

Pension Fund Administration Sub-Committee

Meeting to be held on 6 February 2013

Statutory Consultation on the new Local Government Pension Scheme 2014 and related proposals

(Appendix 'A' refers)

Contact for further information:

Diane Lister, 01772 534827, One Connect Ltd.

diane.lister@lancashire.gov.uk

Executive Summary

The Department for Communities and Local Government (DCLG) has issued a statutory consultation on draft regulations for the new Local Government Pension Scheme (LGPS) to come into force in April 2014. The consultation covers the core elements of the new scheme relating to membership, contributions and benefits. This document sets out the key features of the consultation. Responses to the consultation should be made by **8 February 2013**. The full details of the consultation can be found at Appendix 'A'.

The Local Government Association and local government trades unions have previously consulted their respective memberships and other scheme interested parties on detailed proposals for a new scheme design. These informal consultations received overwhelming support and gave a clear mandate to take forward the proposed scheme design as the basis for this statutory consultation exercise.

A number of related proposals will give rise to further consultation exercises during 2013. It is expected that these proposals will cover outstanding proposals on governance, cost control and scheme administration; any provisions that are needed to ensure compatibility with the Public Service Pension Bill; and transitional provisions to take forward necessary protections, both existing and new. A proposal to remove access for councillors to the LGPS in England from April 2014 will also form the subject of consultation during 2013.

Recommendation

1. On the basis that previous informal consultations have received overwhelming support, including support from Lancashire County Council, the Sub-Committee is asked to agree a response indicating its support for these proposals.
2. The Sub-Committee is also asked to note a number of related proposals, as set out in the report.

Background and Advice

The Department for Communities and Local Government (DCLG) has issued a statutory consultation on draft regulations for the new Local Government Pension Scheme (LGPS) to come into force in April 2014. The consultation covers the core elements of the new scheme relating to membership, contributions and benefits. This document sets out the key features of the consultation. Responses to the consultation should be made by **8 February 2013**. The full details of the consultation can be found at Appendix 'A'.

A second consultation exercise to cover the remainder of the new scheme will follow. This will cover outstanding proposals on governance, cost control and scheme administration; any provisions that are needed to ensure compatibility with the Public Service Pension Bill; and transitional provisions to take forward necessary protections, both existing and new.

The Local Government Association and local government trades unions have previously consulted their respective memberships and other scheme interested parties on detailed proposals for a new scheme design. These informal consultations received overwhelming support and gave a clear mandate to take forward the proposed scheme design as the basis for this statutory consultation exercise.

The main elements of the new scheme in the consultation are:

- A start date for the reformed LGPS of April 2014 with core elements of the new scheme regulations in place by Spring 2013.
- A pension scheme design based on career average with an accrual rate of 1/49th of pensionable earnings each year.
- Revaluation of active members' benefits to be in line with a price index (currently Consumer Prices Index).
- Scheme normal pension age to be equal to the state pension age for both active members and deferred members (new scheme service only). If a member's state pension age rises, then normal pension age will do so too for all post-2014 service.
- The earliest point at which retirement benefits can be taken is age 55. The latest point at which retirement benefits can be taken is on reaching age 75. In cases of both "early" and "late" retirement the appropriate actuarial reduction or increase will be made – except that there is no reduction in cases of redundancy or where employers exercise their right to waiver reductions.
- There continues to be a provision for flexible retirement from age 55 onward.
- Ill-health retirement pensions continue to be based on the current ill-health retirement arrangements.
- Optional lump sum commutation continues at a rate of £12 of lump sum for every £1 of annual pension given up.
- Pensions in payment and deferred benefits to increase in line with a price index (currently Consumer Prices Index).

- An average member contribution rate of 6.5% will apply, as now, with tiered contributions. However, higher earners will pay a higher proportion of their earnings in contributions than their lower earning colleagues.
- A low cost option - allowing member's to pay 50% contributions building up 50% of main benefits.
- A vesting period of two years.
- Spouse and partner pensions to continue to be based on an accrual rate of 1/160 and three times death in service benefit.

There are a number of transitional protections as follows: -

- All accrued rights are protected and benefits built up to April 2014 will be linked to final salary when members leave the scheme.
- There will be a protected underpin for members aged 57 to 59.
- Rule of 85 protection as in the current scheme.

These main elements of the new scheme design reflect the proposals put forward previously within informal consultation. Therefore, on the basis that previous informal consultations have received overwhelming support, including support from Lancashire County Council, the Sub-Committee is asked to agree a response indicating their support for these proposals. It should be noted that this consultation asks that practitioners provided comments on a number of technical areas and therefore any response from the Fund would also contain a detailed commentary.

The Sub-Committee is also asked to note a number of related proposals:

Councillor's pensions

Following an announcement from DCLG on 19 December 2012, a separate consultation paper setting out the intention to remove access for councillors to the LGPS in England from April 2014 will be issued in due course.

Cost control

Proposals on how to manage future cost risks have been agreed in principle between the LGA and Trades Unions. A second set of draft regulations will include provisions to take forward these proposals.

Governance

Ministers are fully committed to establishing a National Advisory Board for the LGPS which, amongst other things, will allow employers, trades unions and other scheme interests to effectively manage the ongoing costs of the scheme design via an agreed cost control arrangement. Discussions about the precise role, composition and scope of the proposed Board are ongoing but DCLG's intention remains to issue further details, followed by a consultation on draft regulations, as soon as possible in 2013.

Further reports on these proposals will be presented as appropriate.

Consultations

N/A

Implications:

This item has the following implications, as indicated

Risk management

No significant risks have been identified.

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

Paper	Date	Contact/Directorate/Tel
-------	------	-------------------------

N/A

Reason for inclusion in Part II, if appropriate

N/A