WARWICK DISTRICT COUNCIL	**Executive 14 December 2011**	**Agenda Item No. 5**

Title	Local Government Pension Scheme Consultation
For further information about this report please contact	Mike Snow Mike.snow@warwickdc.gov.uk
Wards of the District directly affected	N/A
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	
Date and meeting when issue was last considered and relevant minute number	Finance and Audit Scrutiny committee July 2009
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
Equality & Sustainability Impact Assessment Undertaken	Yes/No (If No state why below)

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive	15/11/11	Chris Elliott
Head of Service		
CMT	15/11/11	
Section 151 Officer	1/12/11	Mike Snow
Monitoring Officer	15/11/11	Andrew Jones
Finance		Report from Finance
Portfolio Holder(s)	1/12/11	Andrew Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report. HR Officers		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. **SUMMARY**

1.1 This report updates members on proposals to change the Local Government Pension Scheme (LGPS) and invites any comments to be included to the response to the consultation.

2. **RECOMMENDATION**

2.1 That members note the current position on the Local Government Pension Scheme.

2.2 That members consider the Pension Scheme consultation paper and agree the proposed response to the consultation.

3. **REASONS FOR THE RECOMMENDATION**

3.1 Summarised details of the current Local Government Pension Scheme are set out within paragraphs 5.1 and 7.1 below.

3.2 The consultation paper on proposed reforms to the Local Government Pension scheme was published on 12 October 2011. This includes proposals intended to be implemented from 1 April 2012. The closing date for responses is 6 January 2012. A copy of the consultation paper is attached as an Appendix to this report. The main proposals are discussed in paragraphs 7.2 onwards.

3.3 A draft response to the consultation paper is attached as Appendix 2.

4. **POLICY FRAMEWORK**

4.1 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.

5. **BUDGETARY FRAMEWORK**

5.1 Under the current arrangements the Council is estimated to make pension fund contributions in 2012/13 of £1,950,000 (General Fund and Housing Revenue Account). In addition, contributions from employees of £734,000 are expected. Within the Council's Medium Term Financial Strategy, pension costs for the General Fund are estimated to increase by £235,000 over the period 2013/14 to 2016/17. This reflects the employers' contribution rate being increased from 15.4% over a phased period to 18.2%, the anticipated long term contribution rate.

5.2 Under the proposals the employees contributions should increase, with there being reduced contributions from the Council in future years. The increased employee superannuation contributions proposed will share the cost of future pensions more evenly between employees and employers (local authorities) overall. In theory the Council would have to contribute less to the pension scheme in future years under the proposals. However, with the pension fund still not being fully funded, the actuaries are expected to advise local authorities to retain their current funding contribution levels.

5.3 In addition, there is a risk that local authorities may see some reduction in the Revenue Support Grant to compensate for the theoretical contribution savings. However, the Government has given a commitment that the funding will be retained locally

5.4 Taking into account the above, the proposals are not expected to impact upon the Council's Medium Term Financial projections.

5.5 The Consultation relates to achieving savings nationally on £900m by 2014/15. Further changes are expected to the pension scheme in line with the Hutton Report and subsequent announcements which may change contribution rates and accrual rates in future years.

6. ALTERNATIVE OPTION(S) CONSIDERED

6.1 Members may choose not to respond to the consultation, or to make alternative proposals.

6.2 Local Government Group, representing employers, submitted their proposals to make the savings requested by the Government. These consist of an increase to the normal pension age to 66, and a member choice of an increased contribution rate or change in the scheme's accrual rate. Full details of these proposals are included within the consultation paper at Annex B and related costings are at Annex C.

7. BACKGROUND

7.1 Current Scheme

7.1.1 The Local Government Pension Scheme is a defined benefit, final salary scheme. The LGPS provides inflation-linked pension benefits based on an employee'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.

7.1.2 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. Alongside the improved accrual rate, the "lump sum" payment on retirement ceased.

7.1.3 From 1 April 2008, employee contribution rates were increased as set out below:-

£0 - £12,600	5.5%
£12,601 - £14,700	5.8%
£14,701 - £18,900	5.9%
£18,901 - £31,500	6.5%
£31,501 - £42,000	6.8%
£42,001 - £78,700	7.2%
£78,701 +	7.5%

7.1.4 The employer contribution rate paid by the Council at present is 15.4% and will increase on a phased basis to 18.2% by 2016/17. The Normal Future Service Rate is 12.7%, with 5.5% being the Past Service Adjustment. This latter element is to meet the pension fund deficit, whilst the former is to meet the cost of pension fund liabilities accruing from current service.

7.1.5 The Local Government Pension Scheme is one of the few funded public sector pension schemes. Superannuation authorities (Warwickshire County Council being responsible for the District Council's pension fund) manage the contributions for employees and employers. These are invested and called upon in future years to meet future pension fund liabilities. Whilst there is a pension fund liability, that is, there are insufficient funds to meet the committed liabilities to date, employer contribution rates have been increased in recent years so that in due course the resources invested will meet the commitments. The scheme actuaries have agreed further future increased employer contribution rates to ensure this, with rates being reviewed as part of the triennial scheme reviews. The Warwickshire scheme is one of the better funded. At the last valuation in March 2010 the Scheme was around 90% funded and was valued at £1.05bn The National Local Authority average is 83%. In June 2011 the fund was valued at £1.2bn.

