

WIRRAL COUNCIL

PENSIONS COMMITTEE

25 JUNE 2012

SUBJECT:	LGPS UPDATE
WARDS AFFECTED:	ALL
REPORT OF:	ACTING CHIEF FINANCE OFFICER
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members on the progress of the Local Government Pension Scheme 2014 project and the proposal to introduce a 'low cost option' as part of the future scheme design.
- 1.2 It also covers the reform of the State Pension Scheme and the planned changes to National Insurance contracting-out provisions that will affect the LGPS and the latest development on the RPI/CPI judicial appeal.

2.0 BACKGROUND AND KEY ISSUES

Reform of the LGPS – The 2014 Project

- 2.1 The "project board" which consists of lead officials from the Local Government Association (LGA), Trade Unions, and the Department for Communities and Local Government (DCLG) submitted a set of recommendations on the fundamental elements of the scheme design on 13 February 2012.
- 2.2 The DCLG and the Treasury are now satisfied that the proposals are within the total cost parameters defined for the scheme which was set at 20.4% of pay with an employer ceiling of 10.9%.
- 2.3 On 31 May 2012, the LGA and Trade Unions co-ordinated a public announcement on the basis of the new Scheme Benefits under Workstream 1 of the reform process. An overview document is attached at Appendix 1. The main provisions of the proposed new LGPS from 1 April 2014 are as follows:

Basis of Pension	Career Average Revalued Earnings
Accrual Rate	1/49 th
Revaluation Rate	Consumer Price Index (CPI)
Normal Pension Age	Equal to individual member's State Pension Age
Death in Service	3 x pensionable pay
Pensionable Pay	actual pay, including non-contractual overtime and additional hours for part time staff
Vesting Period	2 years

- 2.4 The proposed terms will now be subject to consultation with members of Unison, Unite and GMB Unions and with individual councils through the Local Government Association. There is a planned statutory consultation scheduled to commence by November 2012.
- 2.5 The management of future cost and governance is to be achieved through an employer contribution cost cap approach which is important for the long term sustainability of the scheme. The specific details will be negotiated under Workstream 2 of the reform project with a completion deadline of November 2012.
- 2.6 Further announcements and ongoing communications are to be carried out jointly by the LGA and Trade Unions to ensure consistency in message and explanation to the LGPS membership and employers. It is imperative that these communications reinforce the message that pension entitlements already earned will be protected and provide a clear description of the revised pension benefits package from 1 April 2014.
- 2.7 The Acting Chief Executive has been approached by the LGA to enter a shared-services arrangement with MPF specifically to design, host and maintain the official LGPS 2014 Scheme Reform website.
- 2.8 The “project team” has acknowledged MPF’s recent communications to the membership in respect of Scheme reform; a dedicated website and examples that members can readily understand. The Acting Chief Executive has agreed to the collaborative working and work has commenced to rebrand the site as a joint initiative by LGA, Unison, GMB and Unite.
- 2.9 MPF’s involvement with the hosting and development will be acknowledged and any costs incurred will be reimbursed as part of the shared-service arrangement with the LGA.

Reform of the LGPS – “low cost option” to members

- 2.10 A “low cost option” is being proposed to help reduce the number of members opting-out of the LGPS because of immediate financial pressures.
- 2.11 The “low cost option” is now titled “The 50/50 Option” and would see members’ paying 50% of the contributions for a 50% pension whilst retaining the full value of other benefits of the scheme such as ill health, death in service and redundancy.
- 2.12 At the end of the period members could either opt out or transfer back to the main LGPS arrangement.
- 2.13 A recent Unison consultation of non-members showed 70% would consider a low cost alternative to full scheme membership.

Reform of the LGPS – Governance

- 2.14 The Local Government Pension Committee (LGPC) has set up a Governance working party to consider Lord Hutton's recommendations and how they may be implemented in the LGPS.
- 2.15 The Queen announced in her speech at the State Opening of Parliament that a Public Sector Pensions Reform Bill will be developed. The primary and secondary legislation that would emerge from that Bill will direct the governance agenda. It is not expected that any formal body will be created that would over-rule democratically elected administering authorities.
- 2.16 A paper on the mechanism to vary the elements of the scheme design to maintain costs within the employer cap and collar values and recommendations on best practice in governance and procurement has been developed by the project team and submitted to the Government on 9 May 2012.

