

By: The Chairman Superannuation Fund Committee
Corporate Director of Finance & Procurement

To: Superannuation Fund Committee – 8 February 2013

Subject: **LGPS CONSULTATION RESPONSE**

Classification: Unrestricted

Summary: To provide members with a draft response to the statutory consultation on proposed reform of the Local Government Pension Scheme to be introduced 1 April 2014.

FOR DECISION

INTRODUCTION

1. This paper provides members with the proposed response, to the Department for Communities and Local Government (DCLG) consultation paper, relating to the proposed reforms of the Local Government Pension Scheme 2014.

SCOPE OF THE CONSULTATION

2. This initial consultation focuses on the key changes proposed to the core elements of the new scheme, relating to membership, contributions and benefits only.
3. Further consultation papers will follow which will deal with issues around fair deal, cost control and the governance of the scheme. These elements of the scheme are the subject of ongoing discussion between Ministers, LGA and Local Government Trade Unions.
4. It is proposed that these new design features of the New LGPS be introduced, with effect from 1 April 2014. In addition, on the assumption that statutory regulations can be in place by 1 April 2013, the reform elements of the scheme, may be given complete consideration by our Actuary, Barnett Waddingham, when undertaking the scheme valuation.
5. It was this particular element of the reform timetable, which allowed Ministers to avoid significantly higher increases in member contributions, which have been introduced to the other public service schemes. It is hoped that the overall changes to the scheme design will achieve the overall savings target.

KEY REFORMS

6. Following long and at times, challenging negotiations, agreement was reached upon the future design of the scheme. The proposals were the subject of informal consultations with union members and interested parties.
7. These informal consultations received overwhelming support and gave a clear mandate, to take forward the proposed scheme design, as the basis for this statutory consultation exercise.
8. I have provided members with a summary of the key reforms at Appendix I. Members will be familiar with the proposed changes.
9. It is also proposed that existing scheme members enjoy a number of transitional protections. These are shown at Appendix II.
10. Our proposed response to the detailed consultation is as follows:-

“Thank you for sending a copy of the statutory consultation in respect of the proposed reforms to the Local Government Pension Scheme 2014.

Kent County Council, in the capacity of the Administering Authority for the County of Kent, welcomes the opportunity to comment upon the proposed scheme design contained in the consultation document.

We welcome the switch to CARE from final salary, which we believe to represent a fairer model for the diverse employee base in local government. We equally welcome the concept of tiered rates through which contributions are linked to levels of pay, enabling lower contributions to be paid by those earning less. We hope this will lead to greater take up of the scheme in this sector of the workforce.

The idea of an option to pay 50% of contributions, in order to build up an equal proportion of the benefit package, is to be encouraged. We would however, like to see some monitoring of this new concept, particularly, to ensure it is achieving the desired outcome of attracting new scheme members who, would otherwise not save toward their retirement.

Kent has long advocated a return to a 2 year vesting period in common with other public service schemes.

I understand further discussions are ongoing, in relation to, the ill health regulations, which it is proposed should not at this stage be reformed, and will therefore continue on the 3 tier system currently in place. Kent considers the existing 3 tier system is cumbersome and costly to administer and is responsible for a significant increase in formal appeals by scheme members. We also consider it has given rise to inconsistent treatment across the UK, as confirmed, by a number of reviews of benefits that have been undertaken. We welcome the need for some form of a graduated benefit structure, but, that this should be fair across the scheme and consistently applied. We therefore welcome the continued review of this element of the scheme design.

Finally, we look forward to the formal consultation around cost management and governance, which we hope will, in conjunction with the proposed scheme design

reforms, deliver the savings needed and ensure a further reform programme, will not be necessary in the longer term.”

11. Members will be consulted in respect of the forthcoming consultations around cost management and governance of the scheme. These are seen as complimentary to the changes to the scheme design and essential to the sustainability of the LGPS.

RECOMMENDATION

12. Members are asked to note the content of this report and endorse the proposed response to the formal consultation; presented by the DCLG.

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Key changes proposed for the reform of the LGPS 2014

	Now	Proposed
Nature of scheme	Final salary	Career average
Accrual rate	1/60 th	1/49 th
Revaluation/Pension increase	CPI	CPI
Normal pension age	65	In line with State pension age for all post 2014 service
Earliest point pension benefits payable	55 years	55 years
Flexible retirement	55 years	55 years
Ill health retirement	3 tier	3 tier
Death in service	3 x salary	3 x salary
Option to commute pension for increased lump sum	£1 pension to £12 lump sum	£1 pension to £12 lump sum
Average contribution rate with tiered rates based upon earnings	6.5%	6.5%
Low cost option	Not available	50% contributions for 50% benefits
Vesting period	3 months	2 years
Spouse and partner benefits	1/160 th for each year of service	1/160 th for each year of service

Proposed transitional protection for existing scheme members

- All accrued rights and benefits built up to April 2014 will be linked to final salary when the member leaves the scheme.
- There will be a protected underpin for members aged 57-59.
- The rule of 85 protection to be retained as in the current scheme.