

LGPS - Update

Terry Edwards
Senior Pensions Adviser

September 2012

www.local.gov.uk

How we got to where we are

- Report from Public Service Pension Commission – Lord Hutton’s report
- Government proposed changes (reference scheme and 3% contributions increase)
- DCLG consultation on changes to LGPS
- Concerns
 - funded nature of LGPS – different to other main public service pension schemes
 - potential impact of opt outs on the LGPS

LGPS Project 2014

- December 2011 Government agreed LGA / Unions could negotiate in a separate process to other public service schemes
- Principles agreed and LGPS 2014 project set up
- Two workstreams to project
 - Workstream 1 - new scheme design
 - Workstream 2 – future cost management and governance
- Proposals June 2012 for a revised scheme effective from 1 April 2014 – LGPS 2014 – announced
www.lgps.org.uk

LGPS Project 2014 - LGA objectives

- Ensure the scheme is sustainable in the long term and is affordable for employers and council tax payers
- Make the case for the Local Government Pension Scheme being separate from and different to the unfunded schemes
- Work to minimise contributions increases in order to avoid dangerous levels of those opting out of the scheme which would damage cashflow, increase fund maturity and restrict investment
- Encourage an increase in younger and lower paid members to ensure they make provision for their future, as well as a maintaining a healthy membership profile for funds
- Extend flexibility through choice that reflects the shifting patterns of working lives
- Extend equal treatment through a fairer benefit structure, with a contribution structure that recognises tax relief and is based on actual earnings for part time workers
- Retain a decent benefit structure that ensures members do not have to fall back on state benefits in retirement

LGPS Project 2014 - How it works

- **Project team** – meets weekly or more if required – considers options, works with GAD and fund actuaries to cost. Unions LGA and DCLG
- **Project board** – meets fortnightly to consider the recommendations of project team, makes decisions. Unions LGA and DCLG
- **Working groups** – meet as required to consider and debate ideas to go to project team – provides for input from scheme stakeholders – two groups administration and governance

LGPS 2014 Proposals

Basis of pension	Career Average Revalued Earnings (CARE)
Accrual rate	1/49th
Revaluation rate	Consumer Price Index (CPI)
Normal Pension Age	State Pension Age (min 65)
Earliest voluntary retirement age	55
Contribution flexibility	50/50 Option
Definition of pensionable pay	Actual pay (including Overtime + Additional Hours)

LGPS 2014 Proposals

Lump sum	By commutation (12:1)
Death in service lump sum	3 x pensionable pay
Death in service survivor benefits	1/160th (based on Tier 1 ill health enhancement)
Ill health retirement	Tiers 1, 2 and 3
Redundancy/efficiency retirement	Age 55+
Vesting period	2 years

LGPS 2014 – CARE basis for benefits

- CARE basis for calculating benefits with a $1/49^{\text{th}}$ accrual rate - CARE pensions are calculated each year then revalued
- Still a defined benefit scheme
- CARE - better fit for those with short service and limited promotion opportunity
- Proposed basis - broadly cost equivalent to the current final salary with a $1/60^{\text{th}}$ accrual rate

LGPS 2014 – Linking NPA to SPA

- LGPS 2014 Normal Pension Age (NPA) linked to State Pension Age (SPA) - minimum of 65
- If retire before NPA pension will be reduced. If retire after NPA pension will be increased
- SPA is increasing to 66 (Oct 2020) with future increases to 67 (2026-2028) and beyond
- DWP White Paper / Pensions Bill – Government to review SPA every 5 years starting next Parliament

LGPS 2014 – 50/50 Option

- 50/50 - option for members to pay 50% contributions for a 50% pension – keep full value of other scheme benefits
- Aim to attract non-members, discourage opt outs - re-enrolment into full scheme
- Positive impact on employer rates by improving membership profile
- No immediate effect on employer rates – same for full or 50/50 option - will impact at valuation

LGPS 2014 - Member Contributions

2014		Current	
Actual Pensionable Pay	Gross rate	Full Time Equivalent Pensionable Pay	Gross rate
Up to £13,500	5.5%	Up to £13,500	5.5%
£13,501 - £21,000	5.8%	£13,501 - £15,800	5.8%
£21,001 - £34,000	6.5%	£15,801 - £20,400	5.9%
£34,001 - £43,000	6.8%	£20,401 - £34,000	6.5%
£43,001 - £60,000	8.5%	£34,001 - £45,500	6.8%
£60,001 - £85,000	9.9%	£45,501 - £85,300	7.2%
£85,001 - £100,000	10.5%	More than £85,300	7.5%
£100,001 - £150,000	11.4%		
More than £150,000	12.5%		

LGPS 2014 – Member Contributions

- Average Employee contribution rate 6.5% - as now
- Rate for part time employees based on actual pay rather than full time equivalent
- Changes to bands and some rates
- Proposed bandings will be reviewed prior to implementation in 2014

LGPS 2014 – More on the Proposals

- Protections for members in current scheme:
 - Membership up to 1 April 2014 - calculated on existing basis - linked to final salary & Normal Pension Age as under the current rules
 - Rule of 85 protection
 - Underpin (if age 55 by April 2012)
- Existing pensioner and deferred members - no change
- Additional benefits - buy extra pension / pay AVCs – as now
- TUPE transfers - retain membership of the LGPS – scope and mechanism still to be worked out

LGPS 2014 - Cost to Employers

LGPS 2014 employer Future Service Rate (FSR)	Costed by GAD at 13%
Current scheme FSR	Costed by GAD at 15.2%
Total employer contribution rate	Past service costs on top of FSR
Future risk management	Link between Normal Pension Age and State Pension Age
Future cost control mechanism	Cap and collar (Public Service Pensions Bill)

LGPS Project 2014 - Workstream 1 – what's next?

- Consultation on the proposals – unions and employers
- Employer consultation ended 27 July 2012 (in favour)
- (Nearly all) unions voted in favour
- Statutory consultation by DCLG is underway
- Regulations by Spring 2013, operative 1 April 2014

LGPS Project 2014 – Workstream 2 - still to do

- Design cost control mechanism - Recognising the need to stabilise future costs whilst..
 - Ensuring a fair allocation of risk
 - Developing a workable solution
- Streamlining and improving LGPS governance and efficiency while keeping within the parameters of the Public Service Pensions Bill

Thank you for listening

Any questions?

Disclaimer

The information contained in these slides has been prepared by the LGPC Secretariat, a part of the Local Government Association (LGA). It represents the views of the Secretariat, based on our current understanding of the law. It should not be treated as a complete and authoritative statement of the law. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation. No responsibility whatsoever will be assumed by the LGPC Secretariat or the LGA for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.