WIRRAL COUNCIL

PENSIONS COMMITTEE

17 JANUARY 2012

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

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of the issues in formulating the Merseyside Pension Fund (MPF) formal response to the Department for Communities and Local Government (DCLG) consultation document of 7 October 2011 on reform of the Local Government Pension Scheme (LGPS).

1.2 It also covers the draft LGPS (Miscellaneous) Regulations 2012 and other developments which affect the LGPS.

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

Short Term Scheme Reform

4.1 Members previously considered the broad consultation framework for short term scheme reform and the specific costed options offered by DCLG and the Local Government Association (LGA) at the Pensions Committee on 21 November 2011(minute 57 refers) .

4.2 An MPF alternative proposal was presented to and endorsed by Members at the above meeting which was constructed within the parameters defined by HM Treasury and the DCLG, with affordability and sustainability prime considerations.

4.3 MPF submitted an interim response on 22 November 2011 (Appendix 1).

4.4 At a meeting of the DCLG, LGA and Trade Unions on 28 November 2011, the Wirral alternative approach was described by both the LGA and DCLG as a “sensible option”.

4.5 MPF has produced an online survey with an accompanying bulletin, to ascertain members' preferred approach out of those suggested by DCLG and the alternative approach developed by MPF.

4.6 The LGA and Trade Unions are continuing discussions, including the joint development of a proposal to implement Lord Hutton's recommendations for Long Term Scheme reform to be implemented from April 2014 rather than April 2015. The intention is to roll contribution increases and broader scheme design changes into a"one event" change, merging the reforms into a single policy. There is also a possibility that contribution increases can be traded against a greater reduction to the accrual rate and mirroring the LGPS retirement age to increases in state pension age.

4.7. The Chief Secretary to the Treasury made a statement to the House of Commons on 20 December 2011 reporting that heads of agreement had been established with most Trade Unions. These agreements are based on the enhanced cost ceilings revised in November 2011 and on the basis that future pension provision will be determined on career average and that pension ages will match state pension age. As a consequence of the schemes switching to career average it has also been agreed that the Fair Deal policy can be retained to allow outsourced staff to participate in public sector schemes.

4.8. There was subsequent confusion as to whether the local government unions would adhere to the agreement reached due to the Secretary of State, Communities and Local Government issuing an ambiguous letter setting out restrictive limits on employer contributions. It is understood that the letter has now been withdrawn for redrafting and subsequent discussions have taken place between the Government, the LGA and the Trade Union Congress forging a way forward. Any agreements reached will have to be ratified by union executives and members.

4.9 Discussions on the details including accrual rates, revaluation methodology and contributions will take place in 2012 to agree the design of the scheme. The revised reform process envisages regulations by March 2013, in time for scheme valuation at 31 March 2013, with the new scheme to be in place by April 2014.

4.10 MPF submitted a final consultation response, including the survey results, on 6 January 2012.

Judicial review on indexation by reference to CPI

4.11 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 change the indexation of Public Sector pensions. The Pensions Committee last considered the Judicial Review on 27 June 2011.

4.12 The High Court has rejected the claim from the Trade Unions, declaring that the Government decision to switch indexation for future public-sector pension increases from the retail prices index (RPI) to the consumer prices index (CPI) was lawful.

4.13 The High Court judgement said: “The use of RPI has in the past been merely current practice. Looked at objectively, it could not properly be asserted, therefore, that any promise of its continued use had to be assumed”.

4.14 The Hutton report calculated that the unfunded public pension schemes would save £1.8 billion a year in cash payments by 2015-16 due to the move to the CPI.

Changes to State Pension Age

4.15 The Pensions Act 2011 received Royal Assent on 3 November 2011 with the changes to state pension age coming into force on 3 January 2012 which allows the Government to:

- Speed up the increase in women’s state pension age, so that it reaches age 65 in 2018, rather than 2020.
- Increase state pension age to 66 for men and women over the period from 6 March 2019 to 6 October 2020, rather than between May 2024 and April 2026 as was provided for under the Pensions Act 2007.

4.16 In his Autumn Statement on 29 November 2011, the Chancellor of the Exchequer announced that the Government intends to bring forward by 8 years the period over which the State pension age is increased to age 67.

4.17 The intention is to accelerate State pension age to 67 between April 2026 and April 2028. People born on or after 6 April 1960 but before 6 April 1961 will have a State pension age between 66 and 67. People born on or after 6 April 1961 will have a State pension age of 67 or higher. This change will require the approval of Parliament.

4.18 The Government is considering how to ensure that State pension age continues to keep pace with increases in life expectancy and will bring forward proposals in due course, and so it may be that the rise in the State pension age to age 68, for example, could occur earlier than currently planned.

Draft LGPS (Miscellaneous) Regulations 2012

4.19 On 5 December 2011 DCLG issued draft miscellaneous regulations for consultation on the provision of adequate indemnities and guarantors for admitted bodies to the scheme. These new measures seek to protect other employers and Council Tax payers in the event that an admitted body is wound up or falls into administration or faces other financial difficulties.

4.20 There are also technical amendments in respect of dependant's benefits and ill heath provisions to ensure consistency of treatment and approach for all categories of membership. The attached DCLG letter dated 5 December 2011(Appendix 2) sets out the proposed changes.

4.21 The closing date for comments to be submitted to DCLG on the proposed changes is 27 February 2012.

5.0 RELEVANT RISKS

5.1 If the need for short term savings continues to be isolated from long term Scheme reform, then there will be inevitable compromises and choices made that will threaten both the sustainability and maturity of the Scheme.

5.2 The continual change to state pension age, the interactions with the existing '85 Year Rule' protections and proposed protections for people within 10 years of retirement from April 2012 is a challenge to communicate clearly to members as it introduces further complexity.

5.3 If the outcome of Scheme reform and other pension related changes proves too costly and complex, then there is a high risk that members will lose confidence in the Scheme and the Government and decide to opt out.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 MPF has taken due consideration of members opinions sourced from the online survey and representations received from the constituent employers.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 The outcome of the reforms will have a direct impact on all scheme employers and their employees who represent all sectors of the community

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

9.1 Depending on the concluding position on scheme reform there will be increases in the resources required to deliver the relevant communications, administrative processes and changes to systems.

9.2 The decision on the appropriate level of contribution increases will have a proportionate impact on members net pay and govern the affordability of individual Scheme participation.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 The consultation documents on scheme reform and draft regulations have already been assessed by the DCLG with regard to equality.

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.

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APPENDICES

1 - Interim Response to DCLG re: Short Term Savings Consultation

2 - Draft LGPS (Miscellaneous) Regulations 2012

REFERENCE MATERIAL

LGE Bulletin 87
Mercer Viewpoint- Reform of LGPS
Draft Local Government Pension Scheme (Miscellaneous) Regulations 2012

SUBJECT HISTORY (last 3 years)

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