

WILTSHIRE PENSION FUND COMMITTEE
21 November 2005

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS

Introduction

1. At the September meeting this Committee noted that the changes to the Local Government Pension Scheme (LGPS) implemented with effect from April 2005 had been revoked by the Deputy Prime Minister.
2. The Committee also noted that an interim valuation of the Fund as at 31 March 2005 would be carried out by the Actuary, Hymans Robertson, to assess the effect on the Wiltshire Fund of reinstating the 'Rule of 85'.
3. A Tripartite Committee was set to look at the long-term future of the LGPS. Following the latest in a series of meetings on 2 November, the Deputy Prime Minister confirmed that he intends to issue draft regulations later this month for consultation, following which amendment regulations would be made in March and come into effect from April 2006.

Purpose of the Report

4. The purpose of this report is to inform Members of the outcome of the interim valuation and the proposals emerging from the meeting of 2 November.

Outcome of the Interim Valuation

5. The main conclusions of the Report are set out in the Executive Summary.
6. Using the same assumptions as for the 2004 Valuation, the funding level at 31 March 2005 is 79% compared with 75% at 31 March 2004. If allowance is made for increased life expectancy, the 2005 funding level becomes 75%.
7. The Report concludes that the cost of reinstating the Rule of 85 in 2005-06 is 1.5% of payroll, or in cash terms £3.5m, based on an estimated total payroll of £230 million for the whole fund.
8. The employers' share of the cost of accruing future benefits and ignoring past service deficit is 13.4%, compared with 13.0% at 2004.
9. The Report recommends that employers be advised of the outlook for future contribution rates and given the opportunity to pay increased contributions, but that the minimum level of employers' contributions should not be increased as a result of the interim valuation.

The Tripartite Committee

10. To summarise, the issues for further discussion by the Tripartite Committee are-

11. The Rule of 85 has to be removed from the Scheme no later than 1 October 2006 to comply with the EC Directive on Equality. Benefits up to the date of removal are to be protected and there will be transitional protection for older Scheme members, as with the 2005 changes.
12. The increase in the minimum pension age from 50 to 55 can be delayed and introduced at the same time as other public sector schemes, but no later than 2010. The actuarial reduction factors for early retirement to be reviewed to take account of greater life expectancy, with a provision to allow Scheme members to 'buy out' the reduction by additional contributions.
13. The cost to employers of the reinstatement of the Rule of 85 can potentially be recovered by introducing an option for Scheme members to take a larger tax-free lump sum by commuting part of their pension from April 2006, thereby reducing the longer-term pension liability.
14. All sides are committed to ongoing discussions with a view to producing a policy discussion document by June 2006 on a new Scheme. The intention is for draft regulations to be issued in the Autumn of 2006, with actual regulations in April 2007 for implementation in April 2008.

Financial Implications and Risk Assessment

15. The solution outlined in paragraph 14 above could mean that the cost of the revocation could be met at no cost to the Government, or to local authority employers and council tax payers. The employers and unions were asked to obtain further actuarial advice on this proposal and are expected to meet again in the next few weeks.

Environmental Impact of the Proposal

16. None.

Recommendation

17. The Committee is asked to note:
 - a) the Interim Valuation Report,
 - b) the issues arising from the Tripartite Committee meeting on 2 November and,
 - c) that employers will be informed of Hymans Robertson's recommendation about employers' contributions.

MIKE PRINCE
County Treasurer

Report Author: Nick Nicholson

Unpublished documents relied upon in the production of this report: NONE

40/2006/PEN/NN