WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

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

1.0 EXECUTIVE SUMMARY

1.1 The report is to inform members of legislative and other developments impacting on 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

Independent Public Sector Pensions Commission (IPSPC) Report

4.1 It is reported that the Chief Secretary to the Treasury tabled a discussion paper at the last negotiating meeting between the Government and the Trade Unions which set out ideas for discussion and it was stressed that it does not necessarily represent the final position of the Government.

4.2 Trade Union pension officials are to meet Treasury officials to seek clarification on exactly what the paper is saying and will discuss the paper as part of the ongoing negotiations.

4.3 The paper repeats the Government belief that public service pensions should;

(a) Ensure dignity in retirement

(b) Remain gold standard high quality defined benefit, index linked, schemes

(c) Be fair and affordable to taxpayer

The 27 recommendations in the IPSPC final report should be the basis for consultation with no cherry picking on either side.

The cost of the schemes

4.4 The IPSPC did not set out what the schemes should cost or the level of benefits. The discussion paper does not mention any cost envelope but instead says the cost ceiling will be set once the scheme design has been determined. Most public service schemes have a cost envelope of between 19% and 21% of combined employer/employee contributions for future service benefits. If the scheme design is based on lower benefits the cost ceiling could be significantly below the current cost envelopes.

Scheme Design

4.5 The paper repeats the Government commitment to protect all benefits earned up to the date of change in the schemes and to maintain the final salary link for all past service for current members, so at retirement members will be able to draw their final salary pension benefits based on their pay when they retire.

4.6 The paper sets out the Government belief that apart from protecting all past service, the basis for discussion should be that no one should have any transitional protection. Therefore all service after the start of the new schemes for all members would be the same, with the higher retirement ages for future service based on the State Pension Age (SPA) (the exception should be the police, fire and armed services).

4.7 The Government believes that in future retirement ages in the schemes should be linked to changes to the SPA. Members could continue to able to retire before their normal retirement age but suffer an early payment reduction.

4.8 The paper supports the IPSPC recommendation that the new schemes should be Career Average Revalued Earnings (CARE) instead of Final Salary. The Government believes that CARE earnings should be revalued in line with National Average Earnings (NAE) up to retirement but wants more discussion about an appropriate measure of NAE. The paper confirms the Government is still committed to increasing pensions in payment by the CPI.

What is the proposed level of benefit?

4.9 The paper sets out that when looking at the level of benefits the Government wants scheme benefits to at least match the income replacement rates that were set out in the original Turner report. The recently up rated bands used in the paper are set out in the table below:

Gross Income	Benchmark Gross Income Replacement Rate %
Less than £11000	80
£11000 - £20000	70
£20000- £29000	67
£29000- £58000	60
£58000 and above	50

4.10 The paper does not suggest what the level of benefit should be but the modelling is based on a nurse starting on £21,176 pa and a Local Government worker starting on £16,456. It appears to assume that the member's career progression over a full career to SPA would be in the region of 30% increase in real terms over a working life in the public service scheme. The paper regards this as 'typical career' paths.

4.11 The income replacement rates are based on a % of NHSPS and LGPS pension before any cash lump sum is taken, added to the state pension (current full single person rate of £102.15 per week has been used).

4.12 The modelling shows that on this basis the examples would only need a scheme that provided a 1/100th build up i.e. 1% a year would match the benchmark. Two other options are shown 1/90th and 1/80th but not the current rate of 1/60th (or 1.67% a year).

4.13 If a 1/100th was used instead of 1/60th a nurse retiring on final pensionable earnings of £26,971pa which is based on a CARE scheme revaluing in line with average earnings, the pension after 40 years service would be 40/100th X £26,971 = £10788 pa as opposed to what the member would get in the 2008 section of the NHSPS of 40/60th X £26971 = £17980pa 40% less.

4.14 The trade unions have already pointed out shortcomings in the replacement rates and the fact that very few members have a career for 40 let alone 48 years.

Other Recommendations

4.15 The paper broadly endorses all the other recommendations of the IPSPC. On a cost ceiling it does repeat that the Government would bear the increased costs in 'relation to financial factors'. This suggests the Government would bear the cost of changing the discount rate although this seems to run counter to the Chancellor saying in the budget that the increased cost caused by changing the Discount Rate justifies the proposed increase of 3%+ for members by 2014/15.

4.16 On tiered contributions the Treasury paper is reported to quote new figures suggesting that if those for example earning under £15,000 a year were 'protected' the average for those earning above this figure would be 3.3% which does not reflect what individual pension schemes are finding.

4.17 On scheme Governance, Administration and Information the paper suggests the Government would like further consultation and that it may be ‘preferable’ to decouple theses issues from the central key principals. The Government wants an assessment of administration by the autumn before deciding on what overseeing body might be appropriate.

