LONDON BOROUGH OF HARROW

Meeting:	Licensing and General Purposes Committee
Date:	7th March 2005
Subject:	Response to the Office of Deputy Prime Minister's (ODPM) stocktake Discussion Paper "Facing the Future – Principles and Propositions for an affordable and sustainable Local Government pension Scheme"
Key decision:	No
Responsible Chief Officer:	Executive Director – (Organisational Development)
Relevant Portfolio Holder:	Portfolio Holder Communications, Partnership and Human Resources
Status:	Part 1 – Public
Ward:	N/A
Enclosures:	Appendix 1 – Key points to draft response of Green Paper

1. Executive Summary

1.1. The Government is currently undertaking a consultation exercise on significant changes to the Local Government Pension Scheme (LGPS). The potential changes, which would affect both members' benefits and contributions, are proposed to come into force in 2008.

1.2. In revamping the LGPS, the Government's stated aims are to develop a 'modern, flexible new-look LGPS', which will provide long-term sustainability, and affordability for stakeholders and which will better serve the continuing needs of employers, Scheme members and taxpayers.

1.3. The Government intends to implement the changes two years after significant changes to the taxation system of UK pension provision are introduced. In April 2006, the UK pension tax regime is going to change radically. The new tax regime will allow much more flexibility in pension scheme design, with the current 'Inland Revenue limits' on benefits and contributions ceasing to apply. The Government therefore also intends to incorporate the additional flexibility afforded by these tax changes into the new-look LGPS.

1.4. The Key Changes:-

- Amend the definition of pensionable pay (e.g. restrict to basic pay excluding other currently pensionable allowances).

- A pension accrual rate of 1.6% pay for each year of service.
- The opportunity to take larger (tax-free) retirement lump sum, by commuting pension at a fixed exchange rate of £12 of lump sum per £1 pension foregone.
- A pivotal retirement age of 65, with the opportunity to retire earlier, retire partially or continue working and accrue enhanced benefits.
- Assess the need/demand for tiered member contributions, rising from 2.5% of pay for the lowest paid, to 10% for the highest paid.
- Two-tier ill health benefits depending on the degree of incapacity.
- The option of a defined contribution pension scheme as a voluntary top-up arrangement (instead of the current Additional Voluntary Contribution (AVC) or added-years provisions) and possibly as an alternative to the defined benefit scheme, with an appropriate level of employer contribution.
- Revamp of the compensation regulations.

2. Recommendations

2.1 That Elected Members consider the appropriateness of change in relation to the LGPS.

2.2 That Elected Members form an opinion as to the key areas detailed in this Report. (See Appendix 1)

REASON: Elected Members recognise both the importance of the LGPS and the potential implications for the future of the scheme. Response to the discussion paper required by 31st March 2005.

3. Consultation with Ward Councillors and Other Bodies

3.1 This report has been passed, as an information item, to members of the Pensions Investment Fund Panel as there are issues that will have a significant impact on the sustainability of the Harrow Pension Fund.

3.2 A copy of the Green Paper has been forwarded to all Harrow Pension Fund Scheme Employers, Head teacher and Chair of Governors of all Harrow Schools and UNISON. All parties were invited to either forward comment direct to this Committee or submit direct to the Office of the Deputy Prime Minister.

3.3 Harrow's Pension office has provided members of the pension scheme with access to seminars detailing the 1st April 2005 changes and details of the ODPM Green Paper. UNISON has been invited to co-present at all of these seminars. A copy of the Elected

Members response will be published on the Harrow Intranet and a summary provided in the annual Newsletter to active and pensioner members.

4. Policy Context (including Relevant Previous Decisions)

4.1 Harrow Council, through General Purposes and Licensing Committee (4th March 2003) submitted a response to the ODPM on the benefits package consultation paper, issued as part of the LGPS Stocktake exercise.

5. Relevance to Corporate Priorities

5.1 This report recognises the importance of pension provision and the role such provision plays in assisting the council achieve its stated priority of promoting social inclusion amongst all our residents both young and old, by seeking to eradicate poverty and by reducing the fear of crime.

5.2 In considering appropriate and measured response to the Consultation document Elected Members will need to balance the provision of a final salary defined benefit scheme as an excellent tool for recruitment and retention with the cost to Council taxpayers through employer contributions (See **Appendix 2**) to the Harrow Pension Fund.

6. Background information and options considered

6.1 The Government commenced a Stocktake of the Local Government Pension Scheme in 2001. This has led to significant changes to the LGPS in England and Wales which come into effect from 1 April 2005 and which will:

a) increase the minimum age of early retirement (i.e. Redundancy, Efficiency and Regulation 31 before age 60) from 50 to 55, except in the case of:

- scheme members who will be aged 50 or over on 31st March 2005 who will retain age 50 as their earliest retirement age, and

- scheme members who are retired on the grounds of permanent ill health (as ill health retirements do not have a minimum age criterion)

b) increase the Normal Payable Date in respect of retirement benefits accruing after 31 March 2005 to age 65. (There are transitional arrangements for employees' aged 50 and over as at 1st April 2005).

6.2 On 4th October 2004 the ODPM issued a Green Paper, Facing the Future – Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales.

6.3 The Green Paper states that the Government is committed to introducing new pension arrangements for local government, which could be introduced from 2008. Ministers have expressed their commitment to retaining a defined benefit final salary arrangement in England and Wales that is relevant to the local government workforce provided that it remains both affordable and sustainable.

7. Main Issues

7.1 The Green Paper raises many issues, but the four most significant are:

- authorities are increasingly concerned about the costs of the pension scheme; but at the same time both authorities and their employees are increasingly aware of the value of the scheme as part of the remuneration package. The reforms to be implemented in 2005 will have the effect of stabilising employer contributions for future service accrual at about 14% of the paybill (based on costing provided by the Government Actuary's Department). Employees currently pay just under 6%. The Green Paper proposals would keep employer contributions at about 14% for future service accrual whilst raising employee contributions to 7%. Authorities need to consider whether they believe this is sustainable or not, or whether it would be more appropriate to reduce benefits or further increase employee contributions or both? And if so by how much?

- should we keep a defined benefit scheme for employees or introduce one where the benefits are dependant upon market performance (a defined contribution scheme)? If we keep a defined benefit scheme, should this be based on final salary or, perhaps, on average salaries with a higher accrual rate?

- should we introduce a two-tier form of ill health retirement according to the extent and impact of the employee's ill health?

- should we move to direct compensation for severance rather than using the pension scheme as a vehicle for compensation?

7.2 Authorities have to be aware of the trade-off between savings on pensions and pressure on other aspects of the rewards package. There is no risk-free course of action available. Employees or their unions may seek to recoup perceived losses in pensions by higher pay demands, whilst employers may need to increase salaries to retain the value of rewards packages in a generally tight labour market.

8. Key Objectives

8.1 The key objectives of a new-look LGPS are:

- to ensure the pension scheme meets the needs of the employer as part of the remuneration package

- to ensure the scheme is affordable and sustainable

- to ensure the scheme is simple and efficient, and

- to ensure that the scheme dovetails well with state pensions policy.

8.2 Objective 1: To ensure the pension scheme meets the needs of the employer as part of the remuneration package, the key goals of any pension scheme should be:

- to be attractive to both current and prospective employees, and to assist employers in recruitment, reward and motivation of their employees

- to be valued by employees as an important part of their remuneration package and to deliver to them an appropriate level of income after retirement

- to assist the employer in the retention of staff in comparison to other employment opportunities which are open to employees

- to protect employees who may suddenly require income for themselves or their families through circumstances beyond their control, for example on premature death

- from the employers' perspective, to deliver value for money in terms of the long term and short term cost requirements, relative to the value obtained from the services provided by their employees, remunerated in part by the pension arrangements offered.

8.3 Thus, the LGPS has a number of important roles to play from the employers' perspective.

8.4 It is a vitally important element in the total remuneration package and the level of the pension promise (deferred pay) can have an influence on the level of current pay.

