieve a saving of £900 million a year by 2015, the total savings over the three year period are significantly different, with option 1 saving a total of £1.8 billion and option 2 saving £1.26 billion.

7 The consultation closes on 6 January 2012, with changes expected to take effect from April 2012 onwards.

Future of the LGPS from 2015 onwards

8 The Government published a paper entitled “Public Service Pensions: good pensions that last” on 2 November 2011. This reiterated the case for reform and set out an improved offer on the future design for public sector pension schemes (to take effect from 2015).

9 The paper highlights three main reasons that reform is needed:

- **Longevity** – People are living much longer making current public sector pension provision unaffordable and unsustainable in the long term
- **Flexibility** – Pension provision no longer reflects the way the modern labour force lives and works
- **Fairness** – Final salary schemes result in the lower-paid subsidising the pensions of the highest paid

10 The paper goes on to set out features of the Government’s preferred future scheme design as follows:

- A Career Average Revalued Earnings (CARE) pension scheme
- Benefits to be earned at a rate of 1/60ths of pensionable earnings each year
- Benefits for active members (employees) to increase each year in line with earnings revaluation
- Normal Pension Age linked to State Pension Age (or 65, whichever is higher)
- Pensions in payment and benefits in deferment to increase in line with the Consumer Prices Index (CPI)
- Average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the current proposed increases have been applied
- Members given the option at retirement to convert £1 of annual pension into a £12 one-off lump sum payment in accordance with HMRC limits and regulations
- Ill-health, death and survivors benefits (ancillary benefits) to match those currently provided by schemes
- Members who leave the scheme and rejoin within 5 years to be able to link their new service with previous service, as if they had always been an active member
- Members transferring between public service schemes to be treated as having continuous active service (which would include those transferring between schemes who had rejoined public service after a gap of less than 5 years)
- An employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks.

11 Individual schemes may vary from this design provided the overall cost remains the same.

12 The paper sets out various protections for existing scheme members:

- All accrued rights in the existing schemes will be honoured
- Final salary benefits will continue to be linked to the final salary someone has on leaving the scheme or retiring
- For those with 10 years of less to their normal pension age on 1 April 2012, the Government's objective is to ensure they see no change in when they can retire, nor any decrease in the amount of pension they receive at normal pension age

13 The paper concludes by stating that "The Government's offer is conditional on the trades unions and the Government reaching agreement on the reforms. If agreement has not been reached by the end of the year, the Government may need to revisit its current proposals." Given the imminent strike action by most of the public sector unions, agreement currently seems to be further away than the end of the year.

Recommendation

14 Members are asked to note this report.

15 The full consultation document can be found at http://www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf. The Government's November paper can be found at http://cdn.hm-treasury.gov.uk/pensions_publicservice_021111.pdf. Copies of both documents have been placed in the Members' library.

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