

Committee:	Licensing and General Purposes Committee
Date:	23 June 2008
Subject:	INFORMATION REPORT – Changes to the Local Government Pension Scheme
Responsible Officer:	Corporate Director of Finance - Myfanwy Barrett –
Portfolio Holder:	Leader encompassing Strategy, Partnership and Finance - Councillor David Ashton
Exempt:	No
Enclosures:	None

Section 1 – Summary

This report provides an outline of the main elements of the new look Local Government Pension Scheme (LGPS) effective from 1 April 2008.

FOR INFORMATION

Section 2 – Report

2.1 Background

2.2 As part of the Government's agenda to modernise public sector pension schemes, a major review of the LGPS in England and Wales commenced in August 2001 and culminated in the introduction of a new-look Scheme effective from 1 April 2008.

2.3 The regulations which govern the new look LGPS in England and Wales are;

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 which sets out the Scheme benefits package; <http://timeline.lge.gov.uk/2007BMandC/SI20071488/2007bIDX.htm>
- The Local Government Pension Scheme (Administration) Regulations 2008, detailing how the scheme functions are to be administered, http://www.opsi.gov.uk/si/si2008/uksi_20080239_en_1 and;
- The LGPS (Transitional Provisions) Regulations 2008, which details how the pre and post April 2008 benefit structures will interact and provides certain protections for existing members. http://www.opsi.gov.uk/si/si2008/uksi_20080238_en_1

2.4 Key Features of the New Scheme

2.5 The main provisions of the new Scheme are as follows:

- All existing members move to the new Scheme from 1 April 2008.
- The new Scheme provides a pension of 1/60th of final pay for each year of membership in the Scheme after 31 March 2008. There will be no automatic lump sum in respect of post 31 March 2008 membership. Membership to 31 March 2008 will still be calculated as 1/80th pension plus 3/80^{ths} lump sum.
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate (i.e. for every pound of pension given up the member gets £12 tax free lump sum).

Capital Value = ((20 x 1/80th + 1/60th pension) PLUS 3/80th lump sum)

- The final pay used to calculate scheme benefits is based on the better of the last three year's whole time equivalent pensionable pay or the re-valued (in line with the Retail Price Index (RPI)) average of the best three consecutive years' pensionable pay in the last ten years of service.
- Employees pay contributions according to the following table based on their whole-time equivalent pensionable pay. The range figures increase on 1 April each year by the rise in the Retail Prices Index and the employee's contribution band is reassessed annually.

Band	Range	Contribution rate
1	£0 - £12,000	5.5%
2	£12,001 - £14,000	5.8%
3	£14,001 - £18,000	5.9%
4	£18,001 - £30,000	6.5%
5	£30,001 - £40,000	6.8%
6	£40,001 - £75,000	7.2%
7	More than £75,000	7.5%

Employees who paid contributions at the protected 5% contribution rate as at 31 March 2008, will pay lower rates over the next three years until 1 April 2011 when their contribution rate will be brought into line with all other Scheme members.

The Government Actuary Department estimated that the implementation of new contribution rates would result in an average rate of 6.3%. Assessment of contributions based on actual Harrow Council experience for April/May 2008 would lead us to believe that the average rate is currently in the region of 6.19%.

- A normal Pension Age (NPA) of 65 for release of unreduced benefits.
- The earliest age for release of pension benefits (except on grounds of ill-health) is 55 for post 31 March 2008 members and 50 for existing members, however this will change to age 55 in 2010.
- Flexible retirement, with employer consent, can be considered from age 55, with members being able to draw all or part * of their benefits (or from age 50 for existing members opting to draw all or part of their benefits with employer consent before 31 March 2010).

* At this time Local Authorities are awaiting guidance from CLG as to how a part draw-down of retirement benefits is to be actioned.

- Employees can remain in the Scheme beyond age 65 but benefits must be drawn before age 75. Benefits drawn after age 65 will be actuarially increased.
- Survivor benefits for life, payable to spouses, civil partners and “nominated” dependent partners (opposite and same sex).
- A three tier ill health retirement benefit package under which, if a member’s employment is terminated because of permanent ill health and the member has at least 3 months scheme membership, the pension payable is to be based on the person’s accrued membership plus;-

Tier 1 – 100% of prospective membership between leaving and age 65 where the member has no reasonable prospect of being capable of obtaining gainful employment.

Tier 2 – 25% of prospective membership between leaving and age 65 where the member is unlikely to be capable of obtaining gainful employment within three years of leaving their current employment, but is likely to be capable of obtaining gainful employment before age 65.

Tier 3 – The third tier ill health payment provides an entitlement to accrued pension benefits (i.e. pension benefits calculated using individual’s actual scheme membership without enhancement) where the member is capable of gainful employment within three years of leaving their current employment.

The benefits will remain payable for such time as the member does not obtain gainful employment, or until the employer stops payments following a statutory review.

Gainful employment is defined as “paid employment for not less than 30 hours per week for a period of not less than 12 months”.

- A death grant of 3 times final pay for death in service; a death grant of 5 times annual pension if a deferred beneficiary dies; and a death grant of 10 times pension less the amount of pension already paid if a pensioner dies before age 75.
- Members will be able to buy extra scheme pension in multiples of £250 up to a maximum of £5,000 (to provide a pension for themselves only or to provide a pension for themselves and any survivor on their death) and / or they can pay Additional Voluntary Contributions (AVCs).
- The regulations include provisions whereby an employer has the discretion to augment membership by up to 10 years; and / or grant extra pension of up to £5,000; and / or contribute, with the Scheme member, to a Shared Cost AVC. A further report on discretions will be submitted to Licensing and General purposes Committee in September 2008.
- A cost sharing mechanism to maintain stability of costs in the new Scheme (see ‘Cost Sharing’ below).

Section 3 – Further Information

Cost Sharing

As referenced above, an element of the new look LGPS is that there is to be a degree of cost sharing in the future between employees and employers rather than employees paying a fixed employee contribution rate and the employer meeting the balance of all pension cost. The intention is to provide long-term sustainability and affordability for all stakeholders and to deal with the issues of increased life expectancy, changing demographics and rising pension costs.

A Policy Review Group has therefore been established to monitor closely longevity trends, ill-health and flexible retirement trends and other demographic experiences in the Scheme. This will provide the basis for decisions on Scheme developments, for considering proposed regulatory changes to the Scheme’s legal framework and for developing the cost-sharing mechanism.

On 19th February 2008 the Government issued an informal consultation document entitled “Sustaining the LGPS in England and Wales” which sets out the Government’s initial views on how the cost share mechanism could operate and considers what costs should be shared and how the proportion of any cost that is to fall to employees should be met (for example, via an increase in the employees’ contribution rate, a reduction in future service benefit accrual, or an increase in the scheme’s normal retirement age). This will be followed by a statutory, * national consultation exercise later in 2008 and the

subsequent making and laying of actual regulations no later than 31 March 2009 for implementation from 1st April 2011.

* Subject to timescales, either: -

- I. a report will be submitted to L & GP for consideration and an Elected Member response forwarded to CLG, or
- II. an officer response will be forwarded to CLG and details will be provided for information at the next available L & GP.

Communications

The Scheme changes have been communicated through the publication of newsletters and a DVD presentation issued to all contributors to the London Borough of Harrow Pension Fund and also through seminars held within the Civic Centre and off site.

Section 4 - Contact Details and Background Papers

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Background Papers:

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;

The Local Government Pension Scheme (Administration) Regulations 2008,

The LGPS (Transitional Provisions) Regulations 2008,

Consultation Document - "Sustaining the LGPS in England and Wales"