CYNGOR SIR *POWYS* COUNTY COUNCIL.

Pensions and Investment Committee
24th November 2011

REPORT BY: Head of Finance

SUBJECT: Proposed LGPS Amendments - Consultation

REPORT FOR: Decision

1 Introduction

1.1 On 7th October 2011 CLG issued, for consultation, a paper proposing increases to employee contribution rates and changes to scheme accrual rates, to be effective from 1st April 2012. Comments are required to be submitted by 6th January 2012.

1.2 It is proposed that amendments be made to the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 ("the Benefits Regulations") and the Local Government Pension Scheme (Administration) Regulations 2008 ("the Admin Regulations").

1.3 The proposals seek to achieve short term savings within the LGPS of £900M by 2014/15. The consultation paper sets out 3 options for consideration, which are detailed below and also invites alternative proposals.

2. Option 1

2.1 This option comprises two separate elements:.

a) an increase in the employees' contribution tariff from 1st April 2012, to raise £450M of savings (1.5% of pensionable paybill), and

b) a change in the Scheme's accrual rate from 1st April 2013 to raise a further £450M.

2.2 An example of this approaches impact on employee contribution rates is illustrated in the following table:

Tariff Band	2011/12	2012/13	2013/14	2014/15
£0 - £12,900	5.5%	5.5%	5.5%	5.5%
£12,901 - £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 - £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 - £21,000	6.5%	6.7%	7.2%	7.7%
£21,001 - £32,400	6.5%	7.2%	8.0%	8.3%
£32,401 - £43,300	6.8%	7.5%	8.3%	8.7%
£43,301 - £60,000	7.2%	8.2%	8.7%	9.0%
£60,001 - £81,100	7.2%	8.7%	9.2%	10.0%
£81,101 - £100,000	7.5%	9.0%	9.8%	11.0%
£100,001 - £150,000	7.5%	9.5%	11.0%	12.0%
£150,000 +	7.5%	10.0%	12.0%	12.5%

2.3 If the above table was adopted, the balance of £450M savings would be achieved by amending the Scheme accrual rate from the current 1/60th to 1/64th from 1st April 2013 and 1/65th from 1st April 2014. The impact on benefits of such a change is illustrated below:

Final Pensionable Pay	1 year of service		
	1/60th	1/64th	1/65th
£10,000	£167	£156	£154
£25,000	£417	£391	£385
£40,000	£667	£625	£615
£80,000	£1,333	£1,250	£1,231

2.4 The implementation of this option poses certain administrative problems, principally that of effective communication. Ensuring that Scheme members understand fully the implications of two changes to the accrual rate would be a challenge. In addition, such changes will impose further administrative burdens on pension administrators. Moreover, the increases in contributions for the higher paid are significant and may lead to higher than usual rates of opting out.

3. **Option 2**

3.1 A variation on Option 1 involving lower tariff increases, but offset by greater changes to the accrual rate, or vice versa. An example comprising two separate elements is:

a) an increase in the employees’ contribution tariff from 1st April 2012, to raise £300M (1% of pensionable paybill), and

b) a change to the Scheme’s accrual rate from 1st April 2014 to raise a further £600M.

3.2 An example of this approaches impact on employee contribution rates is illustrated in the following table:

Tariff Band	2011/12	2012/13	2013/14	2014/15
£0 - £12,900	5.5%	5.5%	5.5%	5.5%
£12,901 - £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 - £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 - £21,000	6.5%	6.5%	6.8%	6.8%
£21,001 - £32,400	6.5%	6.8%	7.2%	7.5%
£32,401 - £43,300	6.8%	7.1%	7.8%	8,2%
£43,301 - £60,000	7.2%	7.8%	8.4%	8.8%
£60,001 - £81,100	7.2%	8.7%	8.8%	9.5%
£81,101 - £100,000	7.5%	9.0%	9.8%	10.5%
£100,001 - £150,000	7.5%	9.3%	10.8%	11.5%
£150,000 +	7.5%	9.5%	11.8%	12.5%

3.3 If the above table was adopted, the balance of £600M savings would be achieved by amending the Scheme accrual rate from the current 1/60th to 1/67th from 1st April 2014. The impact on benefits of such a change is illustrated below:

Final Pensionable Pay	I year of service	
	1/60th	1/67h
£10,000	£167	£149
£25,000	£417	£373
£40,000	£667	£597
£80,000	£1,333	£1,194

3.4 In comparison to Option 1, this approach poses less problems in communication since it involves only one change to the accrual rate. However, contribution rate increases for the higher paid are still significant and therefore risk high levels of opt out.

