

 Finance and Audit Scrutiny Committee 25th August 2009		Agenda Item No.
Title	Local Government Pension Scheme Update	
For further information about this report please contact	Philip Morgan/ Mike Snow	
Service Area	Finance	
Wards of the District directly affected	None	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number	Employment Committee 11 th March 2008 minute number 938	
Background Papers		

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No

Officer/Councillor Approval		
With regard to officer approval all reports <u>must</u> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	10 August 2009	A Jones
Chief Executive		
CMT		
Section 151 Officer	7 August 2009	Mike Snow
Legal	10 August 2009	Peter Oliver
Finance	7 August 2009	Mike Snow
Portfolio Holder(s)		
Consultation Undertaken		
Please insert details of any consultation undertaken with regard to this report.		
None		
Final Decision?		No
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 Members have requested information regarding the Local Government Pension Scheme (LGPS). This report provides an update on the scheme to aid members understanding of the benefits and issues relating thereto.

2. RECOMMENDATION

- 2.1 That this report be noted.

3. REASONS FOR THE RECOMMENDATION

- 3.1 The LGPS was changed in 2008 and details concerning the scheme and its possible future developments are contained within the report.

4. ALTERNATIVE OPTION CONSIDERED

- 4.1 No alternatives were considered.

5. BUDGETARY FRAMEWORK

- 5.1 In 2008/09 the Council contributed £1,566,000 to the pension fund with employees contributing a further £776,000. Further increases in contributions have been included within the Council's financial projections in accordance with expected increases in contribution rates.

6. POLICY FRAMEWORK

- 6.1 The Local Government Pension Scheme (LGPS), is a statutory, public service, funded, occupational pension scheme which provides guaranteed pension benefits to local authority employees.

The Scheme's local administering authority is Warwickshire County Council who pay the benefits and manage its pension funds within the terms set out in secondary legislation made under the Superannuation Act 1972. A prudential regulatory framework provides Scheme pension fund administering authorities with all the necessary powers to manage and invest their pension funds. Investment income generated, as well as the operating and other costs incurred, is the responsibility of the appropriate LGPS administering authority; any surplus is available to reduce employers' liabilities and to re-invest in accordance with the authority's investment strategy.

7. BACKGROUND

- 7.1 On 1st April 2008 a new pension scheme was introduced which replaced the old scheme.

Some of the major features to note were:-

- 1) The scheme remained a defined benefit, final salary scheme.

2) From 1 April 2008 there would be 7 different percentage rates of member contributions, depending on the individual's level of pensionable pay.

3) The employer's rate would remain a single percentage, determined by actuarial valuation (13.5% 2008/09).

4) From 1 April 2008 the accrual rate for benefits was to be changed from a '1/80th' base to a '1/60th' base. This means for each year of employment, an employee is now entitled to 1/60th of their final salary as a pension.

5) There would no longer be an automatic lump sum. Previously, on retirement employees were entitled to a lump sum of 3/80th of their final salary for each year's employment. Instead there is now 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 changed 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 was 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 the benefits from the new scheme were deemed to be slightly improved to those in the old scheme. Benefits previously accrued under the old scheme have been protected, with there being transitional arrangements in appropriate cases. Appendix A to the report compared some of the notable changes.

7.2 Contributions by employees

Employees under the old scheme used to contribute 6% of their salary to the scheme on a "pay as you go basis". Employees currently contribute between 5.5% and 7.5% of their pay on a set tariff which yields about 6.4% of total payroll.

Table 1 – Band Range of Pensionable Pay from 1 April 2009		
	£	Contribution Rate
1.	0-12,600	5.5%
2.	12,601-14,700	5.8%
3.	14,701-18,900	5.9%
4.	18,901-31,500	6.5%
5.	31,501-42,000	6.8%
6.	42,001-78,700	7.2%
7.	>78,700	7.5%

These bands are updated on an annual basis.

