Meeting:	Licensing and General Purposes Committee
Date:	18th September 2006
Subject:	Response to the Department for Communities and Local Government (DCLG) consultation document 'Options for a new look Local Government Pension Scheme in England & Wales'.
Key Decision: *(Executive-side only)*	No
Responsible Officer:	Myfanwy Barrett - Director of Financial & Business Services
Portfolio Holder:	Business Development Portfolio Holder
Status:	Part 1 – Public
Encs:	Appendix 1.- Questionnaire

SECTION 1 – SUMMARY AND RECOMMENDATIONS

On 30 June 2006 the Department for Communities and Local Government (DCLG) issued a consultation document which

a) sets out a number of costed options to assist in the development of a new-look Local Government Pension Scheme for introduction in April 2008;

b) Considers extensions to the flexible retirement options introduced in April 2006;

c) Sets out proposals for two-tier ill health pension provisions, and

d) Considers future cost sharing between Employers and Employees.

The DCLG have requested that Consultees take a view as to the appropriate way forward for the LGPS and provide a written response no later than 29th September 2006

RECOMMENDATIONS:

Elected Members are required to provide responses to the questions raised at Appendix 1.

SECTION 2 - REPORT

2.1 Background

2.2 The Government's policy towards the LGPS in England & Wales is to support the provision of good quality, index-linked, pensions for workers in and around local government. Equality-proofing, affordability, viability and fairness to tax payers, all remain key ingredients of scheme stewardship.

2.3 The LGPS regulations in England & Wales were amended in April 2006 to reflect changes to the HM Revenues & Customs rules governing pension schemes and to remove the 85-year rule from 1st October 2006. Further amendment regulations provided extended protections from the removal of the 85 year-rule for existing scheme members and has allowed the DCLG to start the process of designing a new look LGPS for April 2008.

2.4 The DCLG issued a consultation paper to all stakeholders on 30th June 2006 and has requested a response by 29th September 2006. The development of a new-look LGPS is taking place alongside reforms to other Public Sector schemes and to the state pension system.

2.5 The role of scheme employers and providers is critical as they underpin the viability and stability of the scheme. The new look scheme needs to go forward on an affordable and sustainable basis; the need to balance fairness for scheme members and taxpayers is central to the whole LGPS modernisation and reform exercise.

2.6 New Look LGPS

2.7 The consultation document sets out a number of options and is seeking views from all those parties who have an interest in the LGPS. The DCLG is interested to receive any suggestions/variations that will ensure, going forward, the scheme is:-

- Affordable and viable;
- Fair to the taxpayers (who ultimately guarantee the pension promise);
- Attractive to existing and future scheme members and employers;
- Regarded and valued as an integral part of the overall remuneration package for employees in an increasingly diverse workforce, and
- Able to deliver an appropriate defined benefit index-linked income in retirement for its members.

2.8 The Government is committed to retaining a defined benefit scheme, but not necessarily based on final salary.

2.9 Design features of options

2.10 The consultation paper proposes five options for a new-look LGPS:

- **Option A** – An updated version of the current scheme; accrual rate of 1/80th and an automatic tax-free lump sum on retirement of 3/80ths of pension.

- **Option B** – A final salary scheme with an improved accrual rate of 1/60th, but with no automatic tax-free lump sum on retirement.

- **Option C** – A career average scheme, with an accrual rate of 1.85% and Retail Price Index re-valuation.

- **Option D** – A career average scheme, with an accrual rate of 1.65% and wage inflation re-valuation.

- **Option E** – A hybrid scheme in which scheme members would have a one-off choice to either receive career-average linked benefits, or to make extra contributions (3%) in order to receive final salary linked benefits.

2.11 All the options provide Improved death-in-service benefits, partners' pensions, a two-tier ill-health benefit and have a normal retirement age of 65

2.12 They also incorporate changes already implemented from April 2006 including, the option for members to elect for a bigger lump sum up to HMRC maximum of 25% of the members' pension, by exchanging part of their pension (known as "commutation").

