WIRRAL COUNCIL

PENSION COMMITTEE

15 NOVEMBER 2016

SUBJECT:	**LGPS UPDATE**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members of a number of impending reforms to the exit payments made to public sector employees; these will have a direct impact on the LGPS.

1.2 It also raises awareness of a government initiative to boost state pension entitlements for individuals who were "contracted out" of the additional state pension, whilst contributing to workplace pension arrangements; including public sector pension schemes.

2.0 BACKGROUND AND KEY ISSUES

2.1 Over the last twelve months, Members have been apprised at previous committee meetings of HM Treasury's intent to introduce reforms to public sector exit payments; specifically an overall £95,000 cap on compensation payments and recovery provisions for exit payments.

2.2 The statutory instruments introducing the legislation have been delayed and the government have provided the LGA with the following update as to the anticipated actions and timing to issue the legislation:

a/ Exit Cap

There will be a further consultation this autumn on regulations for the £95,000 exit payment cap; the regulations will therefore not be in force in October as originally planned. Thereafter, it is hoped that regulations will be published and in force early next year.

b/ Exit Payment Recovery

The recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year are expected to be published and in force this year, subject to being passed by both Houses of Parliament under the affirmative process.

Government response to the further consultation on exit payment reform

2.3 The government has recently responded to the further consultation on exit payments, confirming that it intends to proceed with plans to introduce a framework of upper limits on the main elements of exit compensation provision across the public sector workforce.

The aim of the new upper limits is to cut costs and provide greater consistency between public sector compensation schemes.

2.4.1 The framework for reform includes:

a/ a maximum tariff for calculating exit payments of three weeks' pay per year of service. Employers could apply tariff rates below these limits

b/ a ceiling of 15 months on the maximum number of months' salary that can be paid as a redundancy payment

c/ a maximum salary of £80,000 on which an exit payment can be based

d/ a taper on the amount of lump sum compensation an individual is entitled to receive as they get closer to their normal pension age

e/ action to limit or end employer-funded early access to pension as an exit term. As part of an overall package the government will consider proposals appropriate to each workforce, including action to:

f/ cap the amount of employer funded pension 'tops ups' to no more than the amount of the redundancy lump sum to which that individual would otherwise be entitled

- remove the ability of employers to make such top ups altogether, or offer greater flexibility to employers as to the circumstances in which they are available

- Increase the minimum age at which an employee is able to receive an employer funded pension top up, linking it more closely with the scheme's normal pension age.

Transitional arrangements

2.5 The government will consider the case for protection for those with exits formally agreed on terms that applied before new workforce exit compensation arrangements come into effect.

Timing

2.6 The government expects public sector departments to produce proposals by 26 December within the above framework, consult with Trade Unions, complete negotiations and make the necessary amendments to exit arrangements by 26 June 2017.

The government response can be accessed at the following link;

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/555304/reforms_to_public_sector_exit_payments_consultation_response.pdf

Government Scheme to boost State Pension

2.7 The reform of the state pension scheme for people attaining state retirement age from 6 April 2016 resulted in the introduction of a flat rate pension, with the requirement to having paid full-rate National Insurance Contributions (NICs) for 35 years to receive the full flat rate pension; which currently stands at £155.65 a week.

2.8 It is noteworthy that the vast majority of people, who contributed to a public sector pension prior to 6 April 2016, paid NICs at a lower rate because the Scheme was "contracted out of the state earnings-related pension scheme.

To reflect this, a large number of LGPS members will have a deduction made from their state pension – which means that most won't receive the full amount in respect of their period of contracted out service.

2.9 For members with gaps in their national insurance records who are not on track to receive the full state pension, there is the ability to pay heavily subsidised voluntary NICs to fill the gaps.

2.10 This is particularly relevant for many local government workers who are in receipt of their occupational pension before receiving their state pension; and who would not normally pay any further NICs before state pension age.

These members will be able to take advantage of the generous financial terms to receive a full flat rate state pension.

2.11 The cost of making these contributions varies depending on which tax year is being purchased and if the pension is calculated under the old or new system.

2.12 Although the terms are generous, as most pensioners receive a fixed income not everyone will welcome the idea of using today's cash to buy an income for later; particularly when they do not know how long they might live.

3.0 RELEVANT RISKS

3.1 There is a risk that the introduction of the exit cap and measures to limit employer funded pension top-ups, could potentially inhibit local authority workforce planning and an increase, within the sector, of compulsory redundancies as opposed to voluntary redundancy exercises.

3.2 Whilst the provisions to limit employer funded top ups are contained within statutory instruments, the anticipated implementation date of June 2017 will be a significant challenge for the Fund and participating employers.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 None associated with the subject matter.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report

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

8.1 The government scheme to boost state pension provides an attractive proposition for many former local government workers who are in receipt of their LGPS Benefits but who have not yet attained state pension age.

For example, a single year of contributions could be bought for a lump sum of around £733. This will boost someone's state pension entitlement by around £230 a year for the rest of their life. That £733 would generate an income of £4,600 over the course of a 20-year retirement. Someone who bought five "missing" years could receive an extra £23,000 for an outlay of less than £4,000.

8.2 The rules about entitlements to boost the state pension are complex and depend on whether your pension is built up under the old or new system. This will add further complexity in members evaluating their state pension forecast and the government subsidy of voluntary NICs will ultimately give rise to queries for all providers of pension arrangements.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report

10.0 EQUALITIES IMPLICATIONS

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

No, because Department of Communities and Local Government undertake equality impact assessments with regard to the statutory reform of the LGPS.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are none arising from this report

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report

13.0 RECOMMENDATION

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments as part of their decision making role.

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APPENDIX

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date
The LGPS update is a standing item on the Pensions Committee agenda.	