

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

25 MARCH 2013

<b>SUBJECT:</b>	<b>LGPS UPDATE</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>INTERIM 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 MPF technical response to the statutory consultation on the LGPS 2014 draft membership, contributions and benefit regulations. The timetable for the remaining elements of the regulatory framework is outlined to enable the new Scheme to be assessed as fit for purpose on the grounds of affordability, governance and administrative ease.
- 1.2 It also covers the revised earning bands used to assess employee contribution rates from April 2013, the Government's white paper on State Pension Reform and a position update on both the 'Universal Credit' and Auto-enrolment legislation.

#### 2.0 BACKGROUND AND KEY ISSUES

##### Reform of the LGPS – The 2014 Project

- 2.1 Members previously considered the core elements of the new Scheme benefit design under the scope of the statutory consultation issued on 21 December 2012 which featured the technical provisions relating to membership, contributions and benefits at the last committee meeting on 15 January 2013 ( minute refers)
- 2.2 MPF submitted a formal response to the consultation on 5 February 2013, following agreement with the Chair of the Pension Committee. (Appendix 1)

As the fundamental basis of the benefit design had been previously agreed by the Trade Unions, the LGA and the Government the response considered the technical practicalities, administrative ease and clarity of the regulations. It was also noted that it was not possible to provide a cohesive opinion on the operational aspects of the scheme until the complete regulatory framework is published under the administration and transitional provisions.

- 2.3 The focus of the response relates to amendments to facilitate compliance with auto-enrolment legislation and the implications of members accessing the Scheme post age 75. It also emphasised the requirement to revisit the anomalies that currently exist within the ill health regulations in relation to ambiguous terminology and the onerous system of administering Tier 3 ill health awards.

- 2.4 The response also highlights that in the event of councillors retaining their right to participate to the LGPS that the benefit structure governing their entitlements should mirror the provisions within the main scheme to avoid further complexity of administering different Career Average benefit structures.
- 2.5 Alongside the draft regulations, work is on-going between the LGA, the trade unions and the DCLG on the items which need to be considered as part of the transitional regulations to be issued at the beginning of March 2013.

In addition, a further set of regulations are expected later in the year covering the areas of governance and cost management as well as other remaining items from the LGPS administration regulations which will need to be provided prior to implementation of the new scheme.

- 2.6 The LGPS 2014 project group is working closely with system suppliers and actuaries to ensure they have the information necessary to update IT systems and undertake scheme valuations based on the provisions of the Scheme from April 2014.

#### 2.7 **LGPS 2014 – Website**

MPF's award winning website for the new Scheme (**lgps2014.org**) has now been launched as the national website for scheme members on the reform of the LGPS.

The site contains information on the new Scheme including member scenarios and a dedicated area for news and updates.

#### 2.8 **LGPS 2014 - Communication**

Members of the Communication Working Group have started work with the LGPS 2014 project team to develop various methods of communication to inform members about scheme changes. Five different areas are being developed including:

- Paper based information;
- Benefit modellers;
- Videos;
- Scheme website;
- PowerPoint presentations.

Updates on the progress of these groups and the development of communication methods for the LGPS reforms will be provided over the next few months.

## 2.9 Contribution Bands for 2013/2014

The contribution bands have been revised by DCLG to determine the employee tiered percentage contribution rates to take effect from 1 April 2013 as follows:

<b>Band</b>	<b>Whole-time equivalent pay range</b>	<b>Employee contribution rate (%)</b>
<b>1</b>	Up to £13, 700	5.5
<b>2</b>	£13,701 to £16,100	5.8
<b>3</b>	£16,101 to £20,800	5.9
<b>4</b>	£20,801 to £34,700	6.5
<b>5</b>	£34,701 to £46,500	6.8
<b>6</b>	£46,501 to £87,100	7.2
<b>7</b>	More than £87,100	7.5

The above figures are based on the pay bands for 2012/13 as increased by the September 2012 CPI figure of 2.2%

## 2.10 Single Tier State Pension – White Paper

The Government has recently published a white paper and a subsequent draft Pensions Bill setting out proposals to introduce a flat-rate State Pension. The changes are proposed to be implemented from April 2017 at the earliest and the main proposals are as follows:

- A new single- tier State Pension of £144 per week applying to new pensioners reaching State Pension Age on or after this date.
- It will replace the current Basic State Pension, Second State Pension and Savings Credit element of the Pension Credit, resulting in a reduction of means-testing.
- The changes will result in increased employee and employer National Insurance Contributions at a rate of 1.4% and 3.4% respectively due to the cessation of 'Contracting –out' of the Second State Pension.
- The LGPC is working on the estimated costs to employers if the increase in National Insurance contributions (NICs) takes place from April 2017.
- Public service employers will be unable to pass on the increase in their NICs to employees through changes to their pension arrangements unlike private sector schemes who will be able to adjust benefits for future services to offset the associated increase in employer costs.
- The number of qualifying years required to receive the full state pension entitlement will increase from 30 to 35 years, however prior to 2010 the qualifying years were 44 for men and 39 for women.
- State Pension Age will be reviewed every five years based on the principle that State Pension should be received for a specific proportion of an adult's life.

In broad terms, the new system inevitably creates winners and losers, the winners will be lower earners and people with substantial career breaks due to caring for children and relatives. The losers will be higher earners, where the new flat rate benefit is likely to be lower than the current system which is partly earnings related.