2.13 The table below summarises the main design features of each option.

	Member's Pension	Lump Sum	Dependant's Pension *	Comments
A	1/80ths Final Salary	3/80ths plus supplement from commuting member's pension up to 25% of value of personal pension + lump sum	1/160th Final Salary	Existing scheme + savings on lump sum exchange rate (no recycling).
B	1/60ths Final Salary	By commutation	1/120th Final Salary	More generous than A, particularly the dependant's pension. Lump Sum – commutation at 12:1 not full value.
C	1.85% (1/54ths) Career Average Salary + RPI	By commutation	1/108th Career Average Salary	Higher accrual – benefits 'low earners' and those with short service. Same revaluation links for employees & deferred

	increases			pensioners.
D	1.65% (1/60ths) Career Average Sal + (RPI + 1.5%) increases	By commutation	1/120th Career Average Salary	Similar to C1, but better link to expected salary progression (all actives credited with RPI + 1.5% p.a.). Potentially contrary to preservation laws.
E	Choice of C1 or B with additional member contributions of c.3% of pay.			Arguably the fairest and most tailored design to the different needs of the membership.

2.14 Cost of options

2.15 Before assessing the consultation paper options it was first of all necessary to establish a benchmark cost for the scheme. This has been established as 20.9% (18.3% for new joiners). NB. The figures below are expressed as a percentage of pensionable pay and represent employee and employer contributions in respect of **future service costs only.**

Cost of the present scheme before removal of the 85-year rule and before the change to allow commutation.	22.2% (19.4%)
Cost of the present scheme after removal of the 85-year rule and after the change to allow commutation.	20.0% (17.6%)
Government commitment to permit up to 50% of "savings" to be recycled (less 0.2% for cost of additional protections and cost of revocation of April 2005 changes). Thus, benchmark cost for new look LGPS is	20.9% (18.3%)

The new-look benchmarking cost should not be read as a funding recommendation for the Harrow Pension Fund or any of its admitted/scheduled bodies.

2.16 The cost of each option was then determined.

Option	Core Structure	Increase to 3 x salary death benefit	Introduce cohabitee's pension	Introduce two-tier ill health retirement	Total Cost
A	20.0% (17.6%)	0.3% (0.2%)	0.2% (0.2%)	-1.0% (-0.7%)	19.4% (17.3%)
B	21.5% (18.9%)	0.3% (0.2%)	0.3% (0.2%)	-1.1% (-0.8%)	20.9% (18.6%)
C	21.2% (18.3%)	0.3% (0.2%)	0.3% (0.2%)	-1.1% (-1.0%)	20.6% (17.7%)
D	21.5% (18.9%)	0.3% (0.2%)	0.3% (0.2%)	-1.1% (-0.8%)	20.5% (18.1%)
Option E	Whichever career-averaging scheme is chosen plus approximately				

	an additional 3% employee contribution to join a final salary arrangement.

2.17 The above costs will differ from the contribution rates that would actually be payable by LGPS employers should a proposed option be implemented. Some of the reasons for this include the following:

- the Government Actuary Department's (GAD) costs are based on a 'synthetic fund' believed to be typical of a Council fund so are not necessarily appropriate for individual funds or employers.

- they are based on one set of long-term assumptions which do not necessarily reflect the funding assumptions used by funds and their actuaries;

- they explicitly differentiate between current members and future joiners (whereas actual employer contributions are based on the membership at the valuation date and make an implicit allowance for new entrants);

- they exclude expenses.

2.18 Cost implications for Harrow Council

2.19 In view of the above, funds were encouraged to seek advice from their actuaries on cost implications for their own circumstances. Hymans Robertson (Harrow Council's Fund Actuaries) was therefore commissioned to provide the costs of each option relevant to Harrow Council's Pension Fund.

2.20 In order to provide a realistic assessment of the current costs, the triennial valuation data as at 31 March 2004 was utilised and allowance was made for improvements to future longevity and the recent reduction in bond yields.

