

Pension Fund Administration Sub-Committee

Meeting to be held on 12 March 2014

Electoral Division affected: None

Public Sector Pension Reform – Changes to the Local Government Pension Scheme

(Appendices 'A' and 'B' refer)

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Executive Summary

The Local Government Pension Scheme (LGPS) is changing from 1 April 2014. The changes will reflect the provisions of the Public Service Pensions Act 2013. The new LGPS 2014 will be a Career Average Re-valued Earnings (CARE) Scheme and other changes will allow Scheme members more flexibility and affordability in respect of their benefits. All benefits accrued prior to 1 April 2014 will be protected. Other Public Sector Schemes are due to follow suit from 1 April 2015 at the same time that the government's new cost sharing and governance arrangements are due to take effect.

This change represents the biggest change to Public Sector pension provision in recent memory and has necessitated significant amendments to administration systems and processes. A major project is underway and is being robustly managed to ensure the 1 April timescale is met.

The greatest element of this change is the move from calculating benefits based on final salary to a calculation based on career average pay. This requirement has highlighted the need for Scheme employers to share information with the Fund on a more frequent basis if benefits are to be correctly calculated. The Fund's Pensions Administration Strategy Statement has been amended to reflect the change in administration processes.

The requirement to communicate scheme change to members has become more important than ever and a comprehensive communication campaign has been underway since 2013. Various media has been utilised during the campaign and Scheme employers have been provided with a communications toolkit to support them in communicating the change. Webcasts, road shows and online campaign windows have been used to create awareness and to provide information about the changes to Scheme members. A new online self service system allows members to view and track their pension benefits. The Fund's Communication Policy Statement has been revised to reflect this.

Recommendation

The Sub-Committee is asked to:

- (i) Note the changes to the Local Government Pension Scheme, as set out in the report.
- (ii) Approve the revised Pensions Administration Strategy Statement, as set out at Appendix 'A'.
- (iii) Approve the revised Communication Policy Statement, as set out at Appendix 'B'.

Background and Advice

The Local Government Pension Scheme (LGPS) is changing from 1 April 2014. The changes reflect the provisions of the Public Service Pensions Act 2013.

The main changes are: -

- The Scheme will be a Career Average Re-valued Earnings (CARE) Scheme
- Pension will build up at a rate of a 49th of pay
- Benefits will be re-valued each year in line with CPI.
- All pay is pensionable, including overtime
- The normal retirement age will reflect state pension age
- A new option allows members to take their retirement benefits from age 55, without the need for employer consent, albeit that appropriate actuarial reductions will be applied to benefits.
- The average employee contribution remains 6.5% of pay but part time and lower paid employees will pay less with employees earning more than £34,000 paying more.
- A 50/50 contribution flexibility option will allow members to pay half contributions and build up half Main Scheme benefits.
- The vesting period has increased from three months to two years.
- All accrued rights are protected and benefits built up to 31 March 2014 will be linked to final salary when members leave the scheme.
- There is a protected underpin for members aged 57 or over.

This change represents the biggest change to Public Sector pension provision in recent memory and has necessitated significant amendments to administration systems and processes. A major project is underway to upgrade the pension administration system and to amend and introduce new administration processes and procedures. In addition, more frequent data capture/collection requirements

have been introduced to ensure that Scheme employers provide information on a timely basis in order that new scheme benefits calculations are accurate. The project is being robustly managed to ensure the 1 April timescale is met.

The Fund's Pensions Administration Strategy Statement (Appendix 'A') has been amended to reflect the change in administration processes and the new requirements upon employers. The Statement sets out the respective responsibilities of the Fund and Scheme Employers and sits alongside a comprehensive Employer Guide and Administration Procedure Guide.

The requirement to communicate scheme change to members has become more important than ever and a comprehensive communication campaign has been underway since 2013.

Various media has been utilised during the campaign and Scheme employers have been provided with a communications toolkit to support them in communicating the change. Webcasts, road shows and online campaign windows have been used to create awareness and to provide information about the changes. Posters and postcards have complemented the campaign. A new online self service system allows members to view and track their pension benefits.

The Fund has a dedicated resource to ensure that communication and working in partnership with Scheme employers is given priority in order to raise awareness of pensions in the workplace and to encourage staff to save for their retirement.

The Fund takes advice and assistance from Lancashire County Council's Corporate Communications Team to ensure that messages are extensively communicated using the best available methods.

The Fund's Communication Policy Statement (Appendix 'B') has been revised to reflect the variety of media and methods of communication currently used.

A number of other changes are expected to become effective from 1 April 2015 when the rest of the public sector pension schemes move to career average benefit structures. Proposals on how to manage future cost risks have been agreed in principle and Ministers are committed to establishing a National Advisory Board for the LGPS which, amongst other things, is expected to allow employers, trades unions and other scheme stakeholders to effectively manage the future cost risks of the scheme. Discussions about the precise role, composition and scope of the proposed Board are ongoing. A separate report will update the Sub-Committee once the detail of these changes is known.

Implications:

This item has the following implications, as indicated:

Risk management

The change is being strongly project managed and risk assessed with regular reporting back to the Deputy County Treasurer.

The scale of this change presents a range of risks, particularly around the timeliness of the finalisation of regulations intended to allow the transition to the new benefit structure to take place and the absence of revised actuarial factors necessary to calculate benefits in the new Scheme. Both are expected imminently but have not been received at the time of writing this report.

Financial Management

Additional costs have been incurred as a result of these changes and this is expected to increase the charge to the fund in respect of administration in the current financial year, although charges will not exceed the lower quartile benchmark as set by the Fund.

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		