

WILTSHIRE PENSION FUND COMMITTEE
5 September 2007

IMPLEMENTATION OF NEW LOCAL GOVERNMENT PENSION SCHEME FROM APRIL 2008

Purpose of the Report

1. The purpose of this report is to:
 - a) update Members on the potential risks faced by employing and administering authorities in relation to the proposed introduction of the 'new-look' Local Government Pension Scheme (LGPS) from April 2008; and
 - b) give Members the chance to comment on the Wiltshire Pension Fund's formal consultation response in relation to the proposed extension of protections under the so-called "Rule of 85" provisions (as shown in Appendix A) .

Background

2. The Committee received a paper at its June 2007 meeting on updating Members on the then-current position in relation to the final regulations for the new LGPS from 1 April 2008. Members also noted the risks around timely implementation of the new scheme and called for another report to be brought to this meeting.
3. Since then a number of technical regulations and consultations have been issued by Communities and Local Government, but they have no policy implications.
4. On 5 July 2007, the Department for Communities and Local Government (CLG) wrote to all LGPS interested parties requesting comments on the terms of a formal proposal to extend the "Rule of 85" protection, which allows Scheme members to retire before 65 with full benefits if they satisfy the rule. The proposal is to extend that protection from those who will be 60 before 1 April 2016 to those aged 60 before 1 April 2020.

Main Considerations for the Committee & Risk Assessment

'New-look LGPS 1 April 2008

5. One of the main areas of concern in the new Scheme is the introduction of contribution rates based on earnings bands, from 5.5% for people earning up to £12,000 to 7.5% for those earning over £75,000. At present all Scheme members pay a standard contribution rate of 6% (except for some pre-1998 members protected on a 5% contribution rate), an arrangement which is relatively easy to administer. These concerns are examined in more detail below.
6. The pensions administration system used by the Wiltshire Fund (AXISe) is used by the vast majority of local authority pension funds and Heywood (the system provider) is confident it will have the necessary software updates available for implementation on 1 April 2008. There will, however, be a major training requirement for pensions staff to familiarise themselves with the new Scheme and we intend to commence that for the Wiltshire Fund over the autumn of 2007.

7. Of more immediate concern, both locally and nationally, is the ability of the other employers in the Fund to adapt their payroll systems to cope with the new contribution bands. Wiltshire's employers have been informed via the Pensions Liaison Officers Group of the new requirement, but a major communication exercise will shortly be launched to ensure all employers are fully aware of their new responsibilities from 1 April 2008. Failure by some employers to be up-to-speed in time would not delay implementation of the new Scheme, but it would cause it a serious administrative and accounting headache that could take many months to resolve.
8. Another issue that is causing significant concern nationally is the poor quality of the Regulations. The Local Government Employers Organisation (LGE) has recently submitted a very large document to the CLG, principally highlighting drafting issues. Given this and the payroll concern, there are now calls from at least one influential Pensions Manager for implementation of the new scheme to be delayed. Given the fact that Funds also have to focus on the 2007 Valuation between now and April 2008, a delay starts to look increasingly sensible.
9. Progress over the next few months both nationally and locally, is going to be critical if there is to be any hope of an orderly implementation next April.

Rule of 85 Protection Consultation

10. Following the informal consultation exercise which ended on 13 June 2007, CLG is now formally seeking the views of LGPS and employing authorities on extending the protection for older Scheme members arising from the removal of the "Rule of 85".
11. In their letter dated 5 July 2007, CLG summarised the existing protections as follows:
 - a) All Scheme members as at 1 October 2006 will enjoy protection under Rule of 85 terms until April 2008;
 - b) Scheme members who could satisfy Rule of 85, who would be 60 before 1 April 2016, would have no reduction applied if they retired at that age;
 - c) Scheme members who attain 60 and would have achieved Rule of 85 between 1 April 2016 and 31 March 2020 would have an early retirement reduction applied on a tapered basis.
12. A letter from UNISON dated 7 August 2007 (attached as Appendix B) has also been sent to all local authority employers regarding this consultation, urging authorities to support full protection to 2020.
13. CLG's letter poses a number of issues for authorities to consider in framing their responses and these are addressed in the draft response in Appendix A. Essentially, this reaffirms the Wiltshire Pension Fund's response to CLG during the informal consultation exercise which was approved by the Committee at its meeting on 20 June, namely that we oppose the extension of protections on cost and equality grounds.
14. The deadline for responses to CLG is 1 October 2007 and Ministers will make a decision following the consultation exercise.

