WILTSHIRE COUNTY COUNCIL **AGENDA ITEM NO: 8**

WILTSHIRE PENSION FUND COMMITTEE
SEPTEMBER 2006

UPDATE ON LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATIONS

Introduction

1. At the May 2006 meeting this Committee noted that amendment regulations were issued in March 2006, which provided for the phasing out of the 'rule of 85' and introduced changes to the Scheme consequent upon the new tax regime governing pension schemes from 6 April.

2. A further set of amendment regulations, the Local Government Pension Scheme (Amendment) (No 2) Regulations 2006, was laid before Parliament on 25 July 2006. The main purpose of these regulations was two-fold: firstly, to further extend the protection afforded to Scheme members who could achieve the rule of 85 and therefore retire with unreduced benefits before 65 and secondly, to correct or clarify a number of technical issues arising from the earlier set of Regulations.

3. A consultation document, "Where next - Options for a new-look Local Government Pension Scheme in England and Wales" was also issued by the Department for Communities and Local Government (DCLG) on 30 June. The purpose of the document is to set out the options for a new scheme to be introduced from 1 April 2008 and to seek the views of the local authority employers, unions, Scheme members and other 'stakeholders'.

Purpose of the Report

4. The purpose of this report is to inform Members of the main changes introduced by the Amendment (No 2) Regulations and set out the options for a 'new-look' pension scheme contained in the Consultation Document, with a view to formulating a response to the DCLG by the deadline of 29 September – see Appendix 1 issued by Local Government Employers. There will be a further opportunity to comment during the formal consultation, following the issuing of draft regulations later this year.

Local Government Pension Scheme (Amendment) (No 2) Regulations 2006

5. Against the background of talks by the Tripartite Committee established by the (then) Deputy Prime Minister last year, the Government stated on 30 March that it was prepared to introduce further amendments to the Regulations in the light of any agreed proposals which emerged from those talks.

6. The Amendment Regulations now extend the continuation of the rule of 85 as outlined in Appendix 2. These amendments will come into force on 1 October this year.

7. The technical changes include the clarification of the regulation permitting commutation of up to 25% of the member's benefits for an increased lump sum to include the value of an AVC fund and an amendment to extend the commutation option to elected members.

<u>LGPS 2008 Consultation</u>

8. The challenge for the new scheme, due to be implemented in April 2008 is that it is –
    a. Affordable and Viable
    b. Fair to taxpayers
    c. Attractive to existing and future members
    d. An integral part of the remuneration package in a diverse workforce
    e. Able to deliver a defined benefit, index-linked income in retirement scheme

    This is set against a background of increasing pensioner longevity, where the average period of pensions in payment has increased by 31% for men and 18% for women since 1974, and a changing workforce, where membership of the scheme has changed significantly since the basic benefit structure was introduced in the early 1970s.

9. The DCLG is consulting on four options and none are recommended or preferred. The 'core' issues for consultation are changes to employer and employee contribution rates and transition terms for moving existing members into the new scheme.

10. All administering authorities and employers have the opportunity to respond and their views on the relative merits of the options will, naturally vary. Whilst employers' prime consideration may well be the cost and the recruitment and retention value of the scheme, administering authorities may consider sustainability and the cost of administration as key issues.

<u>What will change cost and who will benefit?</u>

11. A summary of the options is set out in Appendix 3. Each option has a different cost and will therefore have different implications for employees' and employers' contribution rates. All options, however, include additional benefits –
    a. Improved death in service benefits (from two to three times pay)
    b. Partners' pensions for cohabitees
    c. Better targeted two-tier ill health pension provisions
    d. Possible extension to the flexible retirement provisions

12. The current final salary structure results in a higher proportion of the employer's spend being targeted towards career workers i.e. those with long service and good salary growth over their working lifetimes. This tends to be male workers and full time workers.

13. In 2005 our Actuaries were commissioned by the then Office of the Deputy Prime Minister to provide detailed analysis of the structure of the current LGPS membership. The analysis determined that almost three quarters of the membership is female and around half the female membership is part-time. This

large group of part-timers with relatively short service is effectively subsidising the large group of career workers with long service. If it is considered that the scheme should redistribute the employers' spend on pension benefits then a Career Average Re-valued Earnings (CARE) scheme may be considered preferable.

14. Comparing the level of pension payable from a final salary scheme with a CARE scheme, but excluding Option D as it is simply options C1 or C2 with provision to allow members to pay extra contributions to maintain a final salary link, then:
    a. Option A provides a poorer pension than Option B because of the lower accrual rate
    b. Members with salary growth less than or equal to RPI will obtain a higher pension under CARE options
    c. For members with long service Option C2 provides a higher pension than Option C1 because the long period of service means that the higher revaluation of Option C2 is worth more than the higher accrual rate of Option C1
    d. Conversely, for members with short service Option C2 provides a lower pension than Option C1.

15. For a 'typical' LGPS, there are:
    a. A high proportion of female part-time members who would be better off in a CARE scheme
    b. A high proportion of older career workers who would be better off under the CARE option, since they would not be expected to achieve high salary growth in their final years work
    c. A high proportion of younger career workers who would be worse off under CARE since their expectation of a higher salary growth over their career would result in a higher pension in a final salary option.

<u>Employee Contributions</u>

16. The consultation also offers the option of a tiered employee contribution rate which would be considered with the final salary options and potentially the career average options, particularly if the employee contribution rate was to increase. This is one way of ensuring the scheme remains affordable for the low paid. Options are shown in Appendix 4. The LGA position is that employee's contributions ought, on average, to be 7%.

<u>Transition Terms</u>

17. Finally, the consultation notes the desire to maintain only one scheme going forward. This implies that existing members need to be transferred into the new LGPS and there are 3 options to consider:
    a. Award existing members service in the new scheme that is actuarially equivalent to their service in the current LGPS on terms devised by GAD. This method means that there may be winners and losers (when future experience doesn't match that assumed), but it would be administratively simple in the long term. If an underpin was applied (where members' pre-2008 benefits are guaranteed to be at least as much as they would have been under the existing scheme), then this would increase costs. Less

money would therefore be available for improving benefits in the new scheme.

b. Awarding existing members service in the new scheme that is higher than actuarially equivalent service in the current LGPS, on terms devised by GAD. This method means that more members would be expected to be winners, but would increase costs further than option (a) above.

c. Treat all pre-2008 service separately from post-2008 service and track it separately to retirement or earlier leaving. Although this would mean there are no winners or losers from the transfer terms, long term administration would be much more complex.

18. Given the resistance from the Unions to change, as demonstrated by the strike action over changes to the rule of 85 and the potential of legal action from members of the current scheme if they were to lose out on transition terms to the new scheme, option (a), above is not sustainable. However, as an administering authority option (c) will be very onerous to support.

Financial Implications and Risk Assessment

19. The figures identified in this report, calculated by GAD using membership data from a synthetic fund provide costings based on an expected average fund structure. Individual funds and employers could see significant differences.

Environmental Impact of the Proposal

None.

Recommendations

The Committee is asked to:

a) note the effects of the changes made by the Amendment Regulations;
b) authorise the Acting County Treasurer to respond to the consultation on the new look 2008 scheme as outlined in Appendix 1.

SANDRA SCHOFIELD
Acting County Treasurer

Report Author: Jayne Slee

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

/2007/WPF/JS