

WIRRAL COUNCIL

EMPLOYMENT AND APPOINTMENTS COMMITTEE

19 NOVEMBER 2007

REPORT OF THE DIRECTOR OF FINANCE

LOCAL GOVERNMENT PENSION SCHEME REFORM TIERED EMPLOYEE CONTRIBUTIONS

1. EXECUTIVE SUMMARY

- 1.1. This report informs Members of the new arrangements for the introduction of tiered employee contributions from 1 April 2008. Members are asked to note the report.

2. BACKGROUND

- 2.1. The Local Government Pension Scheme, Benefits, Membership and Contributions Regulations 2007 which come into force from 1 April 2008 introduce tiered employee contributions ranging from 5.5% to 7.5% as shown in the table at paragraph 2.4 below.
- 2.2. The New Look 2008 Scheme based on a higher 1/60th accrual rate and with a number of benefit improvements is more expensive than the current scheme to provide but scheme members contributions are to be increased to ensure that they meet a greater proportion of the total costs going forward. Further discussions are also continuing on the introduction of a future cost sharing arrangement to deal with future cost increases from 2011.
- 2.3. Under the present employee contribution arrangements, the standard rate paid by the majority of active members is 6% of pensionable pay, with contributions eligible for tax relief. A small number of former "manual workers" who joined the Scheme prior to 1 April 1998 are still entitled to contribute at the lower rate of 5%, whilst they remain in the same post. Around 18% of the members of MPF are entitled to this protection. The average yield from employee contributions is calculated as 5.8% for valuation purposes by the Actuary. Under the new arrangement from 1 April 2008 the average yield from employee contributions is expected to be 6.3%.

2.4. Contributions payable by active members:

Band	Range	Contribution Rate
1	£0 - £12,000	5.5%
2	£12,000 - £14,000	5.8%
3	£14,000 - £18,000	5.9%
4	£18,000 - £30,000	6.5%
5	£30,000 - £40,000	6.8%
6	£40,000 - £75,000	7.2%
7	More than £75,000	7.5%

Pensionable Pay:

- 2.5. The pensionable pay to be used in deciding which band an employee comes under is for part time employees equal to that of a full time employee. The regulations state that relevant band is to be based upon the pensionable pay in the previous financial year, however the Department for Communities and Local Government (DCLG) in a letter dated 3 May 2007 indicates that the regulations will be amended to set the range by reference to whole time annual pensionable pay or an equivalent hour rate as at the beginning of April or on commencement of employment.
- 2.6. The DCLG has have also indicated its intention to clarify the regulations in that whole time term timers are not to be treated as part timers in establishing which band they are to be placed and that where an employee holds more than one employment, each is to be treated separately when determining the band relevant to that employment.
- 2.7 For those employees who are just in receipt of fees then the relevant band is that which relates to the actual fee

Changes to Pensionable Pay

- 2.8 In a letter dated 22 June 2007 the DCLG indicates that if there are any changes in contractual terms subsequent to April or first joining that employers can re-attribute the specified band above (upwards or downwards). The initial allocation to a pay band and any subsequent change of band can only be done on a reasonable basis. Employers and their payroll providers are advised to proceed on this basis.

Employees with a protected 5% lower rate rights

- 2.9 Regulation 6 of the **Draft LGPS (Transitional Provisions) Regulations 2007**, provides that:

Subject to note 2 below, the contribution rates set out in the normal rates table shown above do not apply to a person entitled to 5% lower rights protection.

Instead, the contribution rate to be applied to such a member is calculated in accordance with the following table:

Year commencing	Contribution rate
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5%

(1) After 1 April 2011, such a member makes contributions in accordance with the normal 2007 rates table.

(2) But if the application of the table set out above would result in a member's contribution rate being greater than if the 2007 table applied, his contribution is paid at the lower rate.

3. FINANCIAL IMPLICATIONS

- 3.1. The DCLG has confirmed that the cost envelope for the new LGPS amounts to 19.4% of payroll for future LGPS service and this is made up of an expected yield of 6.3% of pay from employees (compared to 5.8% at present), plus 13.1% of payroll from Scheme employers.
- 3.2. Although the latest proposals for implementing tiered contributions have addressed some of the practical problems identified in the original regulations employers will still be required to apply different contribution rates in accordance with the two tables set out previously in the report.
- 3.3. The actual experience in terms of employee contributions yield will also vary between employers based on the actual pay levels of their workforce and the impact of the contribution rate changes. Benefit improvements will not become clear until the next actuarial valuation in 2010.

4. STAFFING IMPLICATIONS

- 4.1. There are none directly arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

- 5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

- 6.1. There are none arising from this report.

7. HUMAN RIGHTS IMPLICATIONS

- 7.1. There are none arising from this report.

8. LOCAL AGENDA 21 IMPLICATIONS

- 8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

- 9.1. There are none arising from this report.

10. MEMBER SUPPORT IMPLICATIONS

- 10.1. There are none arising from this report.

11. **RECOMMENDATION**

11.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE

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