

THE NEW LOOK LOCAL GOVERNMENT PENSION SCHEME FROM APRIL 2014

Report by the Assistant Chief Executive and Chief Finance Officer

Introduction

1. At the March 2012 meeting of this Committee, Members were provided an update on the negotiations for the changes to the Local Government Pension Scheme (LGPS). Since that date, the Employers and Unions have issued a joint set of proposals for a New Look Scheme, and these have been widely endorsed following informal consultation. We are now awaiting formal consultation on the proposals from the Government.
2. Whilst at the time of writing this report we have not yet had the formal consultation from the Government, previous statements have made clear that they intend to follow the joint proposals as long as they were supported. This report therefore sets out the highlights from the joint proposals, and the key issues raised in the Council's response to the informal consultation. The Committee is invited to make any further comments to include in the response to the formal consultation exercise. Any differences in the final consultation to the joint proposals will be brought to the attention of this Committee.

Key Elements of Joint Proposals

3. The joint proposals were published at the end of May 2012 by the Local Government Association on behalf of the employers, and Unison, GMB and Unite on behalf of the Unions. The subsequent informal consultations amongst their members found levels of support for the proposals ranging from 84% from Unite to 95% for GMB.
4. The key elements of the joint proposals are as follows:
 - (a) A switch from Final Salary to a Career Average Revalued Earnings (CARE) scheme
 - (b) An improvement in the accrual rate from the current 1/60th to 1/49th
 - (c) Annual indexation of accrued benefits in line with the Consumer Price Index (CPI).
 - (d) The definition of pensionable pay to be widened to include non-contractual overtime and additional hours for part-time staff
 - (e) The allocation of staff to contribution bands to be based on their actual pay rather than their full time equivalent salary
 - (f) Average employee contribution rates to remain at 6.5% of pensionable pay, with no one on a salary below £43,000 due to pay more, with rises at higher grades to reflect impact of tax relief. Scheme Members on salaries in the range £43,000 to £60,000 will see an increase in their

contributions from 7.2% to 8.5%. Those staff earning over £150,000 will see an increase from 7.5% to 12.5%.

- (g) Introduction of a 50% option, where for a limited period a scheme member can pay 50% of their contribution to accrue 50% of the pension benefit (though death grants, ill-health retirements etc still paid at 100%).
- (h) Normal retirement age to be equal to the individual's State Pension age.
- (i) Increase in the vesting period from 3 months to 2 years i.e. if you leave the scheme before accruing 2 years membership, you are entitled to a refund of contributions rather than a deferred pension.
- (j) Extension of the current Fair Deal arrangements, with staff transferred out of the public sector under TUPE entitled to retain membership of the LGPS.
- (k) Transitional protections in place so that all pre 2014 benefits and rights fully protected, and anyone within 10 years of their normal retirement age as at 1 April 2012 will receive a pension at least equal to that they would have received under the 2008 scheme.

Key Issues and Council Response to Informal Consultation

- 5. Overall, the proposals have been estimated by the Government Actuary Department (GAD) to lead to a future service cost of 19.5% of pensionable pay, in line with the Government's cost ceiling. With an average employee contribution of 6.5%, this will lead to an average employer contribution for future service of 13.5%. (N.B. Actual employer contributions will vary from average depending on their staff profile, and will also need to include an element for the past service deficit). GAD estimate that the proposals will reduce the average employer contribution by 2.2%, though whether this is reflected in the 2013 Valuation will depend on a range of other factors, including the performance of the financial markets since the last valuation in 2010.
- 6. Many of the elements of the joint proposal had been subject to previous discussion at the Pension Fund Committee, and were consistent with the way forward recommended by the Committee. The solution was seen as both affordable and sustainable, and supported by both employers and employees. As such, the County Council in its role as both the Administering Authority for the Oxfordshire LGPS Fund and as a major employer offered its general support for the proposals, in the response to the informal consultation.
- 7. The Council welcomed the switch to a CARE Scheme which is seen as a fairer model than the final salary scheme. All members will now gain a pension based on their contributions throughout their service, and those who receive promotion late on in their careers will no longer see their full pension benefiting from the increase in final salary.
- 8. The Council also welcomed the changes to widen the definition of pensionable pay and to switch the establishment of an employee's contribution rate to link with their actual pay rather than their full time equivalent salary. These

changes are seen to address inequalities previous faced by the many part-time members of staff across the Council.

