

**REPORT FOR: Pension Fund  
Investment Panel**

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**Date of Meeting:** 25<sup>th</sup> June 2012

**Subject: INFORMATION REPORT  
– LGPS 2014**

**Responsible Officer:** Julie Alderson, Corporate Director of Resources

**Exempt:** No.

**Enclosures:** None

**Section 1 – Summary**

The Panel are requested to note the proposals for reform of the LGPS and improve governance standards. Further updates will be provided as the recommendations are implemented.

**FOR INFORMATION**

## Section 2 – Report

1. Within the Local Government Pension Scheme, eligibility for membership, the benefit structure and the level of employee contributions are determined by Government, the actuary determines the employer contributions and the administering authority manages the investments. Soon after coming to power, the Coalition Government commissioned Lord Hutton to carry out a review of public sector pensions to bring forward proposals to ensure that good quality pensions continue, balancing the need for long term sustainability and affordability.
2. Lord Hutton's report was published on 10<sup>th</sup> March 2011. The Government broadly endorsed the suggestions and requested that detailed proposals be drawn up for each public sector scheme. The proposals for the LGPS were announced on 1<sup>st</sup> June 2012 with implementation from 1<sup>st</sup> April 2014.
3. The main provisions of the new scheme are attached in appendix 1. These have been drawn up by the Local Government Association, the trade unions and the Department for Communities and Local Government.
4. The changes to the benefit structure are much more favourable to members than at one time expected; for instance the accrual rate improves from 1/60<sup>th</sup> to 1/47<sup>th</sup> per year of service. Other changes e.g. the revaluation rate, the retirement age linked to state pension age and increases in employee contributions for the higher paid are less favourable.
5. The cost to employers of providing these benefits will be monitored and proposals are expected on a cost control mechanism. With protection of benefits already earned, the changes will not reduce the value of existing liabilities. Neither is it readily apparent that the proposals will reduce the cost of ongoing benefits. In the short run, the changes appear to favour existing older staff and savings may well emerge in the very long term. It is unlikely that a true picture of the impact on the valuation of liabilities and future employers' contribution rates will emerge until the 2013 actuarial valuation is underway.
6. One proposal is to offer members what is known as the 50/50 option whereby for 50% of the standard contributions they accrue half the normal pension. Should there be a significant take up of this option by existing contributors the costs falling on employers will be reduced. Changes to the definition of pensionable earnings may increase costs by bringing in forms of income previously excluded from pensions.
7. There will now be a process of consultation with employers and trade union members, although it appears that further change is unlikely. As mentioned above, the implementation date is just over 21 months away. There will be significant work for the Shared Services team at Harrow in redesigning the pension administration systems to cope with the new benefit structure, more so that pre 2014 benefits will continue to accrue

based on the current and pre 2008 structures. At the same time, the HR and pensions systems have to deal with the complexity of auto-enrolment under which all eligible staff who have not joined the scheme or who previously opted out must automatically rejoin every three years but then have the opportunity to opt out and recover contributions deducted.

### Governance and Transparency

8. Lord Hutton's report also made recommendations to improve the transparency and governance arrangements of public pension arrangements. A working group has taken these forward in the context of LGPS and made a range of recommendation that are summarised in appendix 2.
9. The recommendation, if implemented, will involve best practice guidance and mandatory standards, with the possibility of penalties for non compliance. The collection of data on costs and performance will enable comparisons across schemes in areas such as investment management returns and costs. Including member representatives with full voting rights on the Pension Panel would mirror arrangements in place in the private sector.
10. The Panel will be updated as the proposals progress.

## **Section 3 – Further information**

11. N/A

## **Section 4 - Financial Implications**

12. The intention of the proposals is to ensure that the costs of running the LGPS remain affordable to employers and limit increases in the contribution rates required for future service.

## **Section 5 - Risk Management Implications**

13. Risk included on Directorate risk register? No
14. Separate risk register in place? No

## **Section 6 - Equalities implications**

15. Was an Equality Impact Assessment carried out? Yes
16. There are no direct equalities implications relating to the pension fund.

## **Section 7 - Corporate Priorities**

17. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

Name: Julie Alderson



Chief Financial Officer

Date: 12 June 2012

Name: Matthew Adams



on behalf of the  
Monitoring Officer

Date: 15 June 2012

## **Section 6 - Contact Details / Background Papers**

**Contact:** George Bruce (Treasury and Pension Fund Manager)) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

**Background Papers:** None

## LGPS 2014 Contribution and Benefit Proposals

The main elements of the proposed LGPS 2014 scheme cover the following:

- A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
- The accrual rate would be 1/49<sup>th</sup> (the current scheme is 1/60<sup>th</sup>).
- There will be no normal scheme pension age; instead each member's Normal Pension Age (NPA) will be their State Pension Age (the current scheme has an NPA of 65).
- Average member contributions to the scheme would be 6.5% of actual pay. The lowest paid would pay the same or less and the higher paid would pay higher contributions on a more progressive scale after tax relief.
- Members could elect to pay half contributions for half the pension, while still retaining the full value of other benefits.
- There will be a protection on benefits for service prior to 1<sup>st</sup> April 2014, including the 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.
- Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers.

### Employee Contribution Rates

<b>Earnings bands</b>	<b>Employee Contribution rates</b>	
	<b>Current %</b>	<b>Proposed %</b>
Up to £12,900	5.5	5.5
£12,901 to £13,500	5.8	5.5
£13,501 to £15,100	5.8	5.8
£15,101 to £19,400	5.9	5.8
£19,401 to £21,000	6.5	5.8
£21,101 to £32,400	6.5	6.5
£32,401 to £34,000	6.8	6.5
£34,001 to £43,000	6.8	6.8
£43,001 to £43,300	6.8	8.5
£43,301 to £60,000	7.2	8.5
£60,001 to £81,100	7.2	9.9
£81,101 to £85,000	7.5	9.9
£85,001 to £100,000	7.5	10.5
£100,001 to £150,000	7.5	11.4
above £151,001	7.5	12.5

## LGPS 2014 Governance Working Group

### Recommendations

1. As part of the discussions between employers, unions and government on reform of the Local Government Pension Fund a working party was established to make recommendations on improving the governance structure of LGPS. The working group has made recommendation covering best practice guidance, minimum standards and / or regulations, greater transparency, publication of comparative data and the formation of a wide range oversight board. Detailed recommendations include:
  - All LGPS funds to have a Pensions Board / Committee that has ultimate responsibility and accountability for all fund matters e.g. investment and administration.
  - Standardised terms of reference and delegated powers for Pension Boards.
  - Pension Board should have representatives of participating employers and scheme members (including deferred and pensioners) all with equal voting rights.
  - Ring fencing of pension funds and their management from other Council business to avoid conflicts of interest.
  - A code of practice defining the roles, duties, obligations and responsibilities of Pension Board members
  - Greater enforcement of the requirement to meet certain standards of knowledge and skills.
  - The formation of a National Policy and Standards Board, with responsibilities including:
    - Determining LGPS standards covering administration, communication, accounting, investments, funding and governance.
    - Collating information from funds to improve transparency.
    - Monitoring LGPS fund performance including compliance with standards.
    - Setting benchmarks and performance standards e.g. maximum cost per member.
    - Taking action / placing penalties where an LGPS fund is not meeting these standards.
2. It is expected that there will be further consultation on these proposals with scope for some of the proposals to become guidance rather than mandatory.