#### 2.11 **Universal Credit – related impact on the LGPS**

2.12 Universal Credit is a new working age related benefit set to replace many existing benefits and tax credits. It is payable to people aged between 18 and 65 and the date entitlement to Pension Credit commences as a single means-tested benefit when income falls below a certain level.

It will be introduced for new claims from October 2013 and all existing claimants will be transferred gradually to the new system by 2017.

2.13 The impact on the LGPS is minimal as it is likely that the DWP will continue to request information as to the level of pension entitlements in payment for any scheme members claiming the benefit - due to its means tested status.

2.14 In addition, the new benefit will be used to inform the work undertaken by Audit Commission as part of the biennial National Fraud Initiative which is an exercise that matches electronic data within public bodies to prevent and detect fraud.

2.15 As the benefit will also contain allowances to pay for housing costs (currently a service provided by local authorities but due to transfer to the DWP), this will result in a substantial reduction of circa 400 active members contributing to the LGPS across the 5 district councils on a phased basis by 2017.

#### 2.16 **Auto-Enrolment**

The individual Staging dates under the auto-enrolment legislation of the five Merseyside district councils are as follows;

Wirral	1 March 2013
Liverpool	1 March 2013
Sefton	1 April 2013
Knowsley	1 April 2013
St Helens	1 May 2013

2.17 In conjunction with the Actuary, MPF has engaged with each district to provide an estimate of the budgetary implications in regard Auto-enrolment legislation and communicated the availability of an employing authority's discretion to invoke a Transitional Delay Period until October 2017.

Specifically, Section 3 of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2012 provide employers the option to delay enrolling existing eligible jobholders into the LGPS from their individual staging date until October 2017.

- 2.18 Each council has decided to exercise the transitional delay provision for existing employees but they must ensure all new employees engaged on or after staging who opt out of the scheme following contractual enrolment under the LGPS regulations are auto enrolled under the auspices of Workplace Pension Reform.
- 2.19 The Fund is supporting employers with any points of clarification with regard to their statutory responsibilities under the legislation and the interaction with the LGPS. It is currently collaborating with its major employers in changing its processes and forms to ensure employers meet the Pension Regulator's legislative, communication and reporting requirements.
- 2.20 Upon agreement and consultation of the changes required to operational procedures the Pension Administration Strategy will be updated and reported to Committee at a future date.

### **3.0 RELEVANT RISKS**

- 3.1 It is vital that the full regulatory framework of LGPS 2014 Regulations are timely, comprehensive, effective and clear to help ensure the continuing efficient administration of the LGPS to overcome the risk that they will be operationally cumbersome and fail to deliver the necessary change.

Delays to the consultation process present a greater risk that actuaries will be unable to build the required models to reflect the new benefit structure in time for the Triennial Valuation work.

- 3.2 There is a risk that due to the increasing complexity being built into the Scheme (as a consequence of the disparate benefit protections in relation to membership previously accrued) it will become challenging to persuade members of the relative merits of remaining in the Scheme which is fundamental to the ongoing funding of the LGPS.
- 3.3 The degree of complexity will increase costs for administrators at a time when there are massive pressures on public sector spending and will also fall on admitted bodies with limited ability to pay which may result in a number of these bodies exiting the scheme.
- 3.4 There is a risk that the complexities will make it impractical to get the systems in place to administer the new scheme requiring manual intervention to ensure continuity of effective service levels.

### **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.

It is important that MPF responds to the statutory consultations that will lead to revised regulations and a reformed LGPS, particularly when relating to Governance, Cost Control and Administration, as it is crucial to ensure the scheme is well-run and affordable in the long term.

## **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 As the Statutory Consultation progresses and detail from the Draft Regulations appear and are clarified during calendar year 2013 – MPF needs to initiate a formal strategic change programme to overhaul current administration arrangements, resources and communications; in recognition of the fundamental change of introducing a Career Average benefit pension arrangement complete with ongoing protections to the pre-2014 Final Salary benefits.

7.2 The financial impact of the changes to the State Pension Scheme will add to the pressures on employers' budgets due to the increase in National Insurance contributions.

The new public service schemes were designed taking account of the existing provisions for the State Pension Scheme, in that it would remain a contracted-out arrangement. Any savings identified for employers on introducing the new LGPS may be outstripped by the increase in NI contributions

7.3 The increase in member NI contributions could impact on the ability of members on relatively low pay to participate in the scheme potentially affecting opt-out rates. This is despite the fact that the lower paid members could expect their total benefits from the State and LGPS to be higher.

7.4 The provisions for more frequent review of State Pension Age will also impact on the post 2014 LGPS, as the LGPS pension age and State Pension Age are to be linked going forward. If there are large rises in State Pension Age going forward, the new cost sharing arrangements could mean that the majority of any savings are recycled back into the scheme by way of increased benefits or reduced member contributions.

7.5 Employers will be required to change administrative arrangements and consider resource implications in communicating with its employees and providing information to the Fund to meet the new requirements and statutory responsibilities under auto-enrolment legislation

## **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?

The reforms to the LGPS and the State Pension have 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/S**

12.1 That Members note the report.

**13.0 REASON/S FOR RECOMMENDATION/S**

13.1 There is a requirement for Members of the Pension 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 submission to DCLG Consultation on Draft LGPS 2014 Regulations**

**REFERENCE MATERIAL**

**SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>The LGPS update is a standing item on the Pensions Committee agenda.</b>	