8.5 The value of the LGPS in terms of recruitment and retention is particularly significant at the present time, given the trend in the private sector to move to Defined Contribution pension arrangements.

8.6 Local government needs to attract and retain the calibre of staff required to deliver high quality, effective services. When designing a new-look LGPS, it is important to recognise the value of the pension scheme as a positive aid in the recruitment and retention of staff in a job market where there is competition for skilled employees and for young people entering the workforce. The LGPS therefore needs to remain as attractive to prospective and current employees as possible in relation to both the private sector and the other main comparator public sector pension schemes. This ties in with the Local Government Pay and Workforce Strategy, developed by the ODPM and the Employers' Organisation for local government, which says that local government employers should have a pay and rewards system that is sufficient to attract, retain and motivate staff as well as being fair and affordable. As private and public sector organisations compete for the best people in a proportionately diminishing pool of labour, salary may not be the only consideration – good terms and conditions, including pensions, will play their part.

	Agree	Disagree
Q1. *The Scheme forms part of the overall remuneration package and there is a balance to be struck within that overall package between pay and pensions (deferred pay)*		

8.7 Objective 2: To ensure the scheme is affordable and sustainable

8.8 According to the Green Paper, the illustrative benefits package for a new-look LGPS would result in an underlying rate of employers' pension contributions of 14% of pensionable pay in respect of future service accrual plus an average employee rate of 7%.

8.9 The employer contribution rate for future service accrual resulting from the 2004 Fund valuation of the Harrow Pension Fund differs from the figure of 14%. Hymans Robertson has determined that the future accrual rate arising from the outturn of the 2004 valuation is 12.9%. This is because the assumptions used by Hymans differ from those used by GAD (the Government Actuary's Department) and the 2004 valuation of the Harrow fund reflects the actual employer's membership profile.

8.10 **Option 1:** Recognition is made for the need to remain competitive in the job market and the need for the LGPS to remain as attractive to prospective and current employees as the other main comparator public sector schemes. One approach would be targeting an employer contribution rate in respect of future service accrual that is virtually the same as that under the current scheme (after the removal of the Scheme's 85 year rule from the current Scheme fully takes effect). Based on the GAD assumptions this would represent an employer's contribution rate of 14%, assuming there is an increase in the average employee's contribution rate to 7%.

8.11 **Option 2:** An alternative view is that at a time when pension scheme costs are under close scrutiny, Authorities are cautious about targeting an employer's contribution rate for future service accrual equivalent to that which will exist under the current scheme after the removal of the Scheme's 85 year rule from the current Scheme fully takes effect. Targeting a slightly lower employer rate (of, say, a reduction of 1%) for future benefit accrual would be justified, would be more acceptable to employers (and to Council tax payers), and would be more likely to ensure the longer-term affordability and sustainability of the Scheme. This could be achieved by:

a) *reducing the value of the benefits package outlined in the Green Paper by a target figure of 1% whilst retaining an average employee contribution rate of 7%; or*

b) *retaining the value of the benefits package outlined in the Green Paper, but increasing the average employee contribution rate by 1% (i.e. from 7% to 8%).*

8.12 It is recognised that reducing the benefit package (a), or increasing the employee contribution rate (b), has potential implications for recruitment and retention, for pay bargaining and for industrial relations within local government. Unless the other public sector schemes under review (e.g. Teachers and the NHS) also target a similar benefit package and level of employee/employer contributions, local authorities would be placed at a relative disadvantage in the job market and industrial relations would potentially be more fraught. One could therefore argue for a co-ordinated approach to the cost of comparator schemes across the public sector.

8.13 **Option 3:** As per option 2 but:

- target a larger reduction in the benefit package (to save more than 1%), or

- target a larger increase in the employee contribution rate (beyond 8%), or

- target a larger reduction in the benefit package and a larger increase in the employee contribution rate

8.14 From a wider perspective, it is noted that all the comparator public sector pension schemes are currently undergoing a similar review to the LGPS and appear to be proposing similar benefit packages. The opportunity should be taken to have a single set of scheme rules covering, for example, the LGPS, the Teachers Pension Scheme and the NHS Pension Scheme. This would not necessarily have to change the way the schemes are currently administered or change the notionally funded nature of the Teachers Pension Scheme or the NHS Pension Scheme nor the funded nature of the LGPS. A separate set of Management and Investment of Funds Regulations could be promulgated to deal with the management, investment and valuation of the continuing LGPS funds. However, working to a single set of Scheme regulations would have several advantages, including:

- all employees in the relevant sectors would have the same benefit package. This would help to ease staff movement between the sectors

- only one set of Scheme Regulations would have to be amended when changes are required, thereby saving on draughtsman time and Parliamentary time

- only one computerised administration system would be required

- standard employee guides, leaflets, member websites, etc could be developed for the whole of the sector; and

- it would perhaps extend the Gershon options for more efficient scheme administration.

	Agree	Disagree
Q2.*The LGPS should have a benefit structure broadly in line with that in other comparator public sector schemes*		
Q3. *With regard to the cost of the Scheme, please indicate which of the three options below you most support. Within your preferred option please indicate your preferred sub-option (where appropriate):*		

	Agree	Disagree
Q.3. Option 1 *We are supportive of targeting an employer contribution rate in respect of future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account); or*		
Q.3. Option 2 *We are cautious about targeting an employer contribution rate for future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account). Targeting a slightly lower employer rate (of, say, a reduction of 1%) would be justified, would be more acceptable to employers (and to Council tax payers) and would be more likely to ensure the longer term affordability and sustainability of the Scheme. This could be achieved by:*		
• ***Sub-Option 2A****: reducing the value of the benefits package outlined in the Green Paper by a target figure of 1% whilst retaining an average employee contribution rate of 7%; or*		
• ***Sub-Option 2B****: retaining the value of the benefits package outlined in the Green Paper but increasing the average employee contribution rate by 1% (i.e. from 7% to 8%)*		
Q.3. Option 3 *As per option 2 but with a larger reduction in employer contribution to be achieved via:*		
• ***Sub-Option 3A****: target a larger reduction in the benefit package (to save more than 1%), or*		
• ***Sub-Option 3B****: target a larger increase in the employee contribution rate (beyond 8%*		
• ***Sub-Option 3C****: target both a larger increase in the employee contribution rate and a larger reduction in benefits*		
Q23. *On the wider front, we see merit in there being one set of Scheme rules covering, for example, local government, teachers and the NHS*		

8.15 Objective 3: to ensure the scheme is simple and efficient

8.16 The Green Paper proposes that the new-look LGPS should be a final salary Defined Benefit scheme. This reflects the considered Harrow Council response (4th March 2003) to the benefits package consultation paper previously issued as part of the LGPS Stocktake exercise. However, the Green Paper also proposes that, in addition to the final salary Defined Benefit scheme, there could be a Defined Contribution scheme into which:

- contributions on pay in excess of basic pay could be paid, and/or
- additional voluntary contributions on basic pay could be paid, and
- even transfer values from other pension schemes could be paid.

8.17 Furthermore, the Green Paper suggests that an employee could choose to contribute (with an appropriate employer contribution) to the Defined Contribution scheme instead of being in the final salary Defined Benefit scheme.

8.18 There is no mention in the Green Paper of the current career average Defined Benefit scheme for Councillors, (not in operation for Harrow Council London Elected Members), but it is assumed that the intention would, perhaps, be for this to continue.

8.19 This being the case, local government could, from 2008, be running a final salary Defined Benefit scheme, a career average Defined Benefit scheme, a Defined Contribution top-up scheme, and a Defined Contribution alternative to the main scheme. Such diversity would mean that the pension provisions would not be simple to administer (by employers or as an administering authority) and, more importantly, would not be simple to understand (by employer or employee), thereby leading to an in-built lack of efficiency.

8.20 There is merit in offering a single scheme from 2008. This has the advantage of ensuring a single clear pension message that should be easier for all interested parties to understand.