2.21 As with the above calculations, the future service costs **only** have been considered. If looking at the absolute level of costs, an extra amount needs to be added for the past service deficit charge.

2.22 The total employee and employer contributions, net of recycling of savings and taking into account enhancements to death benefits, are detailed below (figures are expressed as a percentage of pensionable payroll):

Option	A	B	C	D
Total Cost	18.6%	20.3%	20.1%	19.9%

2.23 Hybrid option E

2.24 Under Option E, the default option would be CARE. Employees would then be able to trade up into a final salary scheme (i.e. option B) but would have to pay a higher employee contribution rate. It is proposed that the premium is 3% of pay. Thus, if members of the CARE scheme pay 6% of pay, employees opting for final salary would pay 9% of pay.

2.25 The final salary option could, at least in theory, be attractive to those who expect strong future pay growth and who expect to stay in the scheme for some time.

2.26 It is not feasible to cost option E in the same way as the other options as it is unclear which option members would choose. It is anticipated that the majority of LGPS members would focus on the lower cost CARE arrangement.

2.27 However, it should be mentioned that one mechanism of improving option E (thus making it more appealing to members), would be to provide the same default CARE option but allowing members to trade into a final salary scheme under option A, (the cheapest option). The additional employee contribution rate might be 2% of pay, rather than the proposed 3% of pay. Thus the member contribution rate under option E might become 8% of pay.

2.28 Option E would also enable existing members to retain their current scheme, albeit with the modernising features for ill health and partners' pensions.

2.29 Final Salary scheme vs. Career average scheme

2.30 Both schemes provide defined benefits in retirement, which are not dependant on the returns of the pension fund's investments.

2.31 A final salary scheme awards benefits on the basis of the scheme member's final salary on retirement. The accrual rate defines the proportion of final salary, which the member builds up (or accrues) for each year of membership. For the LGPS, the accrual rate is currently 1/80th, i.e. members build up pension rights payable per annum in retirement at a rate of 1/80th of their final salary per year of scheme membership. The pension is then increased in line with inflation (RPI) in retirement.

Example: based on a member having accrued three years membership with a final salary of £16,224

Pension p.a. = 3 x 1/80th x £16,224 = £608.40
Lump sum = 3 x 3/80^{ths} x £16,224 = £1,825.20 (tax free)

2.32 A final salary scheme is a valuable recruitment and retention tool for scheme employers, as it tends to focus benefits on longer-serving staff, particularly on those who progress up the earnings scale whilst in employment.

2.33 Also, retaining the current final salary structure will minimise the effect of the change on existing scheme members. It also overcomes the difficulties associated with converting current membership into the new scheme (see. 2.77).

2.34 Under a CARE scheme the member accrues a pension at retirement each year based on his or her salary in that year, which can be thought of as being like a deposit in a bank account. On top of this, previous years' benefits are increased (like interest being added). The pension scheme keeps a running total of the balance of all the benefits and this is the pension (and lump sum), which is paid out to the member on retirement.

Example: based on a member at age 65 having accrued three years membership and assuming an accrual rate of 1.85% p.a. revaluation rate in line with inflation (i.e. Option C), where RPI is 3% p.a. (An assumption has been made that the member's salary increases at 4% p.a).

Date	Transaction			Total
Year 1	Deposit	1.85% x £15,000	£278	£278
Year 2	Interest	3.0% x £278	£ 8	£286
	Deposit	1.85% x £15,600	£289	£575
Year 3	Interest	3.0% x £575	£ 17	£592
	Deposit	1.85% x £16,224	£300	£892
			Pension at Retirement	**£892**

2.35 As each year's benefit stands alone and is unaffected by the actual salary experience of the member over the period to retirement, if a member gets a very high pay increase this does not affect prior years' benefits. As the distribution of pay increases tends to benefit the higher paid removing the link between high pay increases and prior year benefits reduces the value of the benefits thereby allowing a higher career average accrual rate.

