

**WIRRAL COUNCIL  
PENSIONS COMMITTEE  
20 MARCH 2012**

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER:</b>	
<b>KEY DECISION</b>	NO

**1.0 EXECUTIVE SUMMARY**

- 1.1 This report updates Members on the framework for negotiations on the Local Government Pension Scheme and the revised earning bands used to assess employee contribution rates from April 2012
- 1.2 It also summarises the MPF technical response to the Draft LGPS (Miscellaneous) Regulations 2012.

**2.0 BACKGROUND AND KEY ISSUES**

**Reform of the LGPS – The New LGPS 2014 Project**

- 2.1 The Department for Communities and Local Government (DCLG), the Local Government Association (LGA) and Trade Unions have established a timetable and project framework in order to reach agreement on the fundamental elements of the scheme design by April 2012.
- 2.2 A fundamental element of the negotiations surrounds the continuing viability and governance of the scheme and specifically the introduction of an employer contribution cap and collar to be set by the stakeholders using 'model fund' data.
- 2.3 In setting the objectives to be delivered within a joint document formulated by the LGA and Unions, all parties accept that any agreement which may be reached would be subject to consultation with, and confirmation by, their respective membership. In summary, the principal objectives are:

**Objective 1:** Confirmation of the basis of the scheme design

**Objective 2:** Confirmation of the accrual rate for the scheme;

**Objective 3:** Confirmation of the revaluation rate;

**Objective 4:** Confirmation of the actuarial methodology for variation to benefits either side of the Normal Pension Age (NPA). The NPA will be the later of age 65 or the State Pension Age (SPA);

**Objective 5:** Confirmation of the value, distribution and phasing of any employee contribution increases;

- Objective 6:** Confirmation of the transitional protections;
- Objective 7:** Confirmation of the parameters of the employer cap and collar;
- Objective 8:** Confirmation of the mechanism for variation of the elements to maintain scheme costs within the cap and collar values;
- Objective 9:** Agree recommendations on best practice in governance and procurement;
- Objective 10:** Confirmation of the value of the ongoing scheme as measured using model fund data, assumptions and methodology which satisfies overall Government financial constraints.

- 2.4 The agreement on the remainder of the scheme design and cost mechanism details must be concluded by November 2012 to permit the consultation and laying of the new LGPS Regulations in time for the 2013 valuation to deliver the required HM Treasury identified short term savings. If this agreement is not achieved by November 2012, then the opportunity to roll the two stage process of reform into one step will have been lost.
- 2.5 To date there has been very little feedback on the current negotiations, other than clarification from the Actuaries, in response to Union enquiries, that the Government Actuary Department calculations are deemed reasonable to assess the cost envelope to evaluate the future costs of the scheme.

**Contribution Bands for 2012/2013**

- 2.6 The contribution bands have been revised by the Department for Communities and Local Government (DCLG) to determine the employee tiered percentage contribution rates to take effect from 1 April 2012 as follows:

<b>Band</b>	<b>Whole-time Equivalent Pay</b>	<b>Employee contribution rate (%)</b>
<b>1</b>	Up to £13,500	5.5
<b>2</b>	£13,501 to £15,800	5.8
<b>3</b>	£15,801 to £20,400	5.9
<b>4</b>	£20,401 to £34,000	6.5
<b>5</b>	£34,001 to £45,500	6.8
<b>6</b>	£45,501 to £85,300	7.2
<b>7</b>	More than £85,300	7.5

- 2.7 The above figures are based on the pay bands for 2011/12 as increased by the September 2011 CPI figure of 5.2%.

## **Draft LGPS (Miscellaneous) Regulations 2012**

- 2.8 Members previously considered the broad scope of the draft regulations proposing technical revisions and corrections to various elements of the Administration Regulations, the Benefits Regulations and the Transitional Regulations on 17 January 2012 (minute 75 refers)
- 2.9 MPF submitted a formal response to the consultation ending on 27 February 2012, following agreement with the Chair of the Pensions Committee. (Appendix 1).
- 2.10 In general, many of the amendments proposed are making required improvements to the Scheme provisions, ensuring equitable treatment of all member types and they represent a step forward in the management and governance of the LGPS.
- 2.11 A number of the draft proposals, if taken forward, will require updates to both Administering and Employing Authority policies; requiring a programme of communication with members and employers.