7.2 In June 2010 the Government commissioned former Work and Pensions Secretary, Lord Hutton, to chair the Independent Public Service Pensions Commission's review into the long term future of public service pensions. In his final report Lord Hutton set out his recommendations on how these can be made sustainable and affordable in the long-term, whilst at the same time being fair to both public sector workers and the taxpayer. Lord Hutton concluded that reform was needed.

The Government accepted his recommendations as a basis for consultation with public sector workers, trade unions and other interested parties about the need for long term reform. The Government intends to introduce changes from 2015 and has confirmed that all pension benefits earned up that point will be protected. The reforms are intended to ensure that all public service pensions, including the LGPS, will continue to be amongst the best pensions available.

The Government targeted savings of £2.8bn a year from unfunded public sector pensions by 2014/15 within the Spending review. This is equivalent to an increase in employee contributions of 3.2% of salaries

- In unfunded public sector pension schemes increasing employee contributions is the only way that immediate savings can be made

- The corresponding amount to be saved by 2014/15 in the LGPS in England & Wales is £900m

7.3 Parameters for member contribution increases

The Government believes that any proposed increases in contribution rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions.

These parameters, outlined below, are reflected in the tariffs being proposed in the consultation document. All references are to full time equivalent salaries:

- there should be no increase in employee contributions for those earning less than £15,000

- there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis; and

- high earners in the LGPS should pay progressively more than those in lower salary bands

7.4 The Government proposes to achieve the required savings of £900m by 2014-15 from a combination of a proportionate increase in the rate of contribution paid by scheme members and a change in the rate at which scheme benefits are accrued. This is the subject of the current Consultation. Two options to achieve this aim are proposed for consideration:-

7.4.1 Option 1 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements:

i) Increases in the employees' contribution tariff from April 2012, to raise an additional £450m (1.5 per cent of pensionable paybill) as shown below:-

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

ii) A change in the scheme's accrual rate from April 2013, to raise an additional £450m (1.5 per cent of pensionable paybill). The accrual rate would reduce from the current 1/60th to 1/64th from April 2013 and further to 1/65th from April 2014.

Using a future accrual rate of 1/65th would amount to a reduction in pension of 7.7% over the current 1/60th.

7.4.2 Option 2 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements. It differs from Option 1 due to a lower contribution rate increase which is offset by a greater reduction in the accrual rate:

i) Increases in employees' contribution tariff from April 2012, to raise an additional £300m (1 per cent of pensionable paybill) as shown below:-

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

ii) A change in scheme's accrual rate from April 2014 to 1/67th, to raise an additional £600m (2 per cent of pensionable paybill).

Using a future accrual rate of 1/67th would amount to a reduction in pension of 10.45% over the current 1/60th.

7.4.3 Option 1 presents higher employee contribution rates, with higher pension accrual rate (leading to slightly higher pensions than option 2). Option 2 does not present such high contribution rates, but has a lower accrual rate (leading to lower future pensions). The consultation paper includes details of the increased contributions for individuals, along with changes to the pension accruals.

7.4.4 Contributions by employees are tax deductable however in 2014/15 the additional net cost for an employee under the proposals are estimated as per the table below.

Full-time pay	Option 1 Additional cost (£ per month)	Option 2 Additional cost (£ per month)
£10,000	0	0
£25,000	30	17
£40,000	51	37
£80,000	112	92

7.5 Normal Pension Age.
The normal pension age for the current scheme is currently being 65. Whilst the current Consultation is not proposing changes to this in the short term, the

Hutton Report did suggest that the pension age for public sector schemes should be linked to the State Pension Age.

7.7 The current proposals will mean employers should be able to reduce their contributions, with these being made up by the proposed increased contributions from employees. However, the current regulations do not allow for a downward revision of employer contribution rates between three yearly actuarial revaluations. This would mean rates could not be reduced for employers until April 2014. An amendment to the legislation would be required to enable rates to be revised from April 2012.

7.8 The Government invites consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following questions:

Question 1 – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

Question 2 – Are there any consequences or aspects of the proposals that have not been fully addressed?

Question 3 – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

Question 4 - Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

Question 5 - Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

7.9 Whilst the consultation is concerned with package of measures to secure short term savings by 2014/15, further changes to the Local Government Pension Scheme are expected from 2015/16 as a result of the Hutton recommendations. Details of this are due out following CLG submitting their headline proposals to the Treasury by the end of October 2011. These further changes are expected to include:-

- The treasury's preferred design for all schemes remains a Career Average Revalued Earnings scheme(CARE) where the pay used to calculate pension is an average of pay earned by an individual over their membership of the scheme. The treasury is proposing that the earnings should be revalued in line with average earning increases up to retirement. This is different to the current Final Salary schemes where the pay used to calculate the pension is based on earnings near retirement.

- Whilst the current Consultation proposes a lower accrual rate than the current $1/60^{th}$, the Government revised offer on 2 November 2011 for all public sector pensions, included an accrual rate of $1/60^{th}$.

- Contribution rates are still expected to increase by an average of 3.2%.

7.10 With the changes currently proposed to make short term savings of £900m by 2014/15, and further changes expected from 2015/16, the Local Government Pension scheme will become extremely complex.