2.36 A CARE structure reflects member's pay over their working lifetime more fairly and removes the risk of unexpected pay rises impacting negatively on pension costs. It also targets more of the expenditure at short stayers and those with flatter pay progression; hence the distribution of the pension budget is spread more evenly.

2.37 The characteristics of CARE appear suited to the Government's equality – proofing agenda. Redistributing expenditure in this way could however cause upward pay pressure amongst higher earners/career employees.

2.38 Equality – proofing

2.39 One of the Government's key objectives is to "equality proof" the new scheme (i.e. ensuring a fair distribution of expenditure amongst members). The ultimate value of the benefits derived from membership of a defined benefit pension scheme can vary considerably from member to member.

2.40 The table below summarises the key issues and comments on the extent to which the designs on offer would help to reduce differences in outcome for different types of member:

Possible sources of variation	Issue	How do the options stack up?
Gender	Women – on average – live longer. They are more likely to work part-time and typically experience lower pay growth.	The higher accrual of C (or the higher revaluation of D) would tend to provide bigger benefits to women.
Marital status	The current scheme provides a survivor's pension to widows, widowers and civil partners, but not 'common law' spouses or other financial dependants.	Providing pensions for financial dependants (e.g. common law spouses) reduces variation in one way, but increasing the amount of the dependant's pension introduces greater inequality for members without financial dependants. It would seem fairer to retain the 1/160th accrual rate for dependants' pensions, at the same time as widening eligibility for financial dependants.
Pay progression	Not only do final salary schemes produce larger pensions for those with higher pay, but also the cost of pensions as a % of pay is higher for those with more rapid pay growth over their careers.	CARE should help to reduce variation in terms of the absolute amounts of pension, but when expressed as a % of pay on retirement, there may be more variation than before. Introducing CARE may cause upward pay pressure particularly amongst high earners who will need to save more themselves to produce the same level of retirement income.
Career employee or short-term contractor	The length of membership has a similar effect on the relative value of the CARE and final salary schemes as pay progression. Final salary schemes can be very attractive for employees that have already built up considerable service; particularly if they get good pay rises. This may be regarded as a strong motivator/staff retention tool or a barrier to healthy labour mobility depending on your persuasion.	CARE should help to reduce variation, by neutralising the effect of pay awards on previously accrued pension rights.

Possible sources of variation	Issue	How do the options stack up?
Age of Employee	Final salary scheme is less valuable for younger members (more valuable/expensive for older employees).	Adopting CARE does not appear to reduce the value gap between younger employees and older employees. This could be addressed with member contributions that increased with age. This is permitted under the new age discrimination regulations It could be more attractive than tiering contributions by salary level.
Low paid employees	Some appear to be put off joining by the 6% contribution rate. Means-tested social security benefits mean that lower paid may accrue no benefit from joining the LGPS.	Reducing the employee contribution rate on the first tranche of earnings should reduce opting out amongst lower paid, but will increase employer costs and may be regarded as a central government subsidy.

Question	**Answer**	
	Yes	**No**
1. Which new scheme option do you support?		
A: Updated current final salary scheme (1/80th accrual plus 3/80ths lump sum) with RPI revaluation after leaving		
B: New 1/60th final salary scheme (and lump sum available by commutation) with RPI revaluation after leaving.		
C: CARE scheme with 1.85% accrual and RPI revaluation both during employment and after leaving (with lump sum available by commutation)		
D: CARE scheme with 1.65% accrual and RPI + 1.5% revaluation during employment and RPI revaluation after leaving (with lump sum available by commutation)		
E: a new hybrid CARE / final salary arrangement		
Other - please specify:		

2.41 Scheme Improvements

2.42 As referred to in 2.11 above all options improve the scheme's death in service benefits from two to three times pay and provide partner's pensions for cohabitees, as are currently provided for civil partners and married partners.

2.43 In order for a cohabiting partner to be entitled to survivors benefits there must be evidence of:

- co-habitation
- an exclusive, long-term committed relationship established for a minimum of 2 years
- financial dependence or interdependence; and
- a valid nomination of a partner with whom there would be no legal bar to marriage or civil registration.

