WIRRAL COUNCIL

PENSIONS COMMITTEE

27 SEPTEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

LGPS REFORM UPDATE

1. EXECUTIVE SUMMARY

1.1. This report informs Members of recent developments following the introduction of the revised LGPS on 1 April 2008 by the Department for Communities and Local Government (DCLG).

1.2. The Pensions Committee last considered legislative developments affecting the LGPS regulations on 28 June 2010 (Minute 128 refers).

2. LETTER FROM DCLG DATED 4 JUNE 2010

2.1. Terry Crossley the Head of the Pensions Division within the DCLG wrote to the Local Government Employers Organisation (LGE) with replies to a number of matters raised over the last year including the following:

a. **Deferred benefits v Refund of contributions.**

In response to requests from a number of Pension Funds including Merseyside, the LGE had asked the DCLG to amend the regulations to move back to a two year minimum vesting period for benefits in line with the LGPS in Scotland and most other public sector schemes instead of the three months period introduced for the LGPS in England and Wales on 1 April 2004.

The reply from DCLG is that they prefer to retain the three month vesting period until future pension policy becomes clearer.

b. **Salary Sacrifice**

In response to requests from a number of employers LGE had requested clarification of whether the increased flexibility of expanded salary sacrifice arrangements in local government was permissible and if so with what impact in terms of contributions and benefits payable under the LGPS Regulations.

The reply from DCLG is that it is too early in the life of the Coalition Government to be clear about this matter but that support for the potential loss of tax revenue was unlikely.

c. **Cost of Flexible Retirement**

The LGE had written to DCLG asking that consideration be given to consulting on a change to the LGPS Regulations which would make flexible retirement cost neutral for employers from a pension perspective, and permit scheme members to agree to have their benefits actuarially reduced where they are seeking agreement to voluntary retirement (or early release of a deferred benefit) prior to age 60.

The DCLG reply is that it would be sensible to await expected guidance to be issued shortly by the Government Actuary (GAD) on the matter and that employers need to give greater thought to the total business case for flexible retirement before considering further changes to the pension regulations.

3. LGPS (MISCELLANEOUS) REGULATIONS 2010

3.1. The above mentioned statutory instrument was laid in Parliament on 25 August 2010 to enact the draft provisions reported to Members at the last meeting of the Committee on 28 June 2010.

3.2. A significant number of changes have been introduced either correcting or amplifying regulations in order to make clear the original intention of the 2007 and 2008 Regulations. Provisions of particular note include the following:-

- Changes that deal with the new 3 tiers of ill health retirement and related regulations such as permitting a 3rd tier member to access their ‘suspended’ benefits before age 65 with an actuarial reduction, and some clarifications to improve the overall ill health framework;

- Scheme members’ spouses and civil partners who are awarded a share of LGPS retirement benefits in their divorce settlement, are now permitted to receive such benefits from age 60, rather than age 65, provided that appropriate actuarial reductions are made;

- New rules about aggregating periods of membership when members are re-employed; and

- Changes enabling certain educational establishments to be treated as Scheme Employers in the Pension Fund - i.e. Academy Trusts and City Technology Colleges and dealing with the impact of the Academies Act 2010 to include new and converter academies;

3.3. In addition amendments have been made in response to requests made and issues which arose during the course of the consultation:-

- charging of pensions increases relative to 2008 LGPS membership;

- providing an administration process to enable better handling of pensions for Incapacitated Pensioners unable to manage their affairs.

4. **THE EMERGENCY BUDGET – PENSIONS IMPLICATIONS**

4.1. On 22 June, 2010 the Chancellor of the Exchequer presented the Emergency Budget to the House of Commons. The key points from the Emergency Budget in respect of pensions are set out below.

(1) That Public service pensions including the LGPS are to increase in line with the Consumer Price Index (CPI) instead of the Retail Price Index (RPI).

"Indexation - The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes.

This will also ensure consistency with the measure of inflation used by the Bank of England. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues."

From April 2011 pensions in payment and deferred pensions will be increased by the Pensions Increase (Review) Order which will take account of the rise in the CPI.

The impact of this change will be to reduce the value of pension scheme liabilities which will be taken account of by the Actuary from the 2010 actuarial valuation and to reduce the value of pensions payable to scheme members in relation to future increases in RPI over time.