Reform of the State Pension System and Ending of Contracting Out

- 2.17 The state pension is made up of two parts:
- the **Basic State Pension** (£107.45 a week in 2012-13) which depends on the number of qualifying years that a person has built up in their working life;
 - the **Additional Pension** was introduced in 1978, in the form of the State Earnings Related Pension Scheme (SERPS). In 2002, this was reformed and the **State Second Pension** was introduced.
- 2.18 Since 1978, it has been possible to “contract-out” of the Additional Pension into an occupational pension scheme which fulfils certain criteria of which the LGPS is fully compliant. The contracted out scheme then has to provide a minimum level of benefits broadly equivalent to what the individual would have earned under the **State Second Pension** arrangements. In return, the employee and employer both pay reduced National Insurance Contributions.
- 2.19 In the period 2007 to 2012, the reduction to National Insurance Contributions was 1.6% for members and 3.7% for employers (a total of 5.3%). For the five years from 6 April 2012 the reduction will be 1.4% for members and 3.4% for employers (a total of 4.8%).
- 2.20 The Chancellor of the Exchequer announced in the 2012 Budget that the Government is committed to the merger of the Basic State Pension and the State Second Pension into a Single Tier Foundation Pension. The impetus for reform is to deliver a fair and simple state pension and reduce the reliance on means-tested benefits.
- 2.21 The policy objective is to develop greater personal responsibility for individuals to save and plan for retirement and old age. Enabling individuals to understand clearly what they would receive from the State when they reach State Pension Age (SPA) is believed to be an important step towards that objective.

- 2.22 The revised provision will be introduced during the course of the next Parliament. It is expected that the initial level of the new single tier pension will be **£140** per week, which will be above the means tested standard Guaranteed Credit. The single pension would, as with the Basic State Pension, be increased in payment in accordance with the 'triple guarantee', which is the higher of the increase in average earnings, CPI inflation and 2.5%.
- 2.23 Pensioners with a 30 year national insurance record will receive the flat rate pension from 2016. This means that while those on low incomes who have made small or no contributions to the State Second Pension will benefit from a higher pension than they could currently expect, people who earn higher salaries will lose out. Those who have accrued additional benefits at the implementation date will continue to benefit with pensioners already receiving the state pension remaining under the former arrangement.
- 2.24 The move to a single tier benefit will result in the ending of contracting out which would have significant implications on members and employers contributing to the LGPS as they would face an increase in their National Insurance Contributions. This would lead to an increase to the cost of scheme participation for both the member and the sponsoring employer.
- 2.25 Final decisions on the implementation of the new single tier pension will be taken at the next Spending Review.
- 2.26 The Budget document re-affirmed the Government intention to ensure SPA rises in future to match increases in longevity. It will publish proposals simultaneously with the Office of Budget Responsibility 2012 Fiscal sustainability report.
- 2.27 The Government has already announced increases in the SPA to age 66 by October 2020 and 67 by 2028, but it is expected that this measure could lead to longer working lives beyond age 70.

Judicial Appeal on Indexation by Reference to CPI

- 2.28 Members previously considered the judicial review initiated by the Trade Unions against the Government decision to change the indexation of Public Sector Pensions on 17 January 2012.
- 2.29 The High Court ruled on 2 December 2011 that the Government decision to switch from RPI to CPI, when up-rating pensions was lawful. The Unions subsequently took a challenge to the Court of Appeal. The High Court ruling was upheld as the judgement found that the Secretary of State could choose any index, provided that he acts rationally and takes all appropriate matters into account.
- 2.30 The Court of Appeal has not granted the Trade Unions permission for a further referral to the Supreme Court. The Unions however can request the Supreme Court directly for permission for consideration.

3.0 RELEVANT RISKS

- 3.1 If the negotiations on reform between the Scheme stakeholders are not agreed within the prescribed timeframe, the cost savings emanating from the revised scheme cannot be considered at the 2013 valuation.
- 3.2 The Government still retains the right to impose contribution increases on members if agreement on Scheme design cannot be reached. In this event, it is likely that industrial action will restart with a danger of a significant increase in the number of members opting out of the scheme.
- 3.3 The Government proposal to introduce a single tier state pension with the associated ending of contracting out and increased employer costs could lead to Community Admission Bodies deciding to exit the scheme and offer an alternative pension arrangement. This would lead to a reduction in the membership base and potential issues regarding recovery of substantial liabilities.

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 The proposal to reform the State Pension Scheme will increase LGPS participation costs for both the member and employer due to the removal of the relief on National Insurance Contributions.
- 7.2 The reforms to the State Pension Scheme and interaction with the LGPS will require MPF to undertake a communication campaign to ensure members understand the reasoning as to the increases in participation costs and to raise awareness that the new State Pension Scheme will be above the threshold for means-tested welfare benefits.
- 7.3 “The 50/50 Option” proposed as part of LGPS Scheme Reform may financially increase an employer’s contribution commitment as employees who previously declined Scheme membership on affordability, may elect to join.
- 7.4 There will be additional administration resources required for members who decide on the new “low cost option”. The proposals add a significant layer of complexity around administration and communication requirements for pension funds and employers. Depending on the extent of the requirements, MPF may require increased staffing resources to continue to deliver the core business service and comply with statutory provisions.

7.5 It has been agreed with the LGA, that there will be reimbursement of any additional costs incurred in developing and maintaining the central website for Scheme Reform.

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 Department for Work and Pensions (DWP) proposals to amend the state scheme and the RPI/CPI revised indexation regime has already been assessed by Government 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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REFERENCE MATERIAL

LGE Bulletin 91

APPENDIX 1 - LGPS 2013 Overview

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
An LGPS Update report is presented to each meeting of the Pensions Committee.	