By:	Chairman Superannuation Fund Committee Acting Corporate Director Finance and Procurement
To:	Superannuation Fund Committee – 18 November 2011
Subject:	**CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME**
Classification:	Unrestricted

Summary: To report on the latest position on changes to the LGPS.

FOR INFORMATION

INTRODUCTION

1. This report updates on the changes proposed for the scheme.

2. There are two main areas of activity which impact on the future of the LGPS, the Hutton Review and the review of costs stemming from the Comprehensive Spending Review in October 2010.

HUTTON REVIEW

3. Lord Hutton was asked by the Government to look at all public sector pension schemes and his final report was produced in March 2011. The report made 27 recommendations but the most fundamental were:

   - Accrued rights of existing scheme members would be fully protected.

   - A career average as opposed to final salary basis for all public sector schemes.

   - Increases in the pensions age.

4. The Government have broadly accepted the recommendations and work is underway to come up with detailed proposals for each public sector scheme. On 2 November Government made various announcements and a summary by Barnett Waddingham is attached in Appendix 1. We believe changes to the LGPS arising from Hutton are unlikely to be implemented before 2015.

CSR 2010

5. In the CSR 2010 the Chancellor of the Exchequer announced that employee contribution rates in all public sector pension schemes would increase by 3%. To be clear this is purely a revenue raising initiative linked to reducing the budget deficit, the LGPS is to provide £900m.

6. This poses a very serious challenge to the LGPS:

   (1) It is the only funded public sector scheme – its economics are fundamentally different to other schemes.

   (2) By public sector standards contributions rates ranging from 5.5% to 7.5% are relatively high already.

   (3) The bulk of the LGPS membership is very low paid and to get sufficient additional revenue rates would have to increase very substantially.

   (4) This then gives rise to concern over employee op outs which again could adversely affect the economics of the LGPS.

CURRENT POSITION

7. Negotiations between the local authority trade unions and the Local Government Group have been continuing through the summer and on 21 September LGG submitted their proposal to the Secretary of State for Communities and Local Government. This submission was not supported by the trade unions.

8. The LGG response is attached in Appendix 2. It is based upon:

   (1) An increase in the scheme retirement age from 65 to 66.

   (2) No change to employee contribution levels or accrual rate for staff earning less than £15,000.

   (3) Staff earning more than £15,000 would have the choice of either paying higher employee contributions or having a lower accrual rate. The accrual rate is the rate at which an individual pension benefits increase for each year of service.

   The LGG proposals seem well balanced and do minimise the increase in employee contribution rates.

9. On 28 September CLG published their proposals and these are summarised in Appendix 3. CLG have not opted to increase the retirement age and instead have proposed steeper increases in employee contribution rate and lower accrual rates.

10. The CLG proposals are out for consultation and at this stage we do not know what final form they will take. Assuming that they are largely implemented there are potentially 2 main issues to consider:

    (1) Impact on the employee – at a time when many LGPS members will have had no pay award for 2 years and face an extended period of pay restraint the higher employee contributions are a real reduction in net pay.

    (2) Impact on LGPS funds – much has been made over the summer of the potential for individuals to opt out of the LGPS because of the higher employee contribution rates. This is seen as a problem because of the negative effect it would have on the Fund's cash flows. The Superannuation Fund Committee was briefed on this issue by the fund actuary on 2 September. Whilst there is no doubt that there could be an impact LGPS Funds have tools and techniques available to deal with the consequences – after all most defined benefit schemes in the corporate sector are closed to new members and they have to manage the cash flows of their funds accordingly.

11. Officers have arranged for Terry Crossley the senior official at CLG responsible for the LGPS to speak to all employers at a seminar in Maidstone on 6 December.

12. KCC will make a formal response as administering authority and this will be cleared with the Committee before it is set.

RECOMMENDATION

13. Members are asked to note this report.

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