

Pension Fund Committee

6 March 2014

Confirmation of Local Government Pension Scheme 2014



Report of Don McLure, Corporate Director, Resources

Purpose of the Report

- 1 To provide Members with confirmation of the known changes to date being made to the Local Government Pension Scheme (LGPS) from 1 April 2014.

Background

- 2 The Coalition Government agreement included a commitment to review and reform public sector pensions. Lord Hutton chaired a commission on this subject and following publication of his report on 10 March 2011 changes were proposed to all the main public sector pension schemes including the LGPS.
- 3 In December 2011 the Government agreed that the Local Government Association (LGA) and main local government unions (Unison, GMB and Unite) could put forward a proposal for a new LGPS that met government objectives.
- 4 On 31 May 2012 the LGA and trade unions announced the outcome of their negotiations on new LGPS proposals (for England and Wales) to take effect from 1 April 2014
- 5 Regulations putting into effect the new LGPS were produced in September 2013. However, further regulations are required to provide further detail on how the LGPS will operate including, for example, how the entitlements and expectations an individual has under the existing LGPS will be affected by the introduction of the new regulations. We are still waiting for the final version of these 'transitional regulations' to be produced, although we have been provided with a 'final draft' version on 31 January 2014.

LGPS 2014

- 6 The main provisions of the LGPS from 1 April 2014 are as follows:
 - Career Average Revalued Earnings (CARE) scheme structure

- Accrual rate of 49ths
- Revaluation rate of CPI (Consumer Prices Index – the Government's preferred measure for inflation)
- Normal Retirement Age linked to State Pension Age (SPA)
- Member contribution rates increased for those earning above £43,000, with potentially reductions for part-time members as contribution rates will be based on actual rather than full time equivalent pay (however, the average member rate is expected to remain at 6.5%). All overtime will be pensionable.
- A two year vesting period – anyone joining the LGPS from 1 April 2014 who leaves the scheme with less than 2 years membership will get a refund of their contributions (less tax and NI adjustment) instead of a deferred pension benefit. Since 2004 deferred benefits have been payable after 3 months.
- Introduction of a "50/50 option" where member can elect to pay half the member contribution rate for half the accrual rate, although dependant pensions, ill-health pensions and death lump sums will be unaffected if individuals choose the "50/50 option".
- Pre April 2014 benefits protected and calculated by reference to final salary and current retirement ages
- An underpin will apply for members within 10 years of age 65 in April 2012, such that on retirement these members get a pension "at least equal" to that which they would have received in the 2008 Scheme
- Limits on future employer costs to manage future changes in costs from certain causes (though details are not fully specified yet, and will form part of the next phase of the project)
- Scheme members who are compulsorily transferred will be able to retain membership of the scheme. At present this protection is restricted to transfers in specific circumstances from certain categories of employer.
- Scheme members will be able to retire and draw their pension benefits between ages 55 and 75. At present, anyone retiring between ages 55 and 59 needs their (ex) employer's consent to draw their pension benefits. Under the new LGPS regulations an individual will be able to leave work and draw their pension benefits between ages 55 and 59 without needing their (ex) employer's consent, however they will suffer early retirement reductions to all their benefits if they choose to do this, unless their (ex) employer decides to waive some or all of these reductions.

- 7 Appendix A contains a comparison between the main features of the current (2008) LGPS and the new LGPS from 1 April 2014.

Outstanding issues

- 8 There are a number of areas where clarification is required, either through publication of the final regulations governing the LGPS from April 2014, or through production of factor tables and guidance from the Government Actuary's Department. These areas include:
- Confirmation of whether (and how) Councillors can participate in the new LGPS
 - Details of the early retirement reduction factors that will apply in the new LGPS
 - Details of the cost of buying extra pension in the new LGPS – this is relevant for individuals taking authorised unpaid leave as they will have the option to buy back any pension lost as a consequence of taking that leave – if they choose to buy back the pension within 30 days of returning to work their employer meets two thirds of the cost.
 - Official confirmation of changes to the way Additional Voluntary Contributions (AVCs) will be dealt with in future. The latest draft regulations show that anyone starting an AVC Fund on or after 1 April 2014 will only be able to take a maximum of 25% of their AVC Fund as tax-free cash on retirement (currently up to 100% can be taken).
 - Details of how the LGPS will interact with other public sector pensions as part of the Public Sector Transfer Club – this is relevant when individuals transfer service to or from the LGPS and other public sector schemes.

Next Steps

- 9 All active Scheme members will be written to with details of the new LGPS in April. All pensioners have been advised in the latest newsletter that the changes to the LGPS will not affect them.
- 10 More information on the new LGPS can be found at the following website: <http://www.lgps2014.org/>

Recommendation

- 11 Members are asked to note this report.

Appendix A – Comparison of main provisions of the new scheme (LGPS 2014) with the current scheme (LGPS 2008)

	LGPS 2014 (New)	LGPS 2008 (Current)	
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary (FS)	
Accrual Rate	1/49 th	1/60 th	
Revaluation Rate	Consumer Price Index (CPI)	Based on final salary	
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours	
Employee Contribution Rate – Average 6.5% in both LGPS 2008 and LGPS 2014	Gross Rate LGPS 2014	Gross Rate LGPS 2008	Increase in Gross rate in LGPS 2014
Up to £13,500	5.50%	5.50%	0.00%
£13,501 to £15,800	5.80%	5.80%	0.00%
£15,801 to £20,400		5.90%	-0.10%
£20,401 to £21,000		6.50%	-0.70%
£21,001 to £34,000		6.50%	0.00%
£34,001 to £43,000	6.80%	6.80%	0.00%
£43,001 to £45,500	8.50%	6.80%	1.70%
£45,501 to £60,000			1.30%
£60,001 to £85,000	9.90%	7.20%	2.70%
£85,001 to £85,300	10.50%	7.20%	3.30%
£85,301 to £100,000			3.00%
£100,001 to £150,000			3.90%
Over £150,000	12.50%	7.50%	5.00%
Contribution rate for part-timers	Based on actual pay	Based on full-time equivalent pay	
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No	
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)	65	
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum	
Death in Service Lump Sum	3 x pensionable pay	3 x pensionable pay	
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement	

Continued...

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	LGPS 2014 (New)	LGPS 2008 (Current)
Ill Health Provision	Tier 1 - immediate payment with service enhanced to Normal Pension Age Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age Tier 3 - temporary payment of pension for up to 3 years	Tier 1 - immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - immediate payment of pension with 25% service enhancement to Normal Pension Age (65) Tier 3 - temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI	CPI (RPI applied for increases before 2011)
Vesting Period	2 years	3 months