8.21 In considering what form that scheme should take and reflecting on the various alternative types of occupational pension schemes, no other type of pension arrangement meets the needs of local government any better than a final salary scheme (although, due to the interaction with the current State system, no type of scheme is particularly suited to the needs of low paid staff).

8.22 In order to move to a simple, single arrangement, it should be considered that:

a) there is merit in simply offering a final salary Defined Benefit scheme to which both employees and councillors could contribute. Benefits could be calculated on the best of the last 3 or, perhaps, 5 years to overcome any fluctuations in pay rates leading up to retirement (or even, perhaps, on the average of the last 3 or 5 years if it is necessary to reduce the cost of the benefits package and/or mitigate any large increases in the final years pay)

b) there is no strong argument for offering a Defined Contribution option - either as a top-up to, or as an alternative to, the main scheme. Under the new tax regime from April 2006, employees will be able to participate in multiple concurrent pension arrangements chosen by them and available on the open market. Making personal arrangements to pay into a concurrent (top-up) scheme on the open market has the advantage that the person can continue paying into it even after leaving local government (which they could not do via an LGPS top-up arrangement). Whilst it could be argued that offering a Defined Contribution top-up scheme via the LGPS might encourage additional pension saving (because the savings can be arranged through the workplace and the administration charges would be less than on the open market), there is little evidence that this has had much impact in the past. Nationally, only a small proportion of scheme members currently pay AVCs or purchase added years. [At Harrow less than 5% of active scheme members make additional provision through either AVC's or Added Years]. Furthermore, with the removal by the Pensions Act 2004 of the need to offer an Additional Voluntary Contribution option to scheme members, there is concern about the potential investment route and advice implications should a voluntary choice in providing a Defined Contribution arrangement be made. The benefit regime procedures for a Defined Contribution scheme, as set out in the Finance Act 2004, would also markedly increase the complexity of the scheme, both for scheme members and scheme administrators

c) the option for members to purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension would be an easier option to administer and the cost and benefits would be clear to the client from the outset.

	Agree	Disagree
Q4. *A new-look LGPS should be a final salary Defined Benefit scheme. This should be open to:*		
a) employees and		
b) councillors		
• *There should be no Defined Contribution scheme as a top-up to the main scheme*		
• *There should be no Defined Contribution scheme as an alternative to the main scheme*		
• *There should be no facility for members to purchase added years*		
• *There should be a facility for members to purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension*		

8.23 Objective 4: to ensure that the scheme dovetails well with state pensions policy

8.24 In the Government Green Paper *Simplicity, Security and Choice: working and saving for retirement,* the Government outlined its wish to renew the partnership between the Government, individuals and employers in the provision of pensions. This reiterated the policy set out in *A New Contract for Welfare: Partnership in Pensions* in which the Government stated "the public and private sectors should work in partnership to ensure that, whenever possible, people are insured against foreseeable risks and make provision for their retirement." The Government's stated aim was to reverse the existing pension ratio of 60% State provision and 40% private provision (employer/employee). In the light of the accelerated closure of final salary schemes, the Government may no longer meet this aim and appears to now be concentrating on reducing pensioner poverty.

8.25 Depending on the level of a person's earnings and career path/working pattern, an employee could under the current system, due to the combination of the employee contribution rate (6%) and the level (if any) of any tax relief and reduced national insurance contributions, be better off not joining the local government pension scheme. The employee could rely instead on the State Second Pension and the Pension Credit. If the earners in a household have always had a low lifetime income, retirement saving may simply be an inappropriate activity for them because current consumption needs will be a very high proportion of their current income leaving little, if any, money to commit to savings. Under the current system, means-tested benefits will, for such people, replace a large proportion of earned income when the earner retires and the Institute of Fiscal Studies comments that, in this situation, a reliance on government-provided retirement income may well be a rational decision. This point is recognised in the Green Paper Report *'Simplicity, Security and Choice: working and saving for retirement',* in which it is pointed out that "those on moderate incomes [should] identify their financial priorities and [only] save where it seems sensible to do so." [Currently 10.25% of Harrow Council London employees whom are active members of the Harrow Pension Fund have earnings that do not attract income tax or national insurance].

8.26 Any recommendations made by the Pensions Commission next Autumn regarding a simplification of the State pension system, and the Government's reaction to any such recommendations, could have a major impact on pension scheme design, not just for the LGPS but for all pension schemes (including the other public sector schemes).

9. Scheme Membership Principles

9.1 Local government is changing, with greater devolution to schools, the transfer and outsourcing of work to the private sector, more partnership working and the growing movement of employees between parts of the public sector. The Government's opening up of the current LGPS to contractors thereby making it an industry-wide scheme has been welcomed. This has helped to keep a broad active member base at a time when employer pension costs have been increasing and the core of what local government delivers directly is diminishing. The fact that the new-look Scheme would cover the same range of employers as now will provide a degree of security and the continuation of admitted body status is viewed as key.

9.2 The Green Paper suggests that employees would be able to participate in the Scheme at any age (subject to the Inland Revenue limit of age 75) and would automatically be deemed to have opted into the Scheme (apart from those on fixed-term contracts of less than 3 months and employees of admitted bodies who would have to opt into membership of the Scheme).

	Agree	Disagree
Q5. *The Scheme should cover the same range of employers as now*		
Q6. *Employees should be allowed to contribute at any age (subject to the Inland Revenue limit of age 75)*		

10. Contributions – Employers and Employees

10.1 The Green Paper contains a proposition that the employees' contribution rates should vary depending on the level of pay received, as shown in the table below:

<£5k	Contribution rate of 2.5%
£5k but < £7k	Contribution rate of 5.5%
£7k but < £38k	Contribution rate of 7%
£38k but < £80k	Contribution rate of 9%
£80k and over	Contribution rate of 10%

10.2 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 could well result in employees joining the Scheme who may not be best served by doing so, due to the impact of the Pension Credit. It seems that any recommendations made by the Pensions Commission next Autumn regarding a simplification of the State pension system, and the Government's reaction to any such recommendations, could have a far bigger impact on scheme design for the lower paid than anything contained in the Green Paper.

- 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.

- A banded contribution structure as described in the Green Paper would mean that an employee earning £4,999 per year (on which s/he pays a contribution of 2.5%) would, if s/he received a £1 pay rise, pay contributions of 5.5% on the full £5,000. The only way to overcome this, if banded contribution rates are to be taken forward as a concept, would be to say that all employees pay 2.5% on the first £5,000 of pensionable earnings and 5.5% on the next band of earnings, etc. However, in order to achieve an average employee contribution rate of 7% the contribution rates for the individual bands will need to be higher than shown in the table at paragraph 10.1 above.

- 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. The pay bill for all these new scheme joiners will therefore increase dramatically.

	Agree	Disagree
Q7. *The employee/councillor contribution rate should be the same for all scheme members (not a graded/banded contribution rate dependent on the level of earnings)*		

10.3 The Green Paper suggests that pensionable salary could be limited to basic salary. All other payments such as bonuses, fees, overtime and allowances would be excluded. It is also suggested that the basic salary used in calculating the contribution rate could be the salary at the start of the financial year or, if employment commences or changes during the period, the salary on commencement of the job.

10.4 In principle, it would seem favourable to base contributions and benefits on basic pay because:

- it would be simple for employees to understand, for payroll to process and for pension sections to administer

- it would overcome some of the issues associated with the current system (e.g. where bonus payments tail off in a person's final years of work the person does not see reflected in their pension the full benefit of having paid contributions on proportionately larger bonus payments in earlier years), and

- it would provide greater certainty of, and potentially a reduction in, pension costs for employers.

10.5 However there may be concerns over the practicalities of the suggestion. Firstly, if existing members are compulsorily transferred to the new Scheme, restricting the definition to basic pay only would represent a significant reduction in pensionable pay for those current members who still receive a large element of their pay (prior to leaving/retirement) via such payments as bonus, shift allowances, or weekend/unsocial hours allowances. [28% of scheme members in Harrow receive contractual payments over and above basic pay]. The Local Government Pay Commission found that a significant element of the local government workforce still receive such payments. Secondly, if existing members are compulsorily transferred to the new Scheme, there may be particular difficulties in assessing the service credit in the new Scheme to compensate for the reduction in future pensionable pay.