(2) Public sector pay will be frozen for two years unless the worker earns less than £21,000 per annum – this also has implications for LGPS funds' future liabilities as future benefits payable will be lower than anticipated and the 31 March 2010 valuation will take this into account.

(3) The Government has created an independent commission, headed by John Hutton, to undertake a "fundamental, structural review of public service pensions" and consider the case for short-term savings by September 2010 in time for the Spending Review. (A separate report on this matter is to be considered by the Committee).

(4) That the link to increases in average earnings will be restored to increases in the Basic State Pension from April 2011. The increase in Basic State Pension will be the highest of the increase in average earnings, the increase in RPI and 2.5%.

(5) That the Government is going to review when the State Pension Age (SPA) will increase to age 66. This will under new proposals be no earlier than 2016 for men and 2020 for women.

(Under current legislation SPA will increase to 66 by 2026, to 67 by 2036 and to 68 by 2046).

(6) The Government is going to consult shortly on how quickly after April 2011 it will remove the default retirement age at which employers can normally require employees to retire.

(7) The Government is going to consult on the details of the removal of the requirement for individuals to buy annuities by age 75. (From 22 June 2010, individuals will have until age 77 to purchase an annuity).

(8) The Government announced that it wished to consider the reform of pensions tax relief as it had reservations about the approach adopted by the previous administration in the Finance Act 2010. The Government has been consulting with pension schemes, industry experts etc on an alternative way of recouping the £3 billion cost to HM Treasury.

At the moment, it is proposed to substantially reduce the annual allowance to somewhere in the range of £30,000 to £45,000. The anti-forestalling measures, however, will remain in place. The HM Treasury document; “Restricting Pensions Tax relief” provides further information.

A technical response on the consultation paper has been submitted and a copy of this is attached for information as an Appendix.

5. OTHER MATTERS

5.1. 31 March 2010 Actuarial Valuation

Discussions have been taking place with the Actuary on possible changes to be considered to the assumptions to be used to determine individual employer contribution rates. Consultation meetings are to be arranged with Scheme employers to consider any amendments necessary to the Funding Strategy Statement (FSS) to enable the Actuary to finalise work on the recommended new rates.

5.2 **Cost Sharing**

Regulation 36A (future costs) has been amended to confirm that the assumptions used in carrying out a valuation of future costs to be shared shall be determined by the Secretary of State after consultation with the Government Actuary and such other persons that appear to him to be desirable.

5.3 **Future of the Scheme**

Further consideration by the Policy Review Group of possible changes to the Scheme regulations can now realistically only be considered once Lord Hutton has reported on his review of public sector pensions and DCLG has decided in the light of that report what reforms, if any, should be made to the Scheme.

6. FINANCIAL IMPLICATIONS

6.1 The decision to change the future indexation of benefits from the Retail Price Index (RPI) to the Consumer Price Index (CPI) is expected to reduce scheme liabilities and the future level of benefits payable to scheme members.

6.2 The impact of pay restrictions for many scheme members is also expected to result in a long term reduction in scheme liabilities and this together with the indexation change will be considered by the Actuary in completing the 31 March 2010 actuarial valuation and setting future employer contribution rates.

7. STAFFING IMPLICATIONS

7.1. There are none directly arising from this report.

8. EQUAL OPPORTUNITY /EQUALITY IMPACT ASSESSMENT

8.1. There are none arising from this report.

9. COMMUNITY SAFETY IMPLICATIONS

9.1. There are none arising from this report.

10. HUMAN RIGHTS IMPLICATIONS

10.1. There are none arising from this report.

11. LOCAL AGENDA 21 IMPLICATIONS

11.1. There are none arising from this report.

12. **PLANNING IMPLICATIONS**

12.1. There are none arising from this report.

13. **MEMBER SUPPORT IMPLICATIONS**

13.1. There are none arising from this report.

14. **BACKGROUND PAPERS**

14.1. DCLG letters dated 4 June 2010 and 25 August 2010.

13. **RECOMMENDATION**

13.1 That Members note the report.

IAN COLEMAN
DIRECTOR OF FINANCE

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