

Pension Fund Committee

Meeting to be held on 3 February 2012

Electoral Division affected: All

Proposed Changes to the Local Government Pension Scheme

Contact for further information:

George Graham, 01772 538102, County Treasurers Department,
george.graham@lancashire.gov.uk

Executive Summary

At its last meeting the Pension Fund Committee considered a response on behalf of the Fund to a consultation exercise being conducted by the Government in relation to short term changes to the Local Government Pension Scheme. On 20 December 2011 the Government announced the "Heads of Terms" of a longer term agreement which will remove the need for the proposed short term changes. This report provides the Committee with a brief summary of the current situation.

Recommendation

The Committee is asked to note the current position.

Background and Advice

At its last meeting on 18th November 2011 the Committee approved a response on behalf of the Lancashire County Pension Fund to a consultation exercise being conducted by the Department for Communities and Local Government (CLG) on short term changes to the Local Government Pension Scheme (LGPS). These proposals formed part of the Government's overall negotiations around the reform of public sector pensions as part of their programme to reduce the deficit. The short term changes proposed to the LGPS aimed to reduce costs by £900m and involved a combination of changes in both employee contribution rates and accrual rates (the rate at which pension builds up).

On 20 December 2011 the Chief Secretary to the Treasury made a parliamentary statement setting out the agreements reached by the Government and Trades Unions in relation to the main public sector schemes. The statement is accessible through the following link

http://www.hm-treasury.gov.uk/press_146_11.htm

These agreements are described as "Heads of Terms" and set out the framework within which new schemes will be developed on a career average basis for implementation from 2014.

The Heads of Terms in relation to LGPS were set out in a written statement by the Secretary of State for Communities and Local Government on the same day, which can be accessed at the link below:

<http://www.lge.gov.uk/lge/aio/15184769>

In summary the agreement provides for

- The introduction of a new Scheme in April 2014 (with regulations in place by April 2013) addressing the short term savings required as well as the longer term objectives.
- The new scheme will be a Career Average Scheme as set out in the Hutton report;
- The ability to have limited or no contribution rate increases for employees provided that the Government's financial constraints are met;
- Some elements of choice to encourage new members to join and existing members to remain in the Scheme;
- Normal Pension Age will match the rise in the State Pension Age for post 2014 service.

This means that the proposals for changes in employee contributions from April 2012 on which the Government was consulting will not now happen and there will be one set of changes from April 2014. The idea of making the regulations by April 2013 is that this will allow scheme actuaries to reflect the new regulations in the 2013 valuation which will be implemented from April 2014. Subject to the detail of the regulations and of course the impact on financial markets on the overall value of the Fund a move to a career average scheme and changes in the retirement age would be expected to have the impact of reducing employers' contributions.

These proposals while framed in a different context do address the key issues raised by the Committee in its response to the previous consultation of the already relatively higher contributions paid by LGPS members than those in other public sector schemes and measures to reduce the opt out rate.

The agreement of Trades Unions to these Heads of Terms was subject to their usual processes of consultation with executive committees. At the point of writing one union has indicated following this consultation that it is unwilling to continue to participate in the further discussions to turn the Heads of Terms into a new scheme. The two largest unions have indicated that they will continue to negotiate within the framework set out in the Heads of Terms through weekly meetings with Government officials and the Local Government Association,

Locally information setting out this position has been provided to employers and to staff within the County Council.

Further reports will be provided for members as the position becomes clearer.

Consultations

N/a

Implications:

Risk Management

There are clearly potentially significant implications for the Pension Fund from the proposed changes both in terms of the impact of changes in scheme design on the funding level and investment strategy and the changes required to systems and processes and communication with members as a result of a new scheme design, At this stage it is too early to say what these will be and officers continue to monitor the situation as closely as possible.

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

N/A