	Agree	Disagree
Q8. *We are inclined to retain the current definition of pensionable pay*		

11. Scheme benefits in a new–look LGPS

11.1 It is appropriate that the Scheme should have a Scheme Retirement Age (SRA) of 65 and that benefits taken before SRA should be subject to an actuarial reduction, other than in the case of ill health retirements, and benefits drawn after SRA should be subject to an actuarial increase. The actuarial reductions/increases should be cost neutral to the Scheme and reflect the costs/savings of paying the benefits before or after SRA. Such an arrangement assists in retaining experienced people in the workforce for longer which, coupled with flexible retirement options, will help to offset the demographic issues faced as employers.

	Agree	Disagree
Q10. *The Scheme should have a Scheme Retirement Age (SRA) of 65. Benefits taken before SRA should be subject to an actuarial reduction, other than in the case of ill health retirement, whilst benefits drawn after SRA should be subject to an actuarial increase*		

11.2 The proposed accrual rate for the new-look Scheme is 1.6% of pay for each year of Scheme membership. This equates to a 1/62.5th scheme whereas proposals for the other comparator public sector schemes are for a 1/60th scheme. Bearing in mind that, in relation to the other main comparator public sector pension schemes, the LGPS needs to remain as attractive to prospective and current employees as possible, it would therefore be more sensible if all such schemes have a common accrual rate. The common accrual rate need not, however, be at the rate of 1/60th of pay for each year of membership.

11.3 The Green Paper proposes that members should be able to commute up to 25% of the value of their accrued pension into a tax free lump sum and that a lump sum of £12 would be given for each £1 of pension given up. Higher levels of commutation at retirement will reduce mortality risk. Cash conversion represents a transfer of risk from the Scheme to the member, while the member may benefit from the tax-free status of the lump sum and the extra flexibility that a lump sum may offer to the member. If the 25% maximum cash limit is adopted by the Scheme, it may result in members surrendering more of their pension for cash, thereby reducing risk for the pension fund/employers.

	Agree	Disagree
Q9. *The accrual rate per year of membership and the commutation rate should be no less favourable than the other main comparator public sector pension schemes*		

11.4 The Green Paper suggests that unreduced benefits could continue to be paid to early leavers whose departure is outside their control and occurs on or after age 55 (e.g. on redundancy or efficiency grounds). Benefits payable on redundancy/efficiency retirement prior to Scheme Retirement Age (SRA) should be payable at the employee's choice, at an actuarially reduced rate, with the option for the employer to waive or reduce the actuarial reduction. The employer would meet the cost of any such waiver or reduction. Harrow would apply its current methodology for reporting the cost of any waiver through the Early Retirement sub-committee.

	Agree	Disagree
Q13. *Benefits payable on redundancy/efficiency retirement prior to Scheme Retirement Age (SRA) should be payable at the employee's choice, at an actuarially reduced rate*.		
• *The employer should have the option to waive or reduce the actuarial reduction at the employer's cost*		

11.5 It is proposed that death in service lump sum should be increased to 3 times final pensionable pay and that there should be no short term survivor pensions (i.e. the survivor pension should not be paid at a higher rate for the first 3 – 6 months following death). Additionally, A surviving spouse's/partner's pension should not be reduced if there is a large age differential between the couple.

11.6 It is also proposed that unless a child is disabled, children's pensions should cease at age 18.

	Agree	Disagree
Q15. *The death in service lump sum should be 3 times final pensionable pay*		
Q16. *There should be no short term survivor pensions*		
Q18. *A surviving spouse's/partner's pension should not be reduced if there is a large age differential between the couple*		
Q19. *Unless a child is disabled, a child's pension should cease at age 18*		

11.7 With regard to intra-fund and inter-fund transfers the Green Paper proposes to extend the principle introduced for handling the cessation of concurrent employments i.e. that the service credit is adjusted to take account of the differences in pay between the new job and the job that has ended. However, to treat intra-fund and inter-fund transfers less favourably than club transfers from other parts of the public sector (which provide roughly day for day service credits) may be seen as inappropriate and would have implications for recruitment.

11.8 Similarly, if banded employee contributions are introduced, it is not believed there is a case for adjusting the accrued membership of employees who transfer to new jobs falling within a higher band. This would, particularly if the transfer occurred within the same employer, defeat the objective of a final salary scheme. The Scheme would turn into a semi career average Scheme for those who changed salary bands.

11.9 The Green Paper suggests that the transfer of pension rights into the LGPS from non-club schemes could purchase a service credit as under the current arrangements or the amount of the transfer value could be transferred into any Defined Contribution top-up scheme. Alternatively, transfers in could purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension (in the same way as an employee wishing to purchase additional membership – see paragraph 12.2).

	Agree	Disagree
Q20. *We are not in favour of adjusting a person's period of accrued membership if they move between jobs in local government, or if they move into a different salary band (if tiered employee contributions are introduced), in order to take account of the differences in pay levels*		
Q21. *The transfer of pension rights from other (non-club) pension schemes into the LGPS should purchase a period of membership in the Scheme or,*		
• *The Scheme should provide that transfers purchase additional benefits based on an actuarially set charge for purchasing £100 of annual pension*		

12. Defined contribution top-up scheme/added years facility

12.1 The Green Paper proposes that the new-look LGPS should be a final salary Defined Benefit scheme, but that there could be a Defined Contribution scheme. The Green Paper suggests that an employee could choose to contribute (with an appropriate employer contribution) to the Defined Contribution scheme instead of being in the final salary Defined Benefit scheme. For the reasons set out in paragraphs 8.15 – 8.22 above a Defined Contribution scheme for employees is neither viewed as a satisfactory alternative for a final-salary scheme nor helpful in developing a scheme that is both simple to administer and understand.

12.2 The option for members to purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension would provide a suitable vehicle for pension enhancement.

13. Flexible Retirement

13.1 As stated at paragraph 11.1 above it is suggested that the Scheme should have a Scheme Retirement Age (SRA) of 65. Benefits taken before SRA, other than where retirement is on the grounds of ill health, should be subject to an actuarial reduction and benefits drawn after SRA should be subject to an actuarial increase.

13.2 Members who wish to carry on paying into the Scheme beyond SRA in order to accrue further benefits should be allowed to do so.

13.3 Similarly, members making use of flexible retirement provisions allowing them to voluntarily draw pension and lump sum benefits on or after age 55 whilst still in employment should be allowed to carry on paying into the Scheme in order to accrue further benefits.

13.4 Flexible retirement should be linked to a change in circumstances and so benefits should, for example, only be payable where the employee down-shifts (i.e. moves to a lower graded post) or reduces their hours.

	Agree	Disagree
Q11. *Flexible retirement, linked to down-shifting (i.e. moving to a lower graded post) or a reduction in hours, should be permitted from April 2006 and members availed of this facility should be allowed to continue paying into the Scheme in their remaining employment*		

14. Survivors Benefits

14.1 As well as providing survivor benefits to widow(er)s, children, and to registered civil (same sex) partners, the Green Paper proposes that survivor benefits could be extended to unmarried ("common-law") partners.

14.2 There are two key drivers for change, firstly, to recognise the problem that same sex partners were not able to "marry" and secondly to reflect changes in society (i.e. an increase in "common-law" partners).

14.3 The first of these obstacles will be removed when same sex couples are permitted to enter into a civil registration. This will provide the registered partner with a survivor benefit based on the Scheme member's post 5 April 1988 membership. The Scheme member's pension benefits would also be subject to being split (in the same way as pension sharing on divorce) if the civil registration were brought to an end.

14.4 This leaves the position of “common-law” partners to be considered. The Green Paper suggests that the new Scheme could provide a survivor benefit for cohabiting partners provided there is evidence of:

- co-habitation
- an exclusive, long-term 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.