4.18 Regarding the relationship between central and scheme negotiations the paper says the Government believes the basis for discussion should be a common framework for the main public service schemes but recognise the specific circumstances of fire, police and armed forces and the funded nature of the LGPS.

In summary

4.19 There is a lot that needs clarification and the Treasury paper seems to suggest that the Government is still running with the IPSPC recommendations. The main issues of concern identified by the trade unions are:

(a) No transitional protection for existing members

(b) No confirmed cost envelope – and so possibly less generous cheaper schemes for the future. (That is less generous for members and cheaper for the Government).

4.20 The benchmark examples suggest strongly that the Government is looking at a scheme that provides a range of options that goes from 1% to 1.25% instead of 1.67% accrual a year. A drop in value of between 33% and 25% for an average increase in cost to the member above ‘low pay’ levels of 50%+ in terms of increased contributions.

Letter from the Local Government Group to the Government

4.21 The Local Government (Employers) Group has written on 20 May 2011 to the Government setting out its views on the recommendations made in the report of the Independent Public Service Pensions Commission. A copy of the letter is attached at Appendix 1.

4.22 Although the letter confirms support for the majority of the 27 recommendations made by Lord Hutton, significantly the LG Group does not support the proposal to honour in full the pensions promises that have been accrued by scheme members prior to the future introduction of a new scheme in 2015. This was a major concern raised by members of the scheme during the consultation undertaken by Merseyside Pension Fund and the views represented in the submission to the Commission.

4.23 The LG Group argues that this would “have significant cost implications for employers and council tax payers by retaining a final salary link for perhaps another 50 or so years for a 16 year old joining the scheme now”. This fails to point out that the protection will be only in respect of membership prior to the establishment of the new scheme in April 2015 (for less than a maximum of 4 years membership out of a potential total of 50 for a 16 year old starting now).

4.24 The LG Group does not give its full support to the retention of tiered employee contribution rates intended to make higher earners pay a higher percentage rate, as pensions should be looked at as part of an overall remuneration package. In its response Merseyside Pension Fund pointed out that a move away from a final salary basis to career average should remove the justification for tiered contributions.

4.25 The LG Group does not support the recommendation that future non-public service workers should be prevented from having access to public service pension schemes and points out that a basic assumption for LGPS funds' investment strategies is that the LGPS remains open to new entrants. A reduction in the active membership base would accelerate the maturity of pension funds and could have an impact on the UK investment sector and lead to a rise in local authorities' contribution rates to the LGPS.

Proposals to increase LGPS average employee contributions by 3.2%

4.26 In the Spending Review statement on 20 October 2010 the Government announced the intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). Merseyside Pension Fund wrote on 23 February 2011 to the Chancellor of the Exchequer on this matter expressing concerns at the potential negative impact of such a change in terms of increasing numbers of members opting out and the impact on the maturity position of the Fund in terms of its funding.

4.27 The LGE has also written again to the Chancellor on this issue on 14 April 2011. A final decision on this matter is expected in the autumn with the first increases due to take effect from 1 April 2012.

Judicial review of indexation by reference to CPI

4.28 On 6 May 2011 at the High Court, the trade unions (FBU, NASUWT, PCS, POA and Unite) jointly initiated proceedings for a judicial review of the Government decision to use CPI as the basis for the indexation of public sector pensions. The trade unions are arguing that:

- a change to use the CPI index is inappropriate;
- it unreasonably negates members' legitimate expectations for pensions increases based on RPI;
- it is legally wrong; and represents a change in members' benefits which was implemented without following an appropriate consultation exercise.

The outcome of the judicial review is awaited.

House of Commons Public Accounts Committee Report on changes to public sector pensions

4.29 The Public Accounts Committee has published a report on the changes introduced to public sector pension schemes in 2007-2008 which is the subject of a separate report to this Committee.

5.0 RELEVANT RISKS

5.1 The outcome of the judicial review on the change to indexation of benefits by CPI rather than RPI could result in a large increase in the value of pension fund liabilities increasing employer deficits if the appeal by the trade unions is successful.

5.2 The impact of large increases in employee contributions rates and the potential negative impact of such a change in terms of increasing numbers of members opting out could impact on the maturity position of the Fund in terms of its funding.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 Merseyside Pension Fund intends to consult further with all stakeholders on future 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 consultation with stakeholders on the long term future of the Pension Scheme and short term increases in employee contribution rates may have significant impacts on the LGPS, employers and members.

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/126/11

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APPENDICES

1 - Local Government (Employers) Group letter dated 20 May 2011 to DCLG.

REFERENCE MATERIAL

LGE letter dated 14 April 2011 to Chancellor on proposed contribution increases:
http://www.lge.gov.uk/lge/core/page.do?pageId=11571866
Unison report dated 20 May 2011 on Taking forward the recommendations of the Independent Public Service Pensions Commission.
LGE Bulletin 82

SUBJECT HISTORY (last 3 years)

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