Environmental Impact of the Proposals

15. There are none.

Financial Implications

16. The additional cost of extending the already agreed protection to full protection to 2020 has been estimated by the Government Actuary nationally as an additional £350-£400 million, which equates to 0.1% of pensionable pay, or about £25 million annually for 20 years. Very roughly, this implies a cost to Wiltshire Scheme employers of around £250,000 per annum.
17. However, CLG's letter confirms that "if no statutory and agreed means of providing the necessary resources to extend the proposed level of protection emerge from this consultation exercise, the present level of tapered protections.....will remain."

Proposals

18. The Committee is asked to:

- a) note the risks associated with making changes to payroll and pension administration systems for both the Fund and its employers in time for implementation on 1 April 2008; and
- b) approve the response to the Department for Communities and Local Government on extending full rule of 85 protections from 2016 to 2020 as attached in Appendix A.

SANDRA SCHOFIELD
Chief Financial Officer

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

99/2007/WPF/NN

APPENDIX A

Local Government and Fire-fighters' Pension Schemes
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05 September 2007

Nick Nicholson

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Dear Mr. Crossley,

LGPS: Rule of 85 Protections

I refer to your letter of 5 July 2007 seeking views on the specific issues surrounding the extension of full "Rule of 85" protections to 2020. This letter is the response of the Wiltshire Pension Fund, as endorsed by the Wiltshire Pension Fund Committee (WPFC).

Employment policy/labour market objectives

We are not aware of any significant issues affecting employment policy if the current protections were to be retained, as opposed to granting full protection to 2020. Given its geographical location, cross-border transfers have little or no impact on recruitment policy in Wiltshire as might be the case, for instance, with a northern authority such as Northumberland.

An argument has been advanced that local government workers are increasingly found working in partnership with other public sector workers, in NHS partnership trusts, for instance, where they enjoy less favourable retirement ages than their colleagues in the NHS. The NHS retains its normal pension age of 60, whereas normal retirement age in the LGPS is 65.

As regards the consequences of retaining the current protection on future labour relations, we believe that the consequences will be less than they would be if full protection were to be extended for the benefit of a relatively small minority. The majority of LGPS Scheme members today could not benefit from Rule of 85 anyway and cannot expect parity with the NHS Scheme.

Offsetting costs of extending transitional protection

In our response to the informal consultation in June 2007, our position was (and remains) opposed to any extension of the transitional protection beyond the existing tapering proposals between 2016 and 2020. If Ministers decide, following the consultation, to proceed with extending protection, the costs must be met by increasing employees' contributions and/or a reduction in the 2008 benefits package. In effect, this means new

members post-30 September 2006 and pre-October 2006 members who don't achieve Rule of 85 are being asked to subsidise the protection extension which they will never benefit from.

Equity issues

Extending full protection to 2020 would restore the "cliff-edge" scenario, whereby a member born on 31 March 1960 would enjoy the extended protection, whereas a colleague born on 1 April 1960 would have full actuarial reductions on post-2008 benefits. This was considered arbitrary and unfair when previously considered in respect of 2013 and 2016. Why, then, has it again become acceptable at 2020? If extension to 2020 goes ahead, might this be followed by a demand for a tapered reduction over, say, 2020 to 2024?

Conclusion

The Wiltshire Pension Fund remains opposed to any extension of the current protection and supports the retention on the 2016 protection with the tapered reductions to soften the blow which would otherwise fall unfairly on those born shortly after March 1960.

Yours sincerely

Sandra Schofield
Chief Financial Officer