2.44 Whilst it is correct to consider the introduction of cohabitees' pensions in a new-look LGPS it should be recognised that there are significant complications that could be open to challenge:

- a married or civilly registered couple do not have to be living together in order for a survivor pension to be paid (they could be living apart)
- a married or civilly registered couple do not have to be in an exclusive, long-term relationship established for a minimum of 2 years in order for a survivor pension to be paid
- a married or civilly registered couple do not have to show financial dependence or interdependence
- a survivor pension would automatically be paid to a married or civilly registered partner; they do not have to have been nominated to receive a pension by their spouse/partner. The lack of a valid nomination form would surely result in disputes where all the other criteria set out in 2.43 above are met
- the benefits of a married or civilly registered couple would be subject to pension sharing on 'divorce', whereas those of a member with a "common-law" partner would not be, even though the Scheme will have had a prospective partner's pension liability during the period of the "common-law" co-habitation
- single members who are not co-habiting are not able to nominate a person to receive a pension upon their death.

2.45 It is suggested, therefore, to await outcomes from the Law Commission's consultation paper no. 179 *Cohabitation*: *The Financial Consequences of Relationship Breakdown* (published on 30 May 2006) before taking a final decision on whether / how cohabitees pensions should be built into a new-look LGPS.

2.46 As well as widening eligibility to financial dependants, the consultation paper proposes to increase the level of dependant's pensions by improving the accrual rate. The cost of a larger dependant's pensions under the new scheme is around 0.4% of pay (as advised by Hymans Robertson).

2.47 This may cause complications with single members who may resent the extra spend. It would therefore seem fairer to retain the 1/160th accrual rate for dependants' pensions, at the same time as widening eligibility for financial dependants.

Question	**Answer**	
	Yes	**No**
2. Do you agree that cohabitees' pensions should be introduced into the new-look LGPS?		
If so, should this be from		
a. the beginning of the new-look scheme?		
b. the date the "law of the land" is changed to recognise cohabitees?		
3. Do you agree that spouse's pensions should increase		

2.48 Flexible and Early Retirement

2.49 From 6th April 2006 the main Scheme regulations introduced flexible retirement, which allows LGPS members to draw their pension benefits from age 50 whilst remaining in employment, provided;

a) the employer has consented and
b) there has been a reduction in hours or grade.

N.B. At this time Harrow has not formulated a policy in relation to this change of regulations

2.50 The consultation paper proposes to extend the current flexible retirement provision and seeks views on which of the following four extensions employers would support:

2.51 **I.** Allow scheme members to make extra contributions to offset any reduction in their pension in the case that they wish to retire early. These extra contributions could be calculated according to cost neutral buy-back factors;

2.52 **II.** Remove the requirement for employees to obtain employer consent for flexible retirement.

2.53 **III.** Remove the requirement for employees to take a reduction in hours or grade in order to take flexible retirement.

2.54 Provided the suggestions in II and III are cost neutral for employers there should be no need for employer consent or for there to be a reduction in hours or grade.

2.55 **IV.** Benefits accrued *after* age 65 also to be *increased* by cost-neutral uplift factors when a member elects to take payment of them after age 65.

Question	**Answer**	
	Yes	**No**
4. Which of the extensions to the flexible retirement provisions would you support?		
I. Allow scheme members to make extra contributions to offset any reduction in their pension in the case that they wish to retire early. These extra contributions could be calculated according to cost neutral buy-back factors;		
II. Remove the requirement for employees to obtain employer consent for flexible retirement;		
III. Remove the requirement for employees to take a reduction in hours or grade in order to take flexible retirement;		
IV. Benefits accrued *after* age 65 also to be *increased* by cost-neutral uplift factors when a member elects to take payment of them after age 65.		

2.56 Employee Contribution rates

2.57 The consultation paper asks the question “what should the average employee contribution rate be in the new look Scheme?”