## **Proposed Amendments to Admission Agreements**

- 2.12 The critical area of concern is the amendments under regulation 22, which revise the funding framework with regard to risk management imposing a mandatory requirement for all new Community and Transferee Admission bodies to secure a bond or indemnity, or provide an alternative parent company guarantee.
- 2.13 Whilst bonds would increase financial security and limit the incidence of bodies exiting the Pension Fund leaving unrecoverable debt, some bodies may struggle to secure a bond or the cost may be prohibitive.
- 2.14 The financial requirement to provide a bond for Transferee Admission Agreements would need to be clearly stated at the tender stage of the contract and could, for smaller contracts, be seen as anti-competitive. It could also lead to more contractors taking the comparative pension route instead of maintaining membership of the LGPS leading to the further erosion of the active membership and the ongoing viability of the Scheme.
- 2.15 MPF views the principle of employers providing realisable guarantees to mitigate the risk of financial loss to the Pension Fund as necessary, but supports retaining the opportunity to seek financial security through alternative measures such as legal charges over assets or more stringent funding strategies.
- 2.16 MPF strongly advocates that Pension Funds should be afforded the flexibility to enter into arrangements reflecting local circumstances to ensure there is no retrograde legislation to established policy.

## **Proposed Amendments to Annual Benefit Statements**

- 2.17 Regulation 35 refers to the proposal to introduce the requirement to produce annual benefit statements by 30 September. This timescale is extremely challenging as Pension Funds are reliant upon the receipt of timely and accurate data from many Scheme employers.
- 2.18 Operationally, such high volume production and distribution of statements for all active members would require data reconciliation work to be completed in August. For both Pension Funds and employers alike, this means the bulk of the work would take place during the main “holiday season” making responses to queries and quality control checks problematic.
- 2.19 It would appear that the suggested compliance measure is to cater for the statutory deadline to provide pension statements to members who have exceeded the annual allowance in the given year. However, whilst the recent reduction in the annual tax allowance has been substantial, it still affects only a relatively small number of LGPS members.
- 2.20 MPF has already planned to meet the reporting requirements of the new tax regime by operationally targeting those members most likely to exceed the allowance, to work with employers and then to inform those members appropriately at the earliest opportunity of their tax exposure. This could be done in advance of the 30 September date, if flexibility for Pension Funds to produce Annual Benefit Statements at a later date was maintained.

## **Suggested Amendments to Treatment of Elected Members**

- 2.21 MPF made additional comments that the scope of the amendments should include amendments to provide equitable treatment of elected members by removing the requirement for Councils to make a positive decision on whether to offer LGPS membership. There is also concern at the delay in bringing councillors within the scope of the 2008 Scheme including the ability to nominate cohabiting partners for survivors’ benefits.

## **3.0 RELEVANT RISKS**

- 3.1 If the negotiations between the scheme stakeholders fail within the prescribed timeframe the Government could revert to an imposed increase to member contribution rates in order to fulfil the HM Treasury identified short-term savings.
- 3.2 The Government proposal to introduce measures to restrict financial security to the provision solely of indemnities/ bonds or parent company guarantees for Admission Agreements, could result in both Administering Authorities and Employers incurring increased costs due to required maintenance arrangements, and contractors seeking to pass on charges through the bidding process.

## **4.0 OTHER OPTIONS CONSIDERED**

- 4.1 No other options have been considered.

## **5.0 CONSULTATION**

5.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising out of this report

## **6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

6.1 There are none arising from this report.

## **7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS**

7.1 Depending on the final regulatory timeframe set for production of Annual Benefit Statements MPF may require increased staffing resources to continue to deliver the core business service and comply with statutory provisions.

## **8.0 LEGAL IMPLICATIONS**

8.1 There are none arising from this report.

## **9.0 EQUALITIES IMPLICATIONS**

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No, because the draft regulations have already been assessed by the DCLG with regard to equality.

## **10.0 CARBON REDUCTION IMPLICATIONS**

10.1 None arising from this report

## **11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

11.1 None arising from this report

## **12.0 RECOMMENDATION**

12.1 That Members note the report.

## **13.0 REASON FOR RECOMMENDATION**

13.1 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.

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## **APPENDICES**

1 MPF Response dated 27 February 2012 to DCLG re: Draft Local Government Pension Scheme (Miscellaneous) Regulations 2012

**REFERENCE MATERIAL**

Mercer Viewpoint – Draft LGPS (Miscellaneous ) Regulations 2012

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
LGIS Update report presented to each meeting of the Pensions Committee	