14.5 Whilst there is support of the introduction of “common-law” partners’ pensions (particularly if, as seems likely, the other comparator public sector schemes are moving towards their introduction) it must be recognised that, if the LGPS (and the other public sector schemes) were to go down this route, there would (as statutory Schemes) be provision for benefits to “common-law” partners who are not legally recognised for any other purposes by the State. Furthermore, the proposals would introduce a number of inequalities that need to be considered (particularly if they could leave the Scheme open to challenge) e.g.:

- 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 paragraph 14.4 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.

14.6 The alternative to the provision of spouses/partners/children’s pensions is for members to be provided with the option of a fully transferable survivor benefit at the point of retirement, but this raises additional complexity around Scheme design.

	Agree	Disagree
Q17. *We are supportive of the introduction of partners' pensions (particularly if, as seems likely, the other public sector schemes are moving towards their introduction)*		
• *But we feel there are a number of equity issues surrounding the proposals contained in the Green Paper which need to be considered*		

15. Ill health retirement and income protection

15.1 The Green Paper suggests that tiered ill-health retirement benefits could be introduced.

15.2 **Option 1:** Under the first tier there would be improved enhancement for members whose employment is terminated on the grounds that they are permanently incapable of performing any gainful employment by reason of ill-health. Their benefits would be paid based on potential membership to age 65, although it is suggested that a review mechanism could be considered to take account of future improvements in medical science.

15.2.1 A review mechanism for the first tier seems unmerited. If a person is so ill that they are certified as being permanently incapable of performing any gainful employment it would seem somewhat bureaucratic to introduce a review mechanism to catch the few individuals who may be lucky enough to have their lot in life improved by advances in medical science. It will, of course, be necessary for the Scheme rules to clearly define what is meant by gainful employment.

15.3 **Option 2:** The Green Paper also proposes that a second tier of un-enhanced ill-health retirement benefits could be available to those who are incapable of continuing in their role, but who are capable of undertaking other gainful employment. The un-enhanced benefit would be subject to review, and could cease or be reduced if the member took up subsequent employment. There is merit in this second tier of un-enhanced ill health retirement proposal, but careful consideration would need to be given in determining an equitable review system.

15.3.1 A further suggestion maybe that an un-enhanced ill health retirement should only be paid for a fixed period of, say, two years after which it ceases (and reverts to a deferred pension). Perhaps a weaker ill health certification procedure would then be appropriate i.e. unable to perform the duties of the job for the foreseeable future (rather than to age 65). Such an approach would provide the member with a cushion of two years in which to obtain further employment and this approach would find resonance with the Government's agenda of getting people on incapacity benefit back into work where they are able to do so.

15.4 **Option 3:** Another alternative is that there should be no second tier of health retirement benefits. Instead, the member would be provided with a deferred pension and the employer could make a one off termination payment (see point 16 below).

	Agree	Disagree
Q14. *We are in favour of a two tier ill health system* • *We agree that the benefits of those who are certified as being permanently incapable of any gainful employment should be based on their prospective service to age 65*		
With regard to the second tier, please tick the box which represents your favoured option		
Q14. Option 1 *We are generally in favour of a second tier of un-enhanced ill health retirement benefits payable for life, but we are not convinced of the equity of a review system; or*		
Q14. Option 2 *We are generally in favour of a second tier of un-enhanced ill health retirement benefits but believe these should only be payable for a limited period of time, say 2 years; or*		
Q14. Option 3 *We believe there should be no second tier of ill health retirement benefits. Instead, the member would be provided with a deferred pension and the employer could make a one off lump sum termination payment*		

16. Compensation

16.1 It is suggested that whilst repositioning the main scheme regulations it is appropriate to revoke the current Compensation Regulations and replace them with a general power for employers to make a one off payment of up to 2 years pay. An alternative approach would be to limit the payment to a maximum of 5 weeks pay for each year of service up to a maximum of 20 years service. This would match the 20 year limit for redundancy payments proposed in the Government's consultation paper on age discrimination.

16.2 The awards should not be limited to cases where the employee is made redundant. The power should extend beyond cases of redundancy or efficiency retirements to cover:

- terminations by mutual agreement; and
- potentially cases where there is a compromise agreement; and
- second tier ill health cases (see point 15 above).

16.3 In order to provide the individual with maximum flexibility it maybe appropriate to include a provision where the cash sum can be used to purchase additional LGPS benefits.

16.4 Employers wishing to provide the equivalent of the current compensatory added years (CAY) provision could achieve much the same effect through the Scheme's augmentation facility.

	Agree	Disagree
Q24. *We are in favour of revoking the current Compensation Regulations (i.e. Compensatory Added Years) and replacing them with a general power for employers to make a one off compensation payment to the employee of up to a maximum of 2 years salary.*		

17. Inland Revenue changes

17.1 Total membership in the Scheme should not be restricted (e.g. to a maximum of 40 years). This relaxation should be introduced into the current Scheme with effect from April 2006. The current facility for employers to waive or reduce an employee's contribution rate would then have to be removed.

17.2 If it is accepted that there should be no added years or Defined Contribution top-up facility in the new scheme then the removing of the 15% employee contribution limit becomes less of an issue. The Inland Revenue changes should of course facilitate any additional purchase of pension as outlined in 12.2 above.

17.3 Introducing a Scheme specific salary cap into the LGPS, upon which employee and employer contributions would be payable and upon which benefits would be calculated, would help to constrain the cost of the final salary Defined Benefit scheme. However, decisions would then need to be taken regarding the level at which the cap should be set.

17.4 It maybe appropriate for no specific salary cap to be applied in respect of benefits accruing in the future. It is recognised that a cap would simply add to pressure to increase salary levels above the cap (in order to compensate for the lack of pension rights on salary above the cap). The benefits already accrued in respect of those members currently subject to the earnings cap of £102,000 will need to be dealt with in a fair and equitable manner. [Currently impacts on 4 active scheme members at Harrow]. The contributions that would have been paid by those employees to date on earnings above the cap, and the foregone investment return on those earnings, are marginal when seen in the context of the value of the Fund as a whole. However, even though the numbers of employees affected is small, simply removing the cap in respect of the accrued benefits could result in a windfall gain for such members, which would be politically sensitive. As stated above, a fair, equitable and simple solution for dealing with their accrued benefits/membership needs to be found. For example, the accrued membership could be adjusted to ensure the value of the benefit package remained the same. Thus, a member whose pensionable pay is currently capped at £102,000 but who is earning £153,000 could have 10 years membership converted to 6.666 years membership. A pension of 10/80 x £102,000 is the same as a pension of 6.666/80 x £153,000. The member could then be given the opportunity to purchase the 3.334 year adjustment.

17.5 The Scheme should not restrict scheme benefits to a specified level e.g. to the lifetime allowance. If the latter limit were chosen as a limit on overall benefits, administering authorities would need to continually monitor the level of members' pension rights in other pension schemes/arrangements. This would be extremely bureaucratic and cumbersome to administer. Members should be permitted to accrue benefits above the lifetime allowance.

17.6 It is not deemed appropriate that employers should be permitted to meet the tax charge arising from the award of an additional period of membership which results in a member's benefits increasing above the annual allowance.

	Agree	Disagree
Q12. The new Inland Revenue flexibilities should be built into the LGPS from April 2006.		
• No special provisions should be made for members whose benefits exceed the new lifetime or annual allowances		
• Nor should a Scheme specific earnings cap be retained in respect of the future membership of those employees currently subject to the earnings cap of £102,000 per annum (although a fair and equitable solution will need to be found in respect of their accrued membership)		

18. <u>Transitional arrangements</u>

18.1 To ensure a simplified, single framework for the future, the Green Paper suggests that any new-look Scheme could provide that every person who is contributing to the current LGPS on the date the new scheme commences would be automatically transferred to the new arrangement and be awarded a period of membership in the new scheme which is of equal value. Deferred and pensioner members, at the date the new scheme commences, would be entitled to retain benefits in the current LGPS.

