Pension Fund Administration Sub-Committee
Meeting to be held on 13 June 2012

Electoral Division affected:
None

New Local Government Pension Scheme Proposals

Contact for further information:
Diane Lister, 01772 534827, County Treasurer's Department
diane.lister@lancashire.gov.uk

Executive Summary

On 31 May 2012 the Local Government Association and trades unions announced the outcome of their negotiations on proposals for the new Local Government Pension Scheme (LGPS) to take effect from 1 April 2014.

These negotiations were intended to bring about a single solution to both short and long term cost issues affecting the LGPS by the early introduction of the new Scheme from April 2014 thus negating the need for Scheme changes prior to this date. The overall aim of all parties involved in these discussions is to ensure that the LGPS continues to be sustainable into the future by developing a set of proposals that are intended to be affordable for local authorities and council taxpayers whilst being fair to members.

These proposals will now form the basis of consultation with scheme members, employers, funds and other scheme interests. A statutory consultation is intended later in the autumn in order to implement these proposals.

The proposals for the new Scheme are the result of the '1st phase' of the LGPS 2014 project. The next phase of the project will encompass future cost management and scheme governance, including wider representation. Discussions between employers, unions and government will include agreeing a method for managing the future costs of the LGPS within certain limits. Further details will be released once these ongoing discussions are complete.

This report therefore focuses on the main features of the proposed new scheme design.

Recommendation

The Sub-Committee is asked to note the report. .

Lancashire County Council

Background and Advice

On 31 May the Local Government Association and trade unions announced the outcome of their negotiations on the new Local Government Pension Scheme (LGPS) proposals, to take effect from 1 April 2014.

These proposals will now form the basis of consultation with scheme members, employers, funds and other scheme interests. A statutory consultation is intended to follow later in the autumn in order to implement these proposals.

The main provisions of the proposed LGPS 2014 are:

All pensions in payment or built up before April 2014 will be protected. Current and deferred pensioners are not affected by these changes. Current contributing scheme members pre-April 2014 benefits will still be based on their final salary at retirement and the current 'normal pension age' of 65.

The new scheme will be a Career Average Revalued Earnings (CARE) scheme. It will use the Consumer Price Index (CPI) as the revaluation factor (the current scheme is a final-salary scheme). In broad terms a scheme of this sort will provide equivalent or better pensions to the current scheme for members whose salary progression over a career is within a relatively narrow band, while those who see significant progression over a career would see a reduced level of benefit. Thus broadly the level of benefit for most LGPS members is to some degree protected within this scheme design while benefits for higher earners are reduced.

The accrual rate would be 1/49th (the current scheme is 1/60th).

There would be no normal scheme pension age. Instead each member's normal pension age would be their individual state pension age, with a minimum of 65 (the current scheme has a normal pension age of 65). This change is expected to generate the bulk of the cost savings required from the changes to the scheme.

Average member contributions to the scheme would be 6.5% (the same as in the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full-time equivalent pay).

While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief. However, there are some not insignificant increases in absolute employee contribution rates in the salary ranges for core professional groups.

Scheme members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This will be known as the 50/50 option (the current scheme has no such flexible option). This proposal is a direct response to the various representations made by scheme interests, including the Lancashire County Pension Fund that steps needed to be taken to address opt out and encourage an early start to pension saving for employees.

Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

The vesting period* will be 2 years (current Scheme vesting period is 6 months).

In addition, to ensure that no member within 10 years of age 65 as at 1 April 2012 is worse off, there will be an 'underpin'. This means that those members who would see a change in their pension age in that period will get a pension at least equal to that which they would have received in the current scheme.

More information will follow as the consultations begin. It is recommended that the Sub-Committee note this report.

**the vesting period is the window of service when members do not have a 'vested right' in the Scheme and can receive a refund of contributions if they leave the Scheme instead of having a deferred pension in the Scheme until retirement.*

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

No significant risks have been identified at this stage. More information will be provided when the consultations begin.

Local Government (Access to Information) Act 1985
List of Background Papers

N/A