9. As a means of controlling the increasing costs of the pension scheme, the Council welcomed the linking of the normal retirement age with the State Pension Age. The full protection of pension benefits prior to 2014, as well as the further protection given to those closest to retirement reduces the impact of this change on those less able to plan for the consequences.
10. The Council particularly welcomed the proposals around the contribution rates, and the fact that no-one on a salary below £43,000 will see an increase in their contribution rate. This means well over 90% of current members will see no increase. The Council had previously argued that the greatest risk to the LGPS was widespread opt out of the new scheme, where employees unable to pay increased contributions, particularly in light of the current financial environment and recent pay freezes.
11. As another means to maintain scheme membership and therefore the affordability and sustainability of the LGPS, the Council also welcomed the extension of the current Fair Deal arrangements, and the switch to allow out-sourced staff the right to remain within the LGPS.
12. The Council gave a cautious welcome to the proposal for a new 50/50 scheme. The Council fully supports the principle of facilitating new starters and those facing temporary financial hardship to remain in a pension scheme, and to save for their own retirement. However, in the absence of the detailed proposals, the Council expressed some concern as to how this option would operate in practice, both in terms of ease of understanding for the employee faced with the choice, and for employers and the administering authority.
13. In particular, the Council is looking for greater clarity around how long an individual can remain within the 50/50 scheme, on how many separate occasions they can opt back into the 50/50 option, and what restrictions there will be to avoid potential misuse e.g. an employee seeking to join the 50/50 scheme to reduce contributions prior to an ill-health retirement.
14. The one area where the Council expressed real concern was in respect of the 1/49th accrual rate with indexation in line with CPI. Whilst the Council understood that this proposal is broadly cost neutral when compared to the current final salary scheme, and that the overall package was consistent with the Government's cost ceiling, they felt the opportunity to further reduce costs in these difficult financial times had been missed. There was also a concern that public sector pensions would remain overly generous when compared to private sector pensions.
15. The examples provided alongside the proposals plus other research suggests that the majority of staff will retire on a pension broadly similar or indeed higher than under the current arrangements. Those that lose out are the minority of staff who will face a significant reduction in pension when

compared to final salary arrangements which disproportionately rewarded increases in salary late in a career.

16. With an accrual rate of 1/49th, and an extension of normal working life to the new state pension age, employees in future will have the opportunity to accrue pension benefits in line with their average salary (a working life in the public sector from age 19 to 68 will create a pension benefit of 49/49 of average salary). For a significant number of staff whose pay rises in line with CPI over their career, this means their pension will equal their final salary, on top of which they will receive their state pension. Given the previous research on levels of income required in retirement to maintain your standard of living (as reported by the Turner Commission), the proposals can be seen to be over generous in terms of potential pension benefits.
17. Given the difficulty of reviewing this aspect of the joint proposals in isolation from the package as a whole, the Council's informal consultation response accepted that their concern around the accrual rate may not be addressed at this time. The Council therefore suggested that amendments to the accrual rate are seen as the default position to address future pension pressures, rather than any further amendments to employee contribution rates.

Financial and Staff Implications

18. As covered in the main body of the report, the Government Actuary Department estimate that implementation of the joint proposals would reduce the average employer contribution rate by 2.2% of pension pay. Whether this reduction in cost is fed directly through to the Council's budget from April 2014 depends on a whole range of other factors to be taken into account by the Fund's Actuary when he completes the 2013 Valuation of the Fund.
19. For staff, the proposals are seen to maintain a quality pension provision at no extra cost for the majority and with improved arrangements for those facing financial difficulties or the prospect of being out-sourced from their current employer.

RECOMMENDATION

20. **The Committee is RECOMMENDED to consider the joint proposals for a New Look LGPS, and the initial comments made by the Council in response to the informal consultation exercise, and offer any further comments it wishes to see incorporated into the formal consultation response**

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Assistant Chief Executive and Chief Financial Officer

Background papers: Joint Proposals from LGA and Unions plus associated papers, available on the New Look LGPS 2014 Project pages of the Local Government Employers website (www.lgps.org.uk)

County Council's response to the Local Government Association on the Informal Consultation on the Joint Proposals

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