2.58 This will of course depend on the type of scheme and the balance between existing and new employees. For example, looking at Option A, the total cost for existing members is estimated at 18.6% If the employers’ contributions were 13% (see 2.64 below) then the employees contribution rate would need to be 5.6% for existing employees who, initially, will form the vast majority of scheme members in the new scheme.

2.59 The proposal of tiered employee contributions is also raised. This would mean that a lower contribution rate would be payable on pensionable pay below a certain cut-off point. It is suggested that the employee’s contribution rate when averaged out across the Fund should be set at 7%.

2.60 By way of example the cut-off point could be fixed to the point at which earnings are taxed at the basic rate of 22%. In 2006-7 this was set at £7,185.

2.61 The proposition is an attempt to encourage more employees to join the Scheme and to mitigate some of the issues created by the current State pension and taxation systems. However, there are a number of concerns about this approach, as detailed below:

- Encouraging the lower paid to join the Scheme by offering a reduced contribution rate on earnings below a specified level may result in employees joining the Scheme who may not be best served by doing so, due to the impact of the Pension Credit.

- There is little evidence that offering employees a lower contribution rate would necessarily encourage the vast majority of current non-joiners to join the scheme. The Institute for Fiscal Studies has shown that the bulk of the 'unpensioned' are not paying into a pension scheme because of other urgent calls on their money. Furthermore if we were to target an average 7% employee contribution rate, this would require a contribution rate of 5.5% on earnings below £7,185 and 8.0% on earnings above that figure; It is difficult to see how such figures would encourage more employees to join the Scheme.

- Would a lower contribution rate be open to age or sex discrimination claims e.g. would the majority of employees benefiting from a lower rate be women or would more young employees have a larger proportion of earnings below the lower earnings contribution point than older employees?

- Higher contribution rates for higher paid staff could lead to salary drift in respect of those staff which would, of course, lead to increased employer costs – not only in terms of additional salary, but also in terms of the additional pension and national insurance on-costs on that additional salary.

- Around one third of local government employees do not presently join the LGPS. [At Harrow only 14.92% of eligible employees have not elected to join the pension fund]. These tend to be the lower paid workers and younger members of staff. If these are encouraged to join the LGPS by a lower contribution rate, the employer will need to meet the cost of the employer contribution to the Fund on their salary (currently 16.3% for Harrow Council). The pay bill for all these new scheme joiners will therefore increase dramatically.

Question	**Answer**	
	Yes	**No**
5. Do you agree that in the initial design of the new-look LGPS the average employees' contribution rate should be targeted at		

7%?		
If not, what percentage rate would you wish to target? Please specify:		
6. Do you support a tiered employee contribution rate?		
If so, do you think the tier should be set at £7185 (the basic rate tax figure)		
Or at some other rate (please specify):		

2.62 Future cost sharing between employers and employees

2.63 The consultation paper seeks views on what an affordable employer contribution rate should be in the new look scheme, in relation to the employer rates being paid by scheme employers for future service costs under the current scheme.

2.64 It could be argued that a sensible employer contribution rate in the new look scheme should be no more than 13% with a starting base position of a 2:1 split between employers and employees contributions

2.65 The consultation paper asks whether authorities would support or oppose the principle of introducing a future cost sharing mechanism into the LGPS, (The Teachers and NHS Scheme proposals will limit employer contributions to a maximum of 14%).

2.66 The design of the Scheme would therefore need to be robust and flexible enough to manage a fair sharing of relevant risk between employers and employees. It would also seem appropriate to build a "safety valve" mechanism into the LGPS to deal with the effects of changing longevity.

2.67 This could be achieved in the following manner assuming the benchmark cost is 20%:

- Should the benchmark cost reduce below 20% in future due to long term demographic changes, then employer and employee contribution rates could be proportionately reduced.

- Should the benchmark cost increase above 20% due to demographic changes, then the additional cost should be met by employees through either a reduction in accrual rate for future service (but not past service), or a change in Normal Retirement Date for future service (but not past service), or a change in the employees' contribution rate.