7.3 Employers' contributions

- 7.3.1 Employers' contributions have been fixed until 31 March 2011, are will be adjusted following the triennial valuation of individual LGPS pension funds as at 31 March 2010. Each individual pension fund authority is required to set an employers' level of contribution to ensure its fund is solvent and able to meet its existing and future liabilities.
- 7.3.2 The Fund is currently in year two of the three year cycle with the next triennial valuation based on scheme information at 31 March 2010 with employer contribution rates changing from 1 April 2011.

Current rates for WDC are:

1 April 2008	13.5%
1 April 2009	14.2%
1 April 2010	14.8%

The objective of setting these increased contribution rates is to ensure a deficit recovery period of 22 years. Over that period the intention is that the scheme will have accrued enough assets to meet all of its liabilities.

The current economic situation means that it is inevitable that the next valuation will see a further increase in employer contribution rates but these rates will not be available until November 2010 at the earliest.

- 7.3.3 In 2008 the new scheme changed so as to go some way to addressing the problem of the scheme cost with the introduction of a standard retirement age of 65 for members and the banding of contributions to achieve an average contribution of 6.3% for members in place of the previous 6%. Also, the ability for members retiring to take a higher lump sum at retirement and receive a reduced pension is a further cost saving.

7.4 The Benefits

- 7.4.1 The scheme remains a defined benefit, final salary scheme. The LGPS provides inflation-linked pension benefits based on a member's final salary at retirement and has some 3.7 million members. Stewardship, policy and regulatory responsibilities for the Scheme in England and Wales rest with the Secretary of State for Communities and Local Government.
- 7.4.2 A major Scheme reform saw the introduction from 1 April 2008 of a new-look LGPS including revised benefit terms. The Scheme's accrual rate was improved from 1/80ths to 1/60ths with the normal retirement age of 65 years being retained and new ill health provisions and other benefit adjustments within a fixed, agreed cost-envelope.
- 7.4.3 Average WDC pension paid is £105 per week; this is consistent with the national average for LGPS pensions.
- 7.4.4 Retirement Grants paid in the year ending 31 March 2009 totalled £774,000
- 7.4.5 Average age at retirement for the Warwickshire Fund this is 60.25 years

7.5 Funding of the Scheme

The LGPS is a funded scheme unlike many other public sector pension schemes such as the NHS and the Civil Service which are “pay-as-you-go”.

The Scheme was 86% funded at the last valuation. The fund value was £850,400,000 at 30 June 2009. The National Local Authority average is 83%.

7.6 Investment performance

Investment performance compared with Local Authority Average.

Year	Return %	Average LA Return %
2008/09	-18.2	-19.9
2007/08	-1.6	-2.8
2006/07	5.3	6.7
2005/06	26.3	25.7
2004/05	9.7	11.7

Hence in the last five years the fund has beaten the LA average in three out of the five years.

7.7 Future Developments

- 7.7.1 The first legal steps are now in place for the possible future sharing of the cost of the scheme between employees and employers. The introduction of the Local Government Pension Scheme (Amendment) Regulations 2009 saw the introduction of the legal framework for future cost sharing of the scheme between employers and employees. Each fund administrator is required to supply valuation data to the Secretary of State by 31 August 2010 and every three years thereafter. The Government Actuaries Department (GAD) will then use this information to have a national model fund valuation to determine if employee contribution rates should be increased to share the cost of the scheme with the employer more equitably in accordance with agreed and prescribed criteria as to how the ongoing cost of the scheme may be shared.

The actual mechanics of how it will be determined if employee rates are to be amended are still being discussed by Government and stakeholders.

- 7.7.2 These regulations also saw the introduction of a ceiling for employers' contribution rates not to exceed 14% on future accrual. However, employer contribution rates will still have to reflect accrued deficits and therefore can still be higher than 14%. The legal framework introduces greater cost share from the 31 March 2013 valuation and this will affect rates from 1 April 2014.

In the political environment this may not be the only way of reducing the cost of the fund. Although the current government supports the LGPS as a final salary pension scheme that is not to say the scheme will not fundamentally change again in the near future. Once again, there is talk of moving the LGPS from final salary to a Career Average Scheme and there is also talk of a further move in the retirement age.