

 WARWICK DISTRICT COUNCIL	AGENDA ITEM NO.
Report Cover Sheet	
Name of Meeting:	Employment Committee
Date of Meeting:	11 th March 2008
Report Title:	Changes to Local Government Pension Scheme from 1 April 2008
Summary of report:	This report updates the Authority on the changes to the Local Government Pension Scheme (LGPS), which come into effect on 1st April 2008.
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Business Unit:	Finance
Would the recommended decision be contrary to the policy framework:	No
Would the recommended decision be contrary to the budgetary framework:	No
Wards of the District directly affected by this decision:	All
Key Decision?	No
Included within the Forward Plan?	No (If Yes, include reference number)
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No (If yes, include para number)
Date and name of meeting when issue was last considered and relevant minute number:	(If applicable)
Background Papers:	Pension Regulations

Consultation Undertaken		
Below is a table of the Council's regular consultees. However not all have to be consulted on every matter and if there was no obligation to consult with a specific consultee they will be marked as n/a.		
Consultees	Yes/ No	Who
Other Committees		
Ward Councillors		
Portfolio Holders		
Other Councillors		
Warwick District Council recognised Trades Unions	Yes	Andy Crump, Jackie Webb
Other Warwick District Council Service Areas		
Project partners		
Parish/Town Council		
Highways Authority		
Residents		
Citizens Panel		
Other consultees		
Officer Approval		
With regard to officer approval all reports must be approved by the report authors relevant director, Finance Services and Legal Services.		
Officer Approval	Date	Name
Relevant Director(s)	28/2/2008	Mike Snow (In absence of Mary Hawkins)
Chief Executive	28/2/2008	Chris Elliott
CMT	28/2/2008	
Section 151 Officer	28/2/2008	Mike Snow (In absence of Mary Hawkins)
Legal	28/2/2008	Simon Best
Finance	28/2/2008	Mike Snow/ Philip Morgan
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. RECOMMENDATIONS

- 1.1 That the Committee note the report.
- 1.2 That the Council agrees the pension contribution banding rates based on individuals' pensionable pay as at the 1st of April each year, with adjustments to bandings only made in the year in the event of significant grading changes.
- 1.3 That a review is undertaken at the end of 2008/09 to consider what problems have been encountered by adopting the policy in recommendation 1.2.

2. REASONS FOR THE RECOMMENDATIONS

- 2.1 To update the Authority on changes to the LGPS which come into effect on 1st April 2008.
- 2.2 To seek agreement to the contribution banding rates to the LGPS, based on individuals pensionable pay as at the 1st April each year.

3. CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) FROM 1 APRIL 2008

- 3.1 The changes to the LGPS are set out in regulations brought forward during 2007 to introduce these changes with effect from 1st April 2008, subject to some further drafting requirements. Despite these drafting refinements, it is important that the Authority take the necessary steps to ensure they are ready for the new scheme to be implemented on 1st April 2008.
- 3.2 There will be no choice under which members can opt to remain in the old scheme; the new scheme comes into force on 1 April 2008.
- 3.3 Under the amended scheme provisions, benefits related to scheme membership up to 31st March 2008 will be calculated under the old scheme rules. Benefits related to membership after that date will be calculated under the new scheme rules.
- 3.4 Appendix A shows a comparison of the rules and benefits provided relating to pre and post April 2008 scheme membership.
- 3.5 Some of the major features of note are:-
 - 1) The scheme remains a defined benefit, final salary scheme.
 - 2) From 1st April 2008 there will be 7 different percentage rates of member contributions, depending on the individual's level of pensionable pay. The basis for arriving at an individual's pensionable pay is discussed further at section 3 of this report.
 - 3) The employer's rate remains a single percentage, determined by actuarial valuation (13.5% 2008/09).

- 4) From 1st April 2008 the accrual rate for benefits changes from a '1/80th' base to a '1/60th' base.
- 5) There will no longer be an automatic lump sum. Instead there is provision for commutation of pension to give a lump sum at a conversion rate of 1:12 (e.g. £1 of pension commuted gives a lump sum of £12).
- 6) Ill health provision changes from a scale of benefits related solely to the individual's length of pensionable service, to a two tier system related to the individual's ability to undertake future gainful employment (however, a further amendment to this is currently being considered at national level which would provide a three tier system).
- 7) Lump sum death in service grant increases from twice pensionable pay to three times pensionable pay.

