

WILTSHIRE PENSION FUND COMMITTEE
25 May 2006

UPDATE ON LOCAL GOVERNMENT PENSION SCHEME REGULATIONS

Introduction

1. At the November 2005 meeting this Committee noted that the Deputy Prime Minister had confirmed that he would issue amendment regulations in March 2006, following a series of meetings of the Tripartite Committee.
2. The Local Government Pension Scheme (Amendment) Regulations 2006 were laid before Parliament on 30 March 2006.
3. Following the strike action on 28 March 2006, the Local Government Association and unions issued a joint statement, which covered further negotiations on the future of the Scheme to be concluded by the end of June 2006 and further strike action was suspended.

Purpose of the Report

4. The purpose of this report is to inform Members of the main changes introduced by the Amendment Regulations.

Tax Regime Changes from 6 April 2006

5. The Finance Act 2004 replaced the 8 previous tax regimes governing occupational pension schemes with a single regime from 6 April 2006. A number of changes introduced by the Finance Act are reflected in the Amendment Regulations and some involve the exercise of discretion by Scheme employers.
6. The Scheme has a normal pension age of 65, but employees can now continue to earn benefits up to age 75. As a consequence, councillor members' pension age has been equalised at 65, instead of 70. Members who continue in the Scheme beyond 65 will receive actuarially enhanced benefits when they eventually retire.
7. High earners subject to the earnings 'cap' (£105,600 in 2006/7) will pay contributions on and count their full actual pay for pension in future. Previous Scheme membership subject to the earnings cap will be reduced to allow for the increase in pensionable pay.
8. The limits of 40 years' membership at 60 and 15% maximum contributions have been removed. As a result members who previously enjoyed a contributions "holiday" beyond 40 years' service will now automatically count the additional membership above 40 years. The employer has discretion to recover the effect of the contributions "holiday" from the employee.
9. Scheme members can elect to commute up to 25% of the capital value of their pension in exchange for a bigger tax-free lump sum. Every £1 commuted will provide £12 in lump sum. The provision which conversely allowed members to surrender a part, or all, of their lump sum to secure additional pension has been removed.

10. Scheme members aged 50 and over who reduce their hours or take a lower-grade post can now elect to receive their benefits whilst continuing to work. This option is subject to the employer's consent. Where benefits are subject to reduction for early payment, the employer has discretion to waive the reduction, but must then pay a capital sum for the cost to the pension fund.
11. The maximum age for paying a dependent child's pension will be 23 for pensions coming into payment from 6 April 2006, except where the child is physically or mentally incapacitated. Children's pensions already in payment are not affected.

The 85 Year Rule

11. The 85 year rule, which allows members to retire after age 50 with no reduction in benefits if their age and Scheme membership in complete years equals 85 is being phased out from 1 October 2006. Benefits earned from that date will be reduced if the member elects to take them before 65.
12. Benefits earned up to 30 September 2006 will not be affected. The protection is extended to benefits earned up to 31 March 2013 for Scheme members who will be 60 on, or before, that date. Further extension of protection for existing members will continue to be part of the ongoing negotiations at the Tripartite Committee.

Financial Implications and Risk Assessment

13. The joint statement included the point that 50% of the savings from the removal of the rule of 85 and the lump sum commutation arrangements would be available "to fund further Scheme improvements, including protection arrangements for existing staff, and creating a more equitable and affordable Scheme." This is a risk that needs to be monitored.

Environmental Impact of the Proposal

14. None.

Recommendation

12. The Committee is asked to note:
 - a) the effects of the changes made by the Amendment Regulations;
 - b) the further discretions available to the County Council as an employing authority, which will be the subject of a separate report to the Staffing Policy Committee.

MIKE PRINCE
County Treasurer

Report Author: Nick Nicholson

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

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