18.2 It is recognised that the administrative exercise of converting each active member's accrued membership in the current Scheme into a period of membership in the new Scheme will be fraught with difficulties, particularly if only basic salary is pensionable under the new Scheme. Nevertheless, if these can be overcome and the service conversion is fair and equitable, such a move should result, long-term, in a scheme that is reasonably easy to administer and understood by all members. The conversion routine would need to cater, not just for active members at the date the new Scheme is introduced, but also for existing deferred members who rejoin the LGPS some time, perhaps many years, after the new Scheme has commenced.

	Agree	Disagree
Q22. *Transferring existing scheme members from the current Scheme to a new-look LGPS has merit, as all contributors would then be in a single Scheme, but only if the service conversion is workable, fair and equitable*		

19. Governance

19.1 LGPS administration costs compare very favourably with administration costs in the private sector and nearly all the LGPS administering authorities use a standard computerised pension administration system developed, over many years, in collaboration with the private sector. The administering authorities are also entering into more partnership work, both with each other and with the LGPC (e.g. the collaboration on a national scheme members website), and are devoting more resources to Scheme communication. Whilst further improvements are possible the achievements already made should not be undervalued.

19.2 At a purely practical level, one of the issues identified in the Green Paper is the importance of timely and accurate information from employing authorities. This is a very important point as the perceived effectiveness and efficiency of the administering authority is in no small way dependent on the delivery of prompt and accurate data from employers. There is suggestion that the LGPS Regulations should be amended to set out the timescales within which accurate information should be supplied by employers to the administering authority. Elected members will be aware that Harrow Pension service has already developed and applied such timescales in relation to Admission Agreements.

19.3 In terms of the actual Pension Funds it is assumed that, as was the case with the transition from the Local Government Pension Scheme Regulations 1995 to the Local Government Pension Scheme Regulations 1997, it will not be necessary to create a closed Fund for the pre-April 2008 leavers. Instead, each administering authority would continue to administer a single Fund for both pre and post-April 2008 leavers.

20. Simplification

20.1 The Green Paper raises the prospect of a greater use of codes of practice in association with a simplified, regulatory framework. Codes of practice can, of course, be updated more quickly than a statutory instrument but, conversely, detailed regulation may provide a more certain framework for interpretation. An appropriate balance needs to be struck between the two.

20.2 It is felt that it would be helpful to structure new regulations in such a way that it is possible to 'compartmentalise' subjects so as to eliminate, as far as possible, the need for constant cross-referencing. It would also be helpful if the sequence of the regulations followed, as far as possible, the sequence of events experienced by members. Each section should then fall into three/four parts.

Part 1 - Policy Context and Aims (if this can be achieved in a Statutory Instrument)
Part 2 - Mandatory provisions
Part 3 - Discretionary provisions

Part 4 - Guidance to be followed (e.g. guidance from GAD)

20.3 As stated in paragraph 8.14, there is awareness that all the comparator public sector pension schemes are currently undergoing a similar review to the LGPS and appear to be proposing similar benefit packages. The opportunity should be taken to have a single set of scheme rules covering, for example, the LGPS, the Teachers Pension Scheme and the NHS Pension Scheme.

21. Alternative types of pension arrangements

21.1 There are a number of private sector companies moving to a defined contribution scheme for new staff and there is also an awareness of the option of a money purchase scheme for new civil servants. In the private sector, money purchase schemes depend wholly on investment returns and require the pensioner (retired scheme member) to purchase an annuity before age 75, the amount of which depends on the state of the annuity market at the time the individual wishes to purchase an annuity.

21.2 It is suggested that, compared to Defined Contribution schemes, Defined Benefit schemes provide employees with a more reliable promise for the future. They also assist in the Government's aim of delivering a reasonable pension to all in retirement. A Defined Contribution scheme is unlikely to produce adequate pension benefits unless the combined employee and employer contributions are set at an adequate level. It has been reported on numerous occasions that the average employer contribution to a Defined Contribution scheme is about half that paid to a Defined Benefit scheme and that average employee contributions to a Defined Contribution scheme are about 3% of salary. Pensions from a Defined Contribution scheme are therefore likely to be significantly less than in a Defined Benefit scheme. Even if a system can be devised which does not mirror the private sector, but uses the Pension Fund as the vehicle for investment and the vehicle from which an annuity can be purchased, there is still the problem of perception to overcome. The personal pension mis-selling saga, the problems with the Equitable Life Assurance Society and the extensive press coverage of the adverse effects of moves in the private sector to Defined Contribution schemes currently loom large in the psyche of the British public.

	Agree	Disagree
Q25. *If you do not agree with the first statement in* ***Q.4.*** *above (i.e. the LGPS should be a final salary Defined Benefit scheme for both employees and councillors) what alternative would you prefer?*		
• *A final salary Defined Benefit scheme for employees plus a career average Defined Benefit scheme for councillors, or*		
• *A career average Defined Benefit scheme for all employees and councillors, or*		
• *Defined Contribution scheme for all employees and councillors, or*		
• *Other (please specify)*		

22. Legal Observations

22.1 Contained within the body of the report.

23. Conclusion

23.1 This consultation will have significant impact on the future of members of the LGPS and the Harrow Pension Fund. It is imperative that a response to the Green Paper proposals should be made as this is a crucial stage in the development of the LGPS.

24. Background Papers

24.1 Office of the Deputy Prime Minister Green Paper –:“Facing the Future – Principles and Propositions for an affordable and sustainable Local Government pension Scheme”
Government Green Paper “Simplicity, Security and Choice: Working and Saving for Retirement”

25. Author

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Appendix 1 – Questionnaire on key points to draft response of Green Paper

Based on the views presented in the report please indicate your agreement or otherwise with the following key points being made in response to the Green Paper			
	Please tick one		
	Agree		**Disagree**
Q.1. The Scheme forms part of the overall remuneration package and there is a balance to be struck within that overall package between pay and pensions (deferred pay)	❑		❑
Q.2. The LGPS should have a benefit structure broadly in line with that in other comparator public sector schemes	❑		❑
Q.3. With regard to the cost of the Scheme, please indicate which of the three options below you most support. Within your preferred option please indicate your preferred sub-option (where appropriate): **Q.3. Option 1** We are supportive of targeting an employer contribution rate in respect of future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account); or	❑		❑
<u>Q.3. Option 2</u> We are cautious about targeting an employer contribution rate for future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account). Targeting a slightly lower employer rate (of, say, a reduction of 1%) would be justified, would be more acceptable to employers (and to Council tax payers) and would be more likely to ensure the longer term affordability and sustainability of the Scheme. This could be achieved by:	❑		❑
• **Sub-Option 2A**: reducing the value of the benefits package outlined in the Green Paper by a target figure of 1% whilst retaining an average employee contribution rate of 7%; or	❑		❑
• **Sub-Option 2B**: retaining the value of the benefits package outlined in the Green Paper but increasing the average employee contribution rate by 1% (i.e. from 7% to 8%)	❑		❑

	Agree		Disagree
Q.3. Option 3 As per option 2 but with a larger reduction in employer contribution to be achieved via:	❑		❑
• **Sub-Option 3A**: target a larger reduction in the benefit package (to save more than 1%), or	❑		❑
• **Sub-Option 3B**: target a larger increase in the employee contribution rate (beyond 8%)	❑		❑
• **Sub-Option 3C**: target both a larger increase in the employee contribution rate and a larger reduction in benefits	❑		❑
Q.4. A new-look LGPS should be a final salary Defined Benefit scheme. This should be open to:	❑		❑
8. employees and	❑		❑
9. councillors	❑		❑
• There should be no Defined Contribution scheme as a top-up to the main scheme	❑		❑
• There should be no Defined Contribution scheme as an alternative to the main scheme	❑		❑
• There should be no facility for members to purchase added years	❑		❑
• There should be a facility for members to purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension	❑		❑
Q.5. The Scheme should cover the same range of employers as now	❑		❑
Q.6. Employees should be allowed to contribute at any age (subject to the Inland Revenue limit of age 75)	❑		❑

