WIRRAL COUNCIL

PENSIONS COMMITTEE

19 SEPTEMBER 2011

SUBJECT:	**LGPS UPDATE**
WARDS AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The report updates Members on legislative and other developments affecting the Local Government Pension Scheme.

2.0 RECOMMENDATION

2.1 That Members note the report.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

Ministerial Statement on Public Service Pensions

4.1 The Chief Secretary to the Treasury made a Ministerial Statement to the House of Commons on 19 July 2011 concerning public service pension reform and the proposed member contribution increases. The statement confirms that future negotiations between the Government and the TUC in response to the Hutton recommendations will take place on a “Scheme by Scheme” basis.

4.2 The Department for Communities and Local Government (DCLG) issued a letter dated 28 July 2011 informing Local Government Employers of the tight timetable set for discussion and consultation relating to both the short and longer term scheme reforms. A copy of the letter is attached at Appendix 1.

Long Term Scheme Reform

4.3 The focus for long term reform of all public sector schemes, including the Local Government Pension Scheme is to ensure the principles of fairness to employees and affordability to taxpayers. This is to be achieved by the following fundamental measures -:

- the setting of LGPS specific cost ceilings to ensure schemes remain affordable;
- normal retirement pensions for low and middle earners broadly as generous as the current arrangements;
- no change in pension benefits to those closest to retirement;
- each scheme should consider their preferred approach to managing risk.

4.4 HM Treasury will set the cost ceilings for each scheme by 1 October 2011. Each scheme is required to establish initial specific proposals for reform using the appropriate ceiling by 31 October 2011. Detailed scheme design will then continue to allow the relevant legislation to be established during 2012/13 for implementation with effect from 2015.

Short Term Scheme Reform

4.5 The Government announced in the 2010 Spending Review that public sector workers would be asked to contribute more to their pension, equivalent to an average increase in member contributions of 3.2%. Consultations are currently taking place on proposed increases to the Principal Civil Service Pension Scheme, National Health Service Scheme and the Teachers Pension Scheme to take effect from April 2012

4.6 The Government has now recognised the particular distinction of the funded LGPS from other Public Sector Schemes and has granted it autonomy to formulate its own package of reforms to deliver the required £900m savings by 2015.

4.7. The package must include protections from contribution increases for the lowest paid around the following parameters:

- No increase to member contributions for those earning less than £15,000;
- An increase limited to 1.5% of pay for those earning up to £21,000;
- Increases for high earners no more than 6% of gross pay.

4.8. On 20 July 2011 the Secretary of State, Rt Hon Eric Pickles wrote to the Local Government Group, (LGG) (copy letter attached at Appendix 2) inviting LGG to conduct discussions with the trade unions to establish by no later than 9 September 2011 its proposals to secure short term savings in time to allow for a formal statutory consultation exercise to begin at the end of September.

4.9. Thereafter the DCLG schedule is as follows:

- 12 week statutory consultation from October to December on amendments to regulations;
- consideration of responses and decisions by Ministers in early 2012;
- laying regulations as soon as possible;
- short term reforms coming into force on 1 April 2012.

4.10. MPF wrote on 10 August 2011 to the Local Government Group setting out views on alternative measures to the proposed 3.2% increase in member contributions. A copy of the letter is attached at Appendix 3.

4.11 The letter acknowledges that as there is a political imperative to increase contributions that a uniform increase of 1 per cent above the prescribed protections would be more acceptable to the membership. This would alleviate the financial pressures of higher increases and reduce the likelihood of members choosing to leave the scheme.

4.12 If it is deemed necessary to realise further savings MPF would advocate that the next scheme adjustment would be to align the LGPS normal retirement age with increases to the state retirement age.

4.13 Members could still choose to retire from age 60 but would receive reduced pensions to take account of early payment. This is in accordance with the Government policy that people should work longer to re-address the balance of time spent in retirement due to increased longevity. It was also the preferred option of the MPF membership when consulted in the latest scheme survey.