4. **Option 3**

4.1 This proposal was submitted to CLG by the Local Government Group and is included in the consultation document.

4.2 This approach comprises of three elements and suggests the possibility of mixing them in various ways:

a) increasing normal retirement age by one year to 66, producing savings of £300M, and

b) increasing employees' contribution tariff, and/or

c) changing the Scheme accrual rate, based on choices made available to each Scheme member.

4.3 Assuming that £300M is saved by increasing normal retirement age to 66, the following table shows how further savings of £600M can be made by increasing the employees' contribution tariff whilst retaining the current accrual rate of 1/60th. The 'flat' increase applies an increase to employee contribution rates of 2.1 percentage points; the 'uplift' increase applies increases at the proportionate rate of 32.2%; and, the 'steeper' increase ensures protection for all those earning less than £21,000 at the expense of those earning more.

Tariff Band	Current	flat	uplift	steeper
£0 - £12,600	5.5%	5.5%	5.5%	5.5%
£12,601 - £14,700	5.8%	5.8%	5.8%	5.8%
£14,701 - £18,900	5.9%	8.0%	7.8%	7.4%
£18,901 - £21,000	6.5%	8.6%	8.6%	8.0%
£21,001 - £24,000	6.5%	8.6%	8.6%	8.5%
£24,001 - £31,500	6.5%	8.6%	8.6%	9.0%
£31,501 - £42,000	6.8%	8.9%	9.0%	9.3%
£42,001 - £78,700	7.2%	9.3%	9.5%	9.7%
£78,700 +	7.5%	9.6%	9.9%	10.0%

4.4 An accrual rate change to 1/67th will, without increasing contribution rates and assuming that normal retirement age is raised to 66, produce the necessary savings.

4.5 This approach acknowledges that there are an infinite number of possible combinations of changes that can be made to make the required savings. However, giving Scheme members a choice between higher contributions and a better accrual rate on the one hand, and lower contributions with a reduced accrual rate on the other, seems unnecessarily complicated. Again, this would cause particular communication issues for administrators and result in a 'two-tier' scheme.

5. **Issues to be Considered**

5.1 The Government have made it clear that the objectives of this exercise are to:

a) make savings within the LGPS of £900M per year by 2014/15

b) protect those earning less than £15,000 per year from any contribution rate increases

c) protect those earning between £15,000 and £21,000 from excessive contribution rate increases (to be capped across the public sector to increases of no more than 1.5 percentage points)

d) to protect the future benefits of those aged 55 and over who are in the Scheme prior to 1st April 2012

e) to avoid significant numbers of opt outs

5.2 In addition, the ramifications of the Hutton Report should also be considered in order to avoid the need for further significant scheme changes in the near future. The principal recommendations of the Hutton Report to be considered within this context are:

a) alignment of scheme normal retirement age with State Pension Age

b) the replacement of final salary with career average

c) ensuring that the overall cost of a new scheme remains within the GAD calculated cost-envelop, approved by the Treasury, of 20.4% of the pensionable paybill, based on a ‘reference scheme’.

5.3 Moreover, it seems appropriate to also consider the social and economic conditions that currently prevail. The main issues appear to be:

a) local authority revenue budgets continue to be squeezed

b) local government employees are in the middle of a pay freeze

c) price inflation remains high

5.4 Bearing in mind the issues raised earlier in this report, it is clear that changes to the scheme must:

a) meet the Government’s policy objectives

b) negate the need for further significant change in the short to medium term

c) be fair, realistic, affordable and acceptable, to Scheme members

d) be simple to understand and communicate

6. **Conclusions**

6.1 In order to meet the policy outcomes required whilst at the same time addressing the recommendations of the Hutton Report and acknowledging the socio-economic realities, the following changes are suggested.