- If the benchmark cost changes due to alteration of financial assumptions, the benefit or cost of this will fall to the employers alone.

- Changes to the benchmark cost should be reassessed by the Government Actuaries Department after every second valuation by reviewing data supplied to them on actual longevity experience across all Funds

Question	Answer	
	Yes	No
7. Do you agree that in the initial design of the new-look LGPS the employers' contribution rate for future service should be no more than 13%?		
If not, what percentage rate would you wish to target? Please specify:		
8. Do you agree that there should be a cost sharing mechanism built into the LGPS?		
If not:		
by some other mechanism (please specify):		
9. Do you agree that this should be assessed by the Government Actuary following every second valuation and based on all Funds experience?		
10. Should any resulting change in cost be met by:		
a. a change in the accrual rate for future scheme membership (but not accrued membership)?		
b. a change in the normal retirement date for future scheme membership (but not accrued membership)?		
c. a change in the employees' contribution rate?		

2.68 Two-tier Ill health

2.69 A two-tier Ill health retirement pension arrangement is proposed. The underlying rationale of such an arrangement is that it could be better focused and targeted compared with the present "one size fits all" structure which in most cases enhance retirement benefits for life, regardless of future health and employment prospects.

2.70 The top tier would apply to those permanently unable to undertake any gainful or regular employment and would provide a benefit based on actual membership plus 50% of notional membership between the date of leaving and age 65.

2.71 The second tier would provide an un-enhanced pension to those incapable of performing the duties of their own job but who are capable of undertaking other "regular employment".

2.72 It also suggests that the second tier could be broken down into a set of sub-tiers, each offering a different level of benefit (to reflect that across employees falling within the second tier there would be a wide range of incapacities and prospective job opportunities).

2.73 A drawback of having multiple tiers is that it could lead to numerous appeals from members seeking to be placed into a higher tier in order to increase the amount of enhancement they are awarded, thereby increasing the administrative and appeal burden. Having only two tiers might make matters clearer as there would be an obvious difference between those tiers i.e. to get into the top tier the member would have to be very seriously incapacitated and permanently unable to undertake any gainful or regular employment.

2.74 The consultation paper also discusses the possibility of reviewing ill health pensions and adjusting them in the light of changes in a person's circumstances. However it could be argued that a burdensome review arrangement should be avoided.

2.75 Views are also sought on how to define whether someone is capable of undertaking other "regular employment". The paper provides an example from the Firefighters' Pension Scheme, which defines regular employment as being "not less than 30 hours per week on average over a twelve month period".

2.76 Such a definition has its drawbacks and therefore it might be better to consider linking the definition of "regular employment" to the degree to which the person's ill health affects their earnings capacity i.e. to fall into the top-tier, the question could be "is their ill health likely to permanently (i.e. to age 65) restrict their earnings capacity to below a specified percentage of their current earnings (say to below 25%)?

Question	**Answer**	
	Yes	**No**
11. Do you support a move to a two-tier ill health arrangement?		
If yes:		
Should ill health enhancement at the top tier be based on 50% of prospective membership between leaving and age 65?		
If not, what should it be based on (please specify)		
12. Do you agree there should be no enhancement at the second tier?		
13. Do you support a review mechanism for the top tier?		
14. Do you support a review mechanism for the second tier?		
15. Do you think there should be more than two tiers?		
If so, how many (please specify)		
16. Do you agree that to fall within the top tier an employee's earnings capacity should be reduced by more than a specified percentage?		
If so, should that percentage be a 75% reduction?		
Or some other percentage (please specify):		
If not, how do you think the assessment of whether or not an		

employee falls into the top-tier should be assessed (please specify):		

2.77 Existing scheme members in the new look scheme

2.78 To ensure a simplified, single framework for the future, all employees who are contributing to the current LGPS on the date the new scheme commences could be automatically transferred to the new scheme. the consultation paper proposes the following methods:

1. Give all existing members at 31 March 2008 an actuarially equivalent period of service in the new-look Scheme, according to a formula to be set by the Government Actuary

2. Give existing scheme members at 31 March 2008 more credit in the new-look scheme than they would receive under (1)

3. Treat all accrued service of existing scheme members at 31 March 2008 as a benefit to be payable on retirement, under terms of the current scheme, based on the final salary at retirement

2.79 In light of the above methods it is clear that there are no easy ways to achieve the conversion of accrued rights into membership in the new scheme. From an employer perspective, any transfer terms ought to be on a cost neutral basis.

