Local Government Pension Scheme

Lancashire County Council's proposals to achieve the required savings of £900m by 2015

Key principles

1. The fact that Funds are operating with deficits must be recognised and any reduction in employer contributions should not take place until the next valuation.
2. Any proposals for change from April 2012 needs to be focussed on minimising the potential for increased levels of opt out from the scheme.
3. The preference of the Lancashire County Pension Fund would be for a series of changes which do not require increases in employee contributions which at the current level are already higher than in many public sector schemes where average member earnings are higher than in LGPS.
4. Given that Ministers are likely to view options which do not increase employee contributions unfavourably, a proposal which balances all of these objectives would be to make changes to accrual rates from April 2013 with any accompanying increase in employee contributions structured so as to protect the lowest paid.
5. Some of the additional "savings" from an earlier move to a reduced accrual rate accrual should be used to reduce the degree of increase in employee contributions for members earning in the range £21,000 to £40.000, which is the group where the risk of further opt outs seems most likely.
6. Any proposals for change from April 2012 need to be administratively deliverable.

Option 1

In this proposal savings of £450m would be achieved by a change in the scheme's accrual rate from the current rate of 1/60ths to 1/65ths with effect from April 2013. A further £450m would be achieved from a phased increase in employees' contribution rate.

On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£180m	£285m	£450m
Accrual Rate	£0	£450m	£450m
Total	**£180m**	**£735m**	**£900m**

It should be noted that this option raises more than the Governments option 1 over the Spending review period i.e. a total of £1,815m against £1,800m

Impact of contribution rate increase

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	7.5% (1.0%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.0% (1.2%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

Option 2

Our preferred option would be to achieve £900m by a change in the scheme's accrual rate to 1/70ths from the current rate of 1/60ths with effect from April 2013. This would mean that any increase in contribution rates could be kept at a minimum and would only need to be effective from 2014/15 to achieve the required savings.

On this basis, the total expected savings over the Spending review period would be:

	2012/13	2013/14	2014/15
Tariff Increase	£0	£0	£80m
Accrual Rate	£0	£820m	£820m
Total	**£0**	**£820m**	**£900m**

This option raises more than the Governments option 2 over the Spending review period i.e. a total of £1,720m against £1,260m

Impact of contribution rate increase

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	5.9% (0.0%)	5.9% (0.0%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.5% (0.0%)	6.5% (0.0%)
£21,001- £32,400 (31.34%)	6.5%	6.5% (0.0%)	6.5% (0.0%)	6.7% (0.2%)
£32,401- £43,300 (11.16%)	6.8%	6.8% (0.0%)	6.8% (0.0%)	7.1% (0.3%)
£43,301- £60,000 (4.18%)	7.2%	7.2% (0.0%)	7.2% (0.0%)	7.8% (0.6%)
£60,001- £81,100 (0.91%)	7.2%	7.2% (0.0%)	7.2% (0.0%)	8.7% (1.5%)
£81,101- £100,000 (0.25%)	7.5%	7.5% (0.0%)	7.5% (0.0%)	9.0% (1.5%)
£100,001- £150,000 (0.16%)	7.5%	7.5% (0.0%)	7.5% (0.0%)	9.3% (1.8%)
£150,001 + (0.05%)	7.5%	7.5% (0.0%)	7.5% (0.0%)	9.5% (2.0%)

Impact of reduced accrual rates

In terms of the impact of lower accrual rates, if we take for example a member earning £20,000 p.a., the pension he earns for each year of service is £333.33 on 1/60ths, £307.69 on 1/65ths and £285.71 on 1/70ths. 1/65ths represents a reduction of 7.69% against 1/60ths, whereas 1/70ths represents a reduction of 14.29% against 1/60ths.

Pensionable pay	1year of service		
	1/60th	1/65th	1/70th
£20,000	333.33	307.69	285.71

If we look at the pension earned over the 5 year period up to 31 March 2015, assuming 1/65ths comes in from 1 April 2013, then the pension on 1/60ths throughout would have been £1666.67, whilst the mix of 1/60ths and 1/65ths comes to £1615.38, representing a reduction of 3.08%. (The equivalent figures if 1/70ths came in from 1 April 2013 would be a pension of £1571.43, representing a reduction of 5.71% against 1/60ths).

Pensionable pay	5 years of service		
	1/60th	1/65th	1/70th
£20,000	£1,666.67	£1,615.37	£1,571.43

However, these figures need to be seen over a 40 year working life time and also looked at in conjunction with the Government's proposals to provide an improved basic state pension of £140 per week amounting to £7,280 per year to give a total retirement income. This is summarised in the table below, assuming that no lump sum is taken:

Pensionable Pay	40 years of service		
	1/60th	1/65th	1/70th
£20,000	£13,333.33	£12,307.69	£11,428.57
Basic State Pension (based on Government proposal)	£7,280.00	£7,280.00	£7,280.00
Total Retirement Income	£20,613.33	£19587.69	£18,708.57
LGPS Pension as a proportion of Pensionable Pay	66.7%	61.5%	57.1%
Total Retirement Income as a proportion of Pensionable Pay	103.1%	97.9%	93.5%

This shows that under either of the alternative scenarios put forward a pensioner within the LGPS would accrue benefits which when combined with the revised state pension would allow them to maintain an income in retirement very close to that when in employment. This would maintain a significantly better level of income in retirement for LGPS members than those using alternative forms of pension saving.