6.2 Increase employee contributions by 0.25 percentage points for all those earning between £15,001 and £21,000 and by 0.5 percentage point for those earning more than £21,000 per year from 1st April 2013 to 31st March 2016. Based on the LGG data this will provide savings of approximately £125M in 2013/14; £250M in 2014/15; and £375M in 2015/16. It is fair for all employees; reduces the risk of mass opt outs as it is spread over a three year period and is timed to begin at the probable start of the pay freeze being lifted.

The impact on employee contribution rates of this proposal would be:

Tariff Band	Current	2013/14	2014/15	2015/16
£0 - £12,900	5.5%	5.5%	5.5%	5.5%
£12,901 - £15,000	5.8%	5.8%	5.8%	5.8%
£15,001 - £19,400	5.9%	6.15%	6.4%	6.65%
£19,401 - £21,000	6.5%	6.75%	7.0%	7.25%
£21,001 - £32,400	6.5%	7.0%	7.5%	8.0%
£32,401 - £43,300	6.8%	7.3%	7.8%	8.3%
£43,301 - £81,100	7.2%	7.7%	8.2%	8.7%
£81,101 +	7.5%	8.0%	8.5%	9.0%

6.3 Increase the scheme normal retirement age to 66 with effect from 1st April 2014. Based on the LGG data this will provide savings of at least £300M per year. This goes some way to meeting the Hutton recommendation to align normal retirement age with State Pension Age, as further increases to State Pension Age have yet to be finalised and are currently timetabled for 2036 (age 66 to age 67) .

6.4 Reduce the Scheme accrual rate from 1/60th to 1/64th with effect from 1st April 2014. Based on the CLG data this will provide savings of £360M per year. By making one change only to the accrual rate it is simpler to understand and communicate.

6.5 To move to a career average basis revalued against average earnings in place of final salary, with effect from 1st April 2014. This cannot be properly assessed for costs/savings as is dependant largely on the revaluation factor which, in turn is dependant upon future national average earnings. Any savings would be very long term. Notwithstanding, career average rather than final salary fits the profile of local government in a fairer, less discriminatory way, principally because of:

a) the wide diversity of local government employments

b) the large numbers of part time and variable time employees (mostly female)

c) the pension inequities of salary progression and career development

d) the inequality of tax relief between full time higher rate taxpaying employees and part time employees earning less than the personal tax allowance

6.6 Provide protection for all Scheme members aged 55 and over on 1st April 2014 who would retain benefits accrual under the current Scheme and a normal retirement age of 65 but who would be required to pay the increased contributions. It is anticipated that the cost of this protection will be more than met by the additional savings made by the other elements in this proposal. The timing allows those closest to retirement to retain their existing plans.

6.7 The cost savings of the above proposals can be summarised as follows:

Element	2013/14 £M	2014/15 £M	2015/16 £M
Increased contributions	125	250	375
Increase NRA to 66	0	300	300
Reduce accrual to 1/64th	0	360	360
CARE	0	0	0
Age 55+ protection	0	unknown	unknown
Totals	125	910	1035

7. **Recommendations**

7.1 Committee are asked to support the scheme changes suggested in section 6 of this report.

7.2 Committee are also asked to authorise that the contents of this report be made available to DCLG as the Council's response to this consultation exercise.

Recommendation:		**Reason for Recommendation:**	
a) To support the scheme changes set out in Section 6. b) To authorise release of the report's contents to DCLG.			
Person(s) To Action Decision:	Joe Rollin		
Date By When Decision To Be Actioned:	6th January 2012		
Relevant Policy:	N/A		
Within Policy:	N/A	**Within Budget:**	N/A
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Relevant Local Member(s):			