2.80 Of course, if Option A (i.e. retaining a tweaked version of the current Scheme) was taken forward, there would be no conversion issues to address. From that specific point of view, Option A is the simplest option.

2.81 Another simple alternative is to retain Option A for existing Scheme members but give them the right to opt to move into whatever other new scheme is set up on what would, for employers, be a cost neutral basis. In such a scenario, existing members can then make a personal choice and, if they decide to move to the new scheme for future service, they can decide whether to transfer their accrued benefits into the new scheme on the available transfer terms or keep their accrued rights in Scheme A as a deferred benefit.

Question	**Answer**	
	Yes	**No**
17. If Option A (retention of the existing Scheme) is not the scheme taken forward by the DCLG, do you agree that existing scheme members should be compulsorily moved into the new look scheme for future service?		
If yes, which of the options set out in 1,2 and 3 above would you		

support in relation to existing members accrued service		
1. give all existing members at 31 March 2008 an actuarially equivalent period of service in the new-look Scheme, according to a formula to be set by the Government Actuary?		
2. give existing scheme members at 31 March 2008 more credit in the new-look scheme than they would receive under (1)?		
3. treat all accrued service of existing scheme members at 31 March 2008 as a benefit to be payable on retirement, under terms of the current scheme, based on the final salary at retirement?		
Other – please specify:		

2.82 Scope of scheme employers' discretions

2.83 The consultation paper states that several administering authorities, in the light of their relatively more beneficial funding position, have suggested that specific optional scope could be provided in the new-look Scheme for LGPS employers. This would allow employers to opt to provide specific, additional benefits over and above the national benefit package for the Scheme, for example giving the employer freedom to:

- alter the definition of pensionable pay to enable more flexible remuneration packages
- alter the split between employee and employer costs
- offer additional membership as a retention tool (as currently provided for under regulation 52)
- offer certain members a better accrual rate.

2.84 Such benefits could be provided, on an individual employer basis, where the employer has satisfied itself of its ability to manage any extra liability accruing as a result, on a defined benefit basis, over the period of appointment. The employer would also have to satisfy themselves that their policy would meet any discrimination and equality requirements arising in employment law.

2.85 However, one of the strengths of the Scheme is that it is a national Scheme and it could be argued that a standard benefit package should be retained.

Question	**Answer**	
	Yes	**No**
18. Do you support the idea that there should be a facility for individual employers to opt to provide specific additional benefits (above the national core benefits)?		

2.86 Consultation

2.87 A briefing note detailing the draft amendments has been presented to CMT.

2.88 Unions are represented on the Tripartite Committee and are fully consulted on all aspects of the proposed changes.

SECTION 3 - STATUTORY OFFICER CLEARANCE

Chief Financial Officer	
Monitoring Officer	

SECTION 4 - CONTACT DETAILS AND BACKGROUND PAPERS

Contact:
Greg Foley – Group Manager – HR Employee Services
Tel: 020 8424 7655
Email: greg.foley@harrow.gov.uk

Background Papers:

DWP – Security in retirement: towards a new pensions system – May 2006

DCLG – Consultation Document – 'Where next? – Options for a new-look Local Government Pension Scheme in England and Wales' – June 2006.

IF APPROPRIATE, does the report include the following considerations?

1.	Consultation	**YES**
2.	Corporate Priorities	**NA**
3.	Community Safety (s17 Crime & Disorder Act 1998)	**NA**
4.	Manifesto Pledge Reference Number	**NA**