Overall these benefits from the new scheme are deemed to be slightly improved to those in the old scheme. Appendix A compares some of the notable changes.

4. CATEGORISATION OF MEMBERS INTO CONTRIBUTION RATE BANDINGS

4.1 Prior to the new scheme coming into effect on 1 April 2008, the Authority will need to determine the band and contribution rate for each scheme member. The bands are predetermined, but no definitive guidance has been issued on when the individual member's band and contribution rate will be reviewed and this is therefore open to each employer to decide. In arriving at this decision it is necessary to balance ease of operation on the one hand with the impact on the other of pension scheme triennial valuations. The main issues to be taken into consideration are where:-

- 1) A member's contract of employment changes representing a promotion or a move to a lower grade part way through the year.
- 2) A member receives an increment or pay award.

As well as the impact on the individuals and/or the scheme valuation there may also be HR issues where for example different individuals find themselves on the same pay but paying different contribution rates. However, the scheme needs to be easy to operate and understand.

4.2 After considering the issues it is recommended that on balance the approach should be to fix contribution rates a year in advance to give stability because the impact on the contributions to the LGPS will not be significantly affected. In the unlikely event that an individual moves significantly up or down the grading structure an individual's contribution banding rate would be reviewed, the decision of the Director of Community Resources would be final in this matter.

4.3 From 1st April 2008, individual member's rates of contribution to the LGPS will change and they will be determined in relation to their pensionable pay as set out in the following table. Employees will make contributions at one rate on all their pensionable pay, for example an individual earning say £29,000 would make contributions at 6.5% on all of their pay:

	£	Contribution Rate
1.	0-12,000	5.5%
2.	12,001-14,000	5.8%
3.	14,001-18,000	5.9%
4.	18,000-30,000	6.5%
5.	30,001-40,000	6.8%
6.	40,001-75,000	7.2%
7.	>75,000	7.5%

- 4.4 For part time members the full-time equivalent pensionable pay is to be used to determine the member's pay banding and rate of contribution.
- 4.5 For members with multiple employments each employment will be assessed separately for the purpose of determining the band and contribution rate.

5. PAYROLL IMPLICATIONS

- 5.1 The system of operating a tiered member contribution rate, as discussed in section 4, creates additional, on-going requirements. The payroll software operated via Warwickshire County Council is currently being amended to accommodate the changes required from the new scheme. If in year changes are to be agreed routinely, this would be administratively burdensome and costly.

6. CONSULTATION & COMMUNICATION

- 6.1 Regulations which were brought forward in this report are the result of two separate consultation exercises, one held in 2004 and one in 2006. Individual LGPS Administrators, Admitted Bodies, Staff Associations and ACPO amongst others contributed to the consultation exercise.
- 6.2 This report and the recommendation have been considered by Unison and MPO. Both have no objections to the report and are happy to support the recommendations.
- 6.3 Individual scheme members will need to be notified of their pay band and rate of contribution before 1st April 2008 and on each occasion that their banding changes thereafter.
- 6.4 The LGPS Administrator will need to be informed of individual contribution rates and change rates when they take place.
- 6.5 The LGPS Administrator has produced posters to be displayed in Council buildings and a newsletter to be sent to Individual scheme members. This has also been displayed on the Council's intranet.

7. ALTERNATIVE OPTION(S) CONSIDERED

7.1 The new scheme Regulations are likely to say that, once allocated, an employer can reallocate an employee to a new band following a material change in their pay. It seems that an employer could, therefore, reattribute

- a) once a year
- b) upon a contractual change
- c) whenever pay changes

provided that the decision to reallocate is reasonable.

Each option has a number of pros and cons.

7.2 Under option (a) the bands would be reassessed, say, at the beginning of each April. The advantages of this approach are:

- i) it is the simplest approach from a payroll perspective
- ii) if reassessed at the beginning of the financial year there would be no need to split pay bands and contributions on the end of year return to the Pension Fund administering authority.