	Agree		Disagree
Q.7. The employee/councillor contribution rate should be the same for all scheme members (not a graded/banded contribution rate dependent on the level of earnings)	❑		❑
Q.8. We are inclined to retain the current definition of pensionable pay	❑		❑
Q.9. The accrual rate per year of membership and the commutation rate should be no less favourable than the other main comparator public sector pension schemes	❑		❑
Q.10. The Scheme should have a Scheme Retirement Age (SRA) of 65. Benefits taken before SRA should be subject to an actuarial reduction, other than in the case of ill health retirement, whilst benefits drawn after SRA should be subject to an actuarial increase	❑		❑
Q.11. Flexible retirement, linked to down-shifting (i.e. moving to a lower graded post) or a reduction in hours, should be permitted from April 2006 and members availed of this facility should be allowed to continue paying into the Scheme in their remaining employment	❑		❑
Q.12. The new Inland Revenue flexibilities should be built into the LGPS from April 2006. • No special provisions should be made for members whose benefits exceed the new lifetime or annual allowances • Nor should a Scheme specific earnings cap be retained in respect of the future membership of those employees currently subject to the earnings cap of £102,000 per annum (although a fair and equitable solution will need to be found in respect of their accrued membership)	❑ ❑ ❑		❑ ❑ ❑

	Agree		Disagree
Q.13. Benefits payable on redundancy/efficiency retirement prior to Scheme Retirement Age (SRA) should be payable at the employee's choice, at an actuarially reduced rate.	❑		❑
• The employer should have the option to waive or reduce the actuarial reduction at the employer's cost	❑		❑
Q.14. We are in favour of a two tier ill health system ***[If you disagree with the above statement, go to question 15]***	❑		❑
• We agree that the benefits of those who are certified as being permanently incapable of any gainful employment should be based on their prospective service to age 65	❑		❑
With regard to the second tier, please tick the box which represents your favoured option:			
Q.14. Option 1 We are generally in favour of a second tier of un-enhanced ill health retirement benefits payable for life, but we are not convinced of the equity of a review system; or	❑		❑
Q.14. Option 2 We are generally in favour of a second tier of un-enhanced ill health retirement benefits but believe these should only be payable for a limited period of time, say 2 years; or	❑		❑
Q.14. Option 3 We believe there should be no second tier of ill health retirement benefits. Instead, the member would be provided with a deferred pension and the employer could make a one off lump sum termination payment	❑		❑
Q.15. The death in service lump sum should be 3 times final pensionable pay	❑		❑
Q.16. There should be no short term survivor pensions	❑		❑

	Agree		Disagree
Q.17. We are supportive of the introduction of partners' pensions (particularly if, as seems likely, the other public sector schemes are moving towards their introduction)	❑		❑
• But we feel there are a number of equity issues surrounding the proposals contained in the Green Paper which need to be considered	❑		❑
Q.18. A surviving spouse's/partner's pension should not be reduced if there is a large age differential between the couple	❑		❑
Q.19. Unless a child is disabled, a child's pension should cease at age 18	❑		❑
Q.20. We are not in favour of adjusting a person's period of accrued membership if they move between jobs in local government, or if they move into a different salary band (if tiered employee contributions are introduced), in order to take account of the differences in pay levels	❑		❑
Q.21. The transfer of pension rights from other (non-club) pension schemes into the LGPS should purchase a period of membership in the Scheme or,	❑		❑
• The Scheme should provide that transfers purchase additional benefits based on an actuarially set charge for purchasing £100 of annual pension	❑		❑
Q.22. Transferring existing scheme members from the current Scheme to a new-look LGPS has merit, as all contributors would then be in a single Scheme, but only if the service conversion is workable, fair and equitable	❑		❑

	Agree		Disagree
Q.23. On the wider front, we see merit in there being one set of Scheme rules covering, for example, local government, teachers and the NHS	❑		❑
Q.24. We are in favour of revoking the current Compensation Regulations (i.e. Compensatory Added Years) and replacing them with a general power for employers to make a one off compensation payment to the employee of up to a maximum of 2 years salary.	❑		❑
Q.25. If you do not agree with the first statement in **Q.4.** above (i.e. the LGPS should be a final salary Defined Benefit scheme for both employees and councillors) what alternative would you prefer? (please tick as appropriate)	❑		❑
• A final salary Defined Benefit scheme for employees plus a career average Defined Benefit scheme for councillors, or	❑		❑
• A career average Defined Benefit scheme for all employees and councillors, or	❑		❑
• Defined Contribution scheme for all employees and councillors, or	❑		❑
• Other (please specify)	❑		❑

Additional comments:

The table below has been populated purely as an indicative aid. The preferences highlighted reflect the thoughts of the Group Manager - Lifecycle Management.

Appendix 1 – Questionnaire on key points to draft response of Green Paper

Based on the views presented in the report please indicate your agreement or otherwise with the following key points being made in the EO/LGPC draft response to the Green Papers

	Please tick one	
	Agree	**Disagree**
Q.1. The Scheme forms part of the overall remuneration package and there is a balance to be struck within that overall package between pay and pensions (deferred pay)	✓	❑
Q.2. The LGPS should have a benefit structure broadly in line with that in other comparator public sector schemes	✓	❑
Q.3. With regard to the cost of the Scheme, please indicate which of the three options below you most support. Within your preferred option please indicate your preferred sub-option (where appropriate):		
Q.3. Option 1 We are supportive of targeting an employer contribution rate in respect of future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account); or	❑	❑
<u>Q.3. Option 2</u> We are cautious about targeting an employer contribution rate for future service accrual that is equivalent to that under the current Scheme (after the effects of the removal of the 85 year rule from the current Scheme have been taken into account). Targeting a slightly lower employer rate (of, say, a reduction of 1%) would be justified, would be more acceptable to employers (and to Council tax payers) and would be more likely to ensure the longer term affordability and sustainability of the Scheme. This could be achieved by:	✓	❑
• **Sub-Option 2A**: reducing the value of the benefits package outlined in the Green Paper by a target figure of 1% whilst retaining an average employee contribution rate of 7%; or	❑	❑
• **Sub-Option 2B**: retaining the value of the benefits package outlined in the Green Paper but increasing		

the average employee contribution rate by 1% (i.e. from 7% to 8%)	✓	❑

	Agree	**Disagree**
Q.3. Option 3 As per option 2 but with a larger reduction in employer contribution to be achieved via:	❑	❑
• **Sub-Option 3A**: target a larger reduction in the benefit package (to save more than 1%), or	❑	❑
• **Sub-Option 3B**: target a larger increase in the employee contribution rate (beyond 8%)	❑	❑
• **Sub-Option 3C**: target both a larger increase in the employee contribution rate and a larger reduction in benefits	❑	❑
Q.4. A new-look LGPS should be a final salary Defined Benefit scheme. This should be open to:	✓	❑
c) employees and	✓	❑
d) councillors	✓	❑
• There should be no Defined Contribution scheme as a top-up to the main scheme	✓	❑
• There should be no Defined Contribution scheme as an alternative to the main scheme	✓	❑
• There should be no facility for members to purchase added years	❑	✓
• There should be a facility for members to purchase additional scheme benefits based on an actuarially set charge for purchasing £100 of annual pension	✓	❑
Q.5. The Scheme should cover the same range of employers as now	✓	❑
Q.6. Employees should be allowed to contribute at any age (subject to the Inland Revenue limit of age 75)	✓	❑

