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To: Personnel Committee. **Date:** 29 November 2012

Subject: Pensions update – Local Government Pension Scheme changes and Auto enrolment transitional delay

Classification: **Unrestricted**

Summary: This paper outlines the recommendation accepted by Policy & Resources Cabinet Committee about the implementation of Auto enrolment into the LGPS and Teachers Occupational Pension Scheme, along with the current position about the changes to LGPS from April 2014.

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1. UPDATES

1.1 New Local Government Pension Scheme (LGPS) reforms

1.1.1 In December 2011 an agreement was reached by the Local Government Association (LGA) and local government unions on how to take forward the reform of the LGPS in England and Wales and this was accepted by the Government.

1.1.2 The new scheme is expected to be in place from 1 April 2014 and the main provisions proposed for this scheme were released in July 2012. A comparison of the current 2008 provisions and the new proposals can be found in Appendix 1.

1.1.3 It is expected that the regulations will be in place by 2013 to enable the pension fund actuaries to take the new scheme into account as part of the 2013 scheme valuations. This will then enable adjustments to be made to employer contributions in 2013.

1.1.4 On balance, the changes are seen as positive and will retain the ability to offer a valued and worthwhile pension scheme to Local Government employees.

1.1.5 One key and significant difference is the alignment of the LGPS retirement date to the National state pension age.

1.2 1 October 2012 change to the LGPS

1.2.1 From 1 October 2012 staff who have temporary contracts of less than 3 months, which includes casual staff can now elect to join the LGPS. This change brings the LGPS to the 'qualifying' standard as required under Auto Enrolment.

1.3 Communication to staff

1.3.1 Communications by KMail and KentTrustWeb were sent between March and October to inform staff about the reforms and LGPS changes.

1.4 Auto Enrolment

1.4.1 Legislation has been introduced which is intended to increase the numbers of people who are members of a pension scheme. The Pensions Act 2008, as amended in November 2011, requires employers to automatically enroll eligible workers into an Occupational Pension Scheme.

1.4.2 KCC already complies with this requirement in relation to all new starters who have the right to be in a qualifying pension scheme. There are implications for the Authority in the new responsibility to auto enroll any staff who have previously opted out and how this exercise is undertaken. However staff still have the ability to opt out

1.4.3 The Local Government Pension Scheme (LGPS) and the Teachers Pension Scheme (TPS), both of which operate a contractual auto enrolment practice are approved and are deemed to be qualifying schemes under Auto Enrolment regulations.

1.4.5 KCC had been allocated 1 March 2013 as the implementation date for Auto Enrolment for these schemes. This is the date from which all new staff must be automatically enrolled. As we already operate contractual Auto Enrolment this part of the legislation does not present the Authority with a significant problem.

2. <u>THE CURRENT POSITION FOR AUTO ENROLMENT</u>

2.1 Following discussion about the options and implications, Policy & Resources Cabinet Committee, on 27 September 2012, endorsed the use of transitional arrangements for the implementation of Auto Enrolment into the LGPS and Teachers' Pension Scheme. The formal decision is taken by the Leader.

2.2 The recommendations made:-

2.2.1 KCC to fulfill the statutory requirements of Auto Enrolment by assessing and informing employees of their enrolment rights in accordance with AE Regulations. This is to comply with the initial staging date of 1 March 2013.

2.2.2 KCC informs the Pensions Regulator of its wish to exercise the right to defer, using the transitional arrangements, the full implementation of Auto Enrolment until October 2017.

3. RECOMMENDATION

There is a requirement to ensure Personnel Committee is aware of the current position for Auto Enrolment and LGPS 2014 changes. The committee is therefore invited to note the contents of this report and the recommendation made by Policy & Resources Committee and the decision taken by the Leader on Auto Enrolment.

Colin Miller
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Appendix 1

Table 1. Comparison of future and current LGPS

	LGPS 2014	**LGPS 2008**
Basis of Pension*	Career Average Revalued Earnings (CARE)	Final Salary (FS)
Accrual Rate*	$1/49^{th}$	$1/60^{th}$
Revaluation Rate*	Consumer Price Index (CPI)	Based on final salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part-time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee Contribution Rate - average 6.5% in both LGPS 2008 and LGPS 2014	**Salary** **Gross** **From To Rate** Up to £13,500 5.5% £13,501 - £21,000 5.8% £21,001 - £34,000 6.5% £34,001 - £43,000 6.8% £43,001 - £60,000 8.5% £60,001 - £85,000 9.9% £85,001 - £100,000 10.5% £100,001 - £150,000 11.4% More than £150,000 12.5%	**Salary** **Gross** **From To Rate** Up to £13,500 5.5% £13,501 - £15,800 5.8% £15,801 - £20,400 5.9% £20,401 - £34,000 6.5% £34,001 - £45,500 6.8% £45,501 - £85,300 7.2% More than £85,300 7.5%
Flexibility of Contribution	Members can pay 50% contributions for 50% of the pension benefit. This is a short term alternative to opting out.	No
Normal Pension Age	Equal to the individual member’s State Pension Age (minimum 65)	65
Lump Sum Trade Off	No change	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	No change	3 x pensionable pay
Death in Service Survivor Benefits	No change	$1/160^{th}$ accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	No change	Tier 1 – immediate payment with service enhanced to Normal Pension Age (65) Tier 2 – immediate payment of pension with 25% service enhancement to Normal Pension Age (65) Tier 3 – temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI (Consumer Price Index)	CPI (Consumer Price Index) (Retail Price Index (RPI) for pre 2011 increases)
Vesting Period*	2 years	3 months

*** Below is an explanation of some of the terms used above:**

'CARE' scheme - 'CARE' stands for Career Average Revalued Earnings. Your pension will build up as a proportion of your pensionable pay - 1/49th for each year in the LGPS 2014. So instead of calculating your pension with reference to your final salary on retirement, the LGPS 2014 uses the average of your annual earnings over your membership of the LGPS. Earlier years are revalued by inflation (CPI) to ensure that each year's salary is of equivalent 'real' value.

Accrual Rate - Is the rate at which the pension is built up for each year of service in the scheme.

Revaluation Rate – the way in which previous year's pension pots are revalued in order to retain their value.

Vesting Period – is the period of time you need to be a member of the scheme before you are entitled to pension benefits. If you leave the scheme before the end of the vesting period you will only be entitled to a refund of contributions or a transfer to another pension scheme or arrangement.