By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee –29 June 2012

Subject: **LOCAL GOVERNMENT PENSION SCHEME 2014**

Clarification: Unrestricted

Summary: To report the latest announcements on the future of the LGPS.

FOR INFORMATION

INTRODUCTION

1. On 31 May the Local Government Association and trade unions issued a joint statement on the outcome of their negotiations on the new LGPS.

PROPOSALS

2. A summarised version of the proposals is attached in Appendix 1.

3. The main changes are:

    (1) A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).

    (2) The accrual rate would be $1/49^{th}$ (the current scheme is $1/60^{th}$).

    (3) Reversion to a two year vesting period (it is currently 3 months).

    (4) There will be no normal scheme pension age, instead each member's Normal Pension Age (NPA) will be their State Pension Age (the current scheme has an NPA of 65).

    (5) Average member contributions to the scheme would be 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay). While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.

(6) Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).

(7) For current scheme members, benefits for service to 1st April 2014 are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA. The previously announced 10 year protections from 2012 still apply.

(8) Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

4. Very preliminary thoughts on the proposals are:

(1) Quality of the scheme – this remains a high quality pension scheme which is a major benefit to local authority staff and where appropriate councillors.

(2) What are the cost implications – the move to a CARE scheme and likely retirement age to the State Pension Age should reduce costs. The cost issues need to be reflected in the 2013 actuarial valuation.

(3) Employee rate increases are limited – the huge majority of local authority staff are low paid and face contributions after tax relief of 4.4-5.4%.

(4) Opt-out – there had been a lot of concern that opt out rates would substantially increase. The 50:50 options seems to be an innovative way of enabling individuals to stay in the scheme at times of financial stress for them.

(5) Administration – we are now less than 2 years from go live and there is an enormous amount of detail to be worked out as well as systems and processes to be amended.

(6) Understanding by scheme members – issues such as accrual rates expressed as fractions are an example of how the scheme both now and in the future is not easy for scheme members to understand. Whilst we can look to our website to provide high quality information the sheer size of the scheme makes providing specific advice very difficult.

5. We await further detailed information.

RECOMMENDATION

6. Members are asked to note this report.

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