

KENNET DISTRICT COUNCIL

Human Resources Committee – 10th April 2008

CHANGES TO PENSION SCHEME

Report By Head of Human Resources

1. PURPOSE OF REPORT

- 1.1 To inform members of the changes to the Local Government Pension Scheme (LGPS) and to seek approval to some resultant policy changes required from 1st April 2008.

2. FINANCIAL, STAFFING, RISK AND LEGAL IMPLICATIONS

- 2.1 The changes to the scheme are designed to be affordable, however it is not possible to predict any specific financial implications for the Council at this stage. The change to employee's contributions has no direct affect on the employers' contribution.
- 2.2 Failure to have an appropriate policy in place could lead to a legal challenge, although the new scheme does address some equalities issues. Having clear systems and policies in place reduces the risks to the Council.

3. BACKGROUND

- 3.1 Members will be aware from previous reports that the LGPS has been undergoing a major review in the last few years to make it more flexible and less costly. This report is based on Local Government Employers, Local Government Pensions Committee Circular 207 – February 2008, 'Update on the New Look LGPS in England and Wales and on other current matters'. This is a long circular and any Member of the Committee who wishes to see it can obtain a copy from the Head of Human Resources or alternatively view it on the following website, www.lge.gov.uk.
- 3.2 The report focuses on the changes to the scheme that require immediate action; a further report with revised policies relating to ill health and early retirement will be submitted in June 2008.

- 3.3 Overall the changes allow for greater flexibility of operation both from the perspective of the employee and the employer.
- 3.4 Due to the impending move to a single authority in Wiltshire the recommendations relating to the new Regulations have been made in consultation with the other 4 Wiltshire authorities. Wiltshire County Council (our Pensions Administering Authority) have provided seminars for employees across the County. These were well attended and well received.

4. THE CHANGES TO THE REGULATIONS

- 4.1 There are a number of changes to the new scheme and some of these are significant. The main provisions of the New-Look LGPS are set out below
- New employees, with a contract of employment of 3 months or more, will automatically be entered into the scheme.
 - All existing Members will move to the new scheme on 1 April 2008
 - The new scheme provides a pension $1/60^{\text{th}}$ of final pay for each year of membership in the scheme after 31 March 2008, with no automatic lump sum. Membership to 31 March 2008 will still be calculated at $1/80^{\text{th}}$ pension plus $3/80^{\text{ths}}$ lump sum, as per the old scheme.
 - On retirement, up to 25% of the capital value of benefits can be taken as a lump sum by commutation (£1 of pension buys £12 of lump sum).
 - Employees are to pay contributions according to agreed bands (see Appendix 1), based on their whole-time salary equivalent of pensionable pay. The contribution rate for employees on the protected 5% contribution rate (former manual workers) will be increased on a phased basis, bringing it into line with other scheme members by 1 April 2009 (see Appendix 1).
 - To qualify for all benefits, other than death in service, scheme members must have a minimum of 3 months membership or have had a transfer from another scheme into the LGPS in order to be entitled to those benefits.
 - Benefits are to be calculated on final pay being the best one of the last 3 years pensionable pay plus the average of any fees received in the last 3 years. Members whose post is downgraded or who voluntarily downgrade (other than as a result of flexible retirement) can, if they wish, choose to have benefits based on the average of any 3 consecutive years in the last 10 (ending on a 31 March). Certificates of Protection will no longer be issued after 1 April 2008.
 - Normal retirement will be age 65, but with the right to take pension from age 60 or, with employer consent, from age 55 (or from age 50 for existing members opting to draw benefits with employer consent

before 31 March 2010). Benefits drawn early for whatever reason will be subject to an actuarial reduction (unless the employer waives the reduction).

- Employees can stay in the scheme beyond age 65 but benefits must be drawn before age 75 (the maximum age of membership). Benefits drawn after age 65 will be actuarially increased.
- Flexible retirement with employer consent will be permitted from age 55. This will be covered in the Council's Flexible Retirement Policy, the subject of a separate report to this Committee.
- Immediate payment of pension benefits following redundancy/efficiency retirement on or after age 55 (or from 50 for existing members leaving before 31 March 2010).
- A tiered ill-health retirement benefits system. This is still under consultation, the original proposal included a two tier system; the Government is currently consulting on a three tier system, an announcement is expected shortly.
- A death grant of 3 times pay for death in service.
- The provision of a pension to spouse or civil partner has been extended to include co-habiting partner.
- The ability to buy extra scheme pension in multiples of £250 up to a maximum of £5,000 replaces the option to buy added years.
- There is provision for employers to augment membership by up to 10 years; and/or grant extra pension of up to £5,000; and/or contribute, with the Scheme member, to a Shared Cost AVC.
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

5. ISSUES FOR CONSIDERATION AND ACTION

- 5.1 **Automatic Entry** – it is a requirement of the scheme that all employees who have contracts for 3 months or more are automatically enrolled into the scheme in the absence of an opt-out form. Employees with more than one contract will have the right to opt out of membership in all or some of their employments. In addition, employees will now have the right to opt in or out as many times as they wish. In Kennet we have significant numbers of casual staff and a review of these contracts is currently being undertaken to identify those who may be members of the scheme and those who are excluded.
- 5.2 **Contribution Rates** – from 1 April 2008 all employees' contributions will change depending on either their whole-time equivalent salary or whether they are currently on the lower 5% contribution band. Each employer must determine which band an employee will be in, employees will have a right of appeal against the employer decision.

- 5.3 The employing authority is required to establish a policy on how existing and new employees will be allocated to a contribution band. After consultation with the other Wiltshire authorities, it is proposed to allocate employees based on their whole-time equivalent salary as at 31 March 2008, and for new employees the whole-time salary equivalent on commencement. Thereafter unless an employee changes jobs (see paragraph 5.4), the contributions rate will be reassessed on 31 March each year. This policy will be reviewed by the new Wiltshire Council by no later than 31 March 2010.
- 5.4 Once allocated, an employer can reallocate an employee to a new band following a material change in their pay. These could be:
- (i) once a year – this is the simplest approach from a payroll perspective; with reassessment at the beginning of the financial year there would be no need to split pay and contributions on the end of year return to the Pension Fund administering authority. An increase in an employees' pay that would move them into a new higher band would lead to a marginally smaller contribution to the pension fund; a decrease in an employees' pay that would move them into a new lower contribution band would lead to the employee paying a marginally higher rate of contribution
 - (ii) upon a contractual change, that is when an employee moves into a new post – the Council's payroll provider is confident that the payroll system will be able to cope with this change
 - (iii) whenever pay changes, e.g. regradings, pay awards, increments etc – this is likely to be too complex for the current payroll system to manage, however, a new system is being purchased and this feature will be considered.

The decision on (i) to (iii) above is highly dependant upon the payroll software. The Council's payroll provider (Wiltshire County Council) is working with their software provider to change the system to accommodate the revised scheme changes. Testing is expected to be completed in mid-February 2008. The recommendation is that Council policy will reflect (ii) above.

- 5.5 **Breaks in service** – for all unauthorised leave of absence contributions will be paid on the pay lost in the first 30 days of any absence. These are a rare occurrence in Kennet.

6. CONCLUSIONS

- 