The disadvantages of option (a) are:

- i) if a person's pay, because of a backdated pay award, a regrading, increment, etc. increases during the year and the increase would have taken them into a new band, the person will not be allocated to that new band, paying the higher contribution rate, until the following April. Overall, the contribution "take" from employees would be marginally less than would have been the case if the bands were reassessed whenever there is a pay change. However, it is likely that it would be many years before this would have an impact on the employer's contribution rate
- ii) if a person's pay decreases (e.g. as a result of a downgrading, be that voluntary or otherwise) and the decrease would have taken them into a lower band, the person will not be allocated to that new band, paying the lower contribution rate, until the following April. Persuading an employee in this situation that they should continue for the remainder of the year to pay at the higher rate might be difficult
- iii) if the reassessment is undertaken once a year, but the date chosen to do this is not April (i.e. the beginning of the financial year), it would be necessary to split pay bands and contributions on the end of year return to the Pension Fund administering authority.

7.3 The advantages and disadvantages of option (b) are:

Advantages

- i) it will only be necessary to look at reallocating to a new a band as and when there is a contractual change for an individual member of staff
- ii) employees will be put into the correct band as and when there is a contractual change. This will mean that the employer will be getting the higher level of contribution from those whose pay goes up, and can reallocate where appropriate to a lower band where pay goes down, rather than delaying until, say, the following April.

Disadvantages

- i) it is not the simplest approach for payroll
- ii) it will be necessary to split pay bands and contributions on the end of year return to the Pension Fund administering authority
- iii) it will be necessary for the employer to define what is meant by a “contractual change”
- iv) the contribution take from employees might diminish over the years. For example, an employee’s pay could increase every year by way of increments and pay rises and these might eventually have merited being placed in a higher band, but if (due to the definition used by the employer) there had been no “contractual change”, it would not be possible to move that employee into the higher band.

7.4 The advantages and disadvantages of option (c) are:

Advantages

- i) employees will be put into the correct band as and when there is a change in pay. This will mean that the employer will be getting the higher level of contribution from those whose pay goes up, and can reallocate where appropriate to a lower band where pay goes down, rather than delaying until, say, the following April.

Disadvantages

- i) it is not the simplest approach for payroll
- ii) it will be necessary to split pay bands and contributions on the end of year return to the Pension Fund administering authority
- iii) also, if a person is reattributed to a new pay band on account of a retrospective pay award or regrading, etc, whilst the contributions on the arrears and on the pay from then on will be at the new rate, the employer will need to determine whether arrears of contributions should be collected on the pay already received (being the difference between the contribution rate the employee paid contributions at and the rate they should have paid contributions at if the pay award / regrading had been agreed at the correct time rather than being retrospective).

8. BUDGETARY FRAMEWORK

- 8.1 Member's contribution rates to the LGPS do not directly affect the Council's budget position. However, any shortfall (or surplus) on the pension fund will impact upon the Council's employer contribution rate.
- 8.2 Currently members pay approaching £700,000 of contributions into the LGPS. Under the changes to member's bandings and contribution rates, member's of the LGPS contributions are expected to generate additional income to the fund. The proposal set out in para 7.2 will not maximise the member contributions to the LGPS. It is not possible to easily calculate this potential loss, however, it is not believed that it will be significant compared to the administrative costs of adopting alternative approaches in para 7.3 and 7.4.

9. POLICY FRAMEWORK

- 9.1 The proposals are consistent with existing policies and strategies.

Mike Snow
Head of Finance

Appendix A Local Government Pension Scheme – Key features pre/post 1 April 2008

		Service to 31/3/08	Service from 1/4/08		
1.	Type of Scheme	Final Salary	Final Salary		
2.	Members Covered	All	All		
3.	Normal Retiring Age (NRA)	65 With rule of 85 protected for service to 31/3/08	65 Rule of 85 removed for future service from 1/4/08, subject to transitional protections. Transitional protections: Date of birth (DOB) before 1/4/56: Rule of 85 stays for service up to 1/4/16 DOB 1/4/56 to 30/6/60: Those who satisfy Rule of 85 will be subject to lower reductions on early retirement (sliding scale by DOB).		
4.	Pensionable Pay (PP)	Normal salary plus any other payments or benefits specified as pensionable	Normal salary plus any other payments or benefits specified as pensionable.		
5.	Averaging period for Determining Final Pensionable Pay (FPP)	Generally PP in last year. Better of prior 2 years used if higher	Best year's PP in last 3 years Or on reduction in responsibility members may elect for 'revalued' average of best 3 consecutive years salary in the last 10 years (to each 31/3) of service if better. (Revalued in line with RPI).		
6.	Member's Contributions	6%	Tiered contributions.		
		5% manual workers in scheme before 31/3/98	Ban d	Range £	Contribution rate
			1	012,000	5.5%
			2	12,001-14,000	5.8%
			3	14,001-18,000	5.9%
			4	18,000-30,000	6.5%
			5	30,001-40,000	6.8%
			6	40,001-75,000	7.2%
			7	>75,000	7.5%
			For members currently paying lower rate of 5%:		
			Year Commenci ng	Contribution Rate %	
			1 April 2008	5.25	