4.14 MPF acknowledges that another adjustment could be to amend the accrual rate, this could be seen as a simple and timely method of delivering the required saving of £900m.

4.15. However, this change would manifest another significant consequence; in particular it would reduce the number of retiring members electing to convert annual pension to the maximum available tax free cash. This would adversely impact on savings already assumed in assessing employer contribution rates, leading to increased employer costs.

HMRC Changes to Annual and Lifetime Allowances; Scheme Impacts

4.16. This matter was previously considered by the Committee at its meeting on 29 March 2011 (Minute 87 refers). The Finance Act 2011 received Royal Assent on 19 July 2011. The Act implements the changes to tax relief on pension savings and in particular reduces the annual allowance from £255,000 to £50,000 from 6 April 2011. The annual allowance is the maximum amount by which a person's pension savings can increase based on the period 1 April to 31 March without incurring a tax charge.

4.17. MPF will be writing to members whose pension savings exceed the annual allowance, within MPF, with information as to whether or not the tax charge will be payable and the amount of the charge. The information must be provided by the 6 October following the end of the tax year. However, in the 2011/12 tax year the time limit has been extended to 6 October 2013 to facilitate the new administrative processes.

4.18. Where a member exceeds the annual allowance in any tax year, any unused allowance from the three previous years will be carried forward to offset the excess pension savings. The charge for any member whose pension savings still exceeds the annual allowance after carry forward will be at the marginal rate of income tax.

4.19. Members can request that their liability to pay the annual allowance charge is met out of their scheme benefits where the charge exceeds £2000. The regulations will require amendment to permit the reduction to the member's pension and guidance will be needed to specify how the reduction will be implemented and reflected in the pension benefits.

4.20. There are limited exemptions from the annual allowance in the year of death or if the member satisfies the serious ill health exemption in accordance with the Finance Act requirements. However there are discrepancies between the definitions of ill health under the LGPS Regulations and the Finance Act relating to capability to undertake gainful employment and prescribed retirement ages. DCLG has agreed with HMRC that if the Independent Registered Medical Practitioner certifies that the person meets both the LGPS and the Finance Act criteria for ill health the exemption will apply to the LGPS. As such MPF has amended the ill health certificates and guidance notes to allow doctors to provide the required opinion on serious ill health.

4.21. From 6 April 2012 the lifetime allowance is reduced from £1.8 million to £1.5 million. The lifetime allowance is the maximum amount of pension savings an individual may have from registered pension schemes. A member may apply to protect their current pension savings against the reduction in the lifetime allowance. The application must be received by HMRC by 5 April 2012 and there is no entitlement to accrue further pension benefits.

5.0 RELEVANT RISKS

5.1 If the outcome of the short term scheme reforms proves to be too costly for individual members it will rapidly increase the number of members who will choose to opt out of the LGPS, as it will be reasoned as "unaffordable" or at worst, not worthwhile.

5.2 Not only, would this not meet the objective of increasing income but it would once again accelerate the maturity of the Fund; irrevocably changing the membership profile of the LGPS.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 MPF intends to consult further with all stakeholders on the proposals for change to the scheme when information is available.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The outcome of the Government considerations and the consultation with stakeholders on the long term and short term reform of the Pension Scheme including increases in employee contribution rates may have significant impacts on the LGPS, employers and members.

9.2 Depending on the outcome of the reforms there will be increases in the resources required to deliver the relevant communications, administrative processes and changes to systems.

9.3 The option for members to request the Pension Fund to pay the annual allowance charges to HMRC will result in greater administrative complexity.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

FNCE/191/11

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APPENDICES

1 - Department for Communities and Local Government letter 28 July 2011 to Local Government Employers and Pension Fund Administering Authorities
2 - Secretary of State letter of 20 July 2011 to the Local Government Group.
3 - Merseyside Pension Fund letter of 10 August 2011 to the Local Government Group

REFERENCE MATERIAL

LGE Bulletin 84

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
LGPS Update Reports presented to each meeting of the Pensions Committee	