	Agree	Disagree
Q.7. The employee/councillor contribution rate should be the same for all scheme members (not a graded/banded contribution rate dependent on the level of earnings)	✓	❑
Q.8. We are inclined to retain the current definition of pensionable pay	✓	❑
Q.9. The accrual rate per year of membership and the commutation rate should be no less favourable than the other main comparator public sector pension schemes	✓	❑
Q.10. The Scheme should have a Scheme Retirement Age (SRA) of 65. Benefits taken before SRA should be subject to an actuarial reduction, other than in the case of ill health retirement, whilst benefits drawn after SRA should be subject to an actuarial increase	✓	❑
Q.11. Flexible retirement, linked to down-shifting (i.e. moving to a lower graded post) or a reduction in hours, should be permitted from April 2006 and members availed of this facility should be allowed to continue paying into the Scheme in their remaining employment	✓	❑
Q.12. The new Inland Revenue flexibilities should be built into the LGPS from April 2006.	✓	❑
• No special provisions should be made for members whose benefits exceed the new lifetime or annual allowances	✓	❑
• Nor should a Scheme specific earnings cap be retained in respect of the future membership of those employees currently subject to the earnings cap of £102,000 per annum (although a fair and equitable solution will need to be found in respect of their accrued membership)	✓	❑

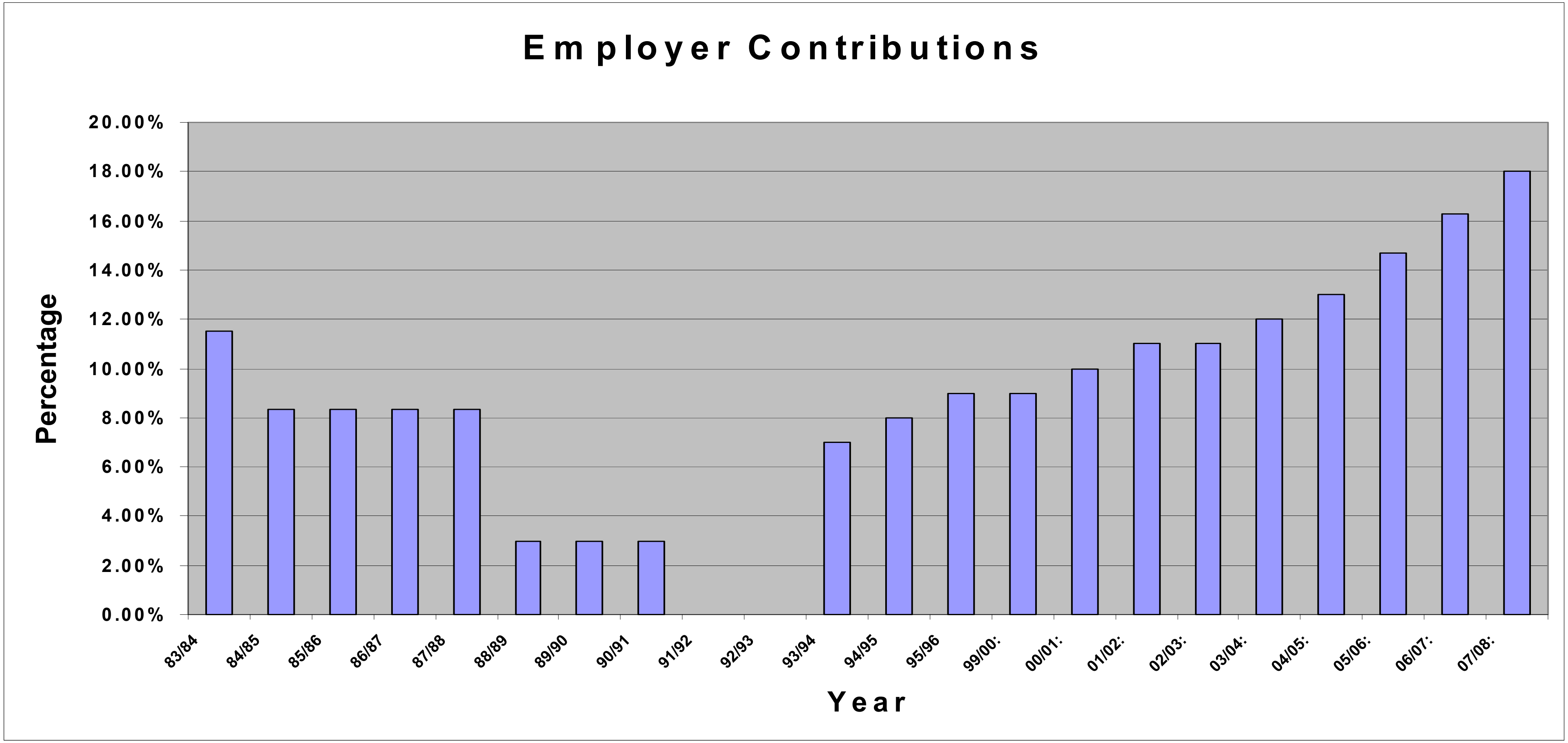
	Agree	Disagree
Q.13. Benefits payable on redundancy/efficiency retirement prior to Scheme Retirement Age (SRA) should be payable at the employee's choice, at an actuarially reduced rate.	✓	❑
• The employer should have the option to waive or reduce the actuarial reduction at the employer's cost	❑	✓
Q.14. We are in favour of a two tier ill health system ***[If you disagree with the above statement, go to question 15]***	✓	❑
• We agree that the benefits of those who are certified as being permanently incapable of any gainful employment should be based on their prospective service to age 65	✓	❑
With regard to the second tier, please tick the box which represents your favoured option:		
Q.14. Option 1 We are generally in favour of a second tier of un-enhanced ill health retirement benefits payable for life, but we are not convinced of the equity of a review system; or	✓	❑
Q.14. Option 2 We are generally in favour of a second tier of un-enhanced ill health retirement benefits but believe these should only be payable for a limited period of time, say 2 years; or	❑	❑
Q.14. Option 3 We believe there should be no second tier of ill health retirement benefits. Instead, the member would be provided with a deferred pension and the employer could make a one off lump sum termination payment	❑	❑
Q.15. The death in service lump sum should be 3 times final pensionable pay	✓	❑
Q.16. There should be no short term survivor pensions	❑	✓

	Agree	Disagree
Q.17. We are supportive of the introduction of partners' pensions (particularly if, as seems likely, the other public sector schemes are moving towards their introduction)	✓	❑
• But we feel there are a number of equity issues surrounding the proposals contained in the Green Paper which need to be considered	✓	❑
Q.18. A surviving spouse's/partner's pension should not be reduced if there is a large age differential between the couple	✓	❑
Q.19. Unless a child is disabled, a child's pension should cease at age 18	❑	✓
Q.20. We are not in favour of adjusting a person's period of accrued membership if they move between jobs in local government, or if they move into a different salary band (if tiered employee contributions are introduced), in order to take account of the differences in pay levels	✓	❑
Q.21. The transfer of pension rights from other (non-club) pension schemes into the LGPS should purchase a period of membership in the Scheme or,	✓	❑
• The Scheme should provide that transfers purchase additional benefits based on an actuarially set charge for purchasing £100 of annual pension	❑	❑
Q.22. Transferring existing scheme members from the current Scheme to a new-look LGPS has merit, as all contributors would then be in a single Scheme, but only if the service conversion is workable, fair and equitable	✓	❑

	Agree	Disagree
Q.23. On the wider front, we see merit in there being one set of Scheme rules covering, for example, local government, teachers and the NHS	✓	❑
Q.24. We are in favour of revoking the current Compensation Regulations (i.e. Compensatory Added Years) and replacing them with a general power for employers to make a one off compensation payment to the employee of up to a maximum of 2 years salary.	✓	❑
Q.25. If you do not agree with the first statement in **Q.4.** above (i.e. the LGPS should be a final salary Defined Benefit scheme for both employees and councillors) what alternative would you prefer? (please tick as appropriate)	❑	❑
• A final salary Defined Benefit scheme for employees plus a career average Defined Benefit scheme for councillors, or	❑	❑
• A career average Defined Benefit scheme for all employees and councillors, or	❑	❑
• Defined Contribution scheme for all employees and councillors, or	❑	❑
• Other (please specify)	❑	❑

Additional comments:

Appendix 2



Employer Contributions
20.00%
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Percentage
83/84
84/85
85/86
86/87
87/88
88/89
89/90
90/91
91/92
92/93
93/94
94/95
95/96
99/00:
00/01:
01/02:
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03/04:
04/05:
05/06:
06/07:
07/08:
Year