		Service to 31/3/08	Service from 1/4/08	
			1 April 2009	5.5
			1 April 2010	6.5
			1 April 2011	As shown in the main bandings
			Bands to increase annually with RPI.	
7.	Normal Retirement Pension to Member Lump Sum Spouse's Pension	1/80 3/80 Plus increased lump sum by commutation £12 : £1 1/160 No service maximum	1/60 By commutation: Single factor £12 : £1 1/160 No service maximum	
8.	Pension Increases	RPI	RPI	
9.	Ill Health Retirement	Single tier – payable after minimum 3 months service Permanently unable to do own/comparable job Unreduced pension Service enhanced 2 to 5 – accrued 5 to 10 – service doubled 10 to 13 1/3 – Service enhanced to 20 years Over 13 1/3 – additional 6 2/3 Subject in all cases to maximum enhancement of potential service to 65	2 tier Lower – unable to undertake gainful employment on cessation, but likely to do so before NRA. Unreduced, service enhanced by 25% of prospective service to NRA with transitional protection of old entitlements for members over 45 at 1/4/2008 in some circumstances. Higher – unable to undertake any employment. Unreduced, service enhanced by full prospective service up to the age of 65. (part timers get proportionate enhancements)	
10	Dependant's Pension on Death in Service (payable to dependants as defined in 15 below)	If service over 3 months 50% x ill health pension Otherwise 1/160 x accrued service	1/160 x full prospective service	
11	Spouse's Short Term Pension Death in Service Death after Retirement	3 months x salary (6 months if dependant children) 3 months x member's pension (6 months if dependant children)	None from 1/4/08	
12	Lump Sum Death Benefits Death in Service Death after Retirement	2 x Pensionable Pay 5 year guarantee less pension already received (for death before age 75)	3 x Pensionable Pay 10 year guarantee less pension already received (for death before age 75)	

		Service to 31/3/08	Service from 1/4/08
13	Children's Pensions	25% x Notional pension* for maximum of 2 children Orphans 33% x Notional pension * per child for maximum of 2 children * For death in service the notional pension is the ill health pension or a pension based on the lesser of 10 years and full service to 65 where this is higher. For deaths after leaving or retirement % generally based on member's entitlement at death	If dependant pension payable 1 child – 50% x dependant's pensions >1 child – (100% x dependant's / no children) to each child If no dependant pension payable 1 child – 2/3% x dependant's pensions >1 child – (1 1/3% x dependant's / no children) to each child NB for DIS full prospective service taken into account in calculating dependant's pension
14	'Dependants' provision	Widow(er)s Registered civil partners	Widow(er)s Registered civil partners Nominated cohabiting partners - declaration signed by both parties - financial dependence or interdependence - cohabiting as husband/wife or civil partners for over 2 years - free to marry or enter civil partnership
15	Cessation on remarriage	No if the member was in active service on or after 1/4/98. Yes if the member left or retired before this date.	No
16	Withdrawal Benefits on Leaving At least 3 months Total Reckonable Service Preserved Benefits Increases before Retirement Death before Retirement	1/80 payable from NRA + 3/80 LS +1/160 dependant's benefit RPI 1/160 + 3/80 LS	1/60 payable from NRA (LS by commutation) + 1/160 dependant's benefit RPI 1/160 * service + 5 x pension
	Transfer Value	Yes	Yes
	Less than 3 months Total Reckonable Service	Refund of contributions or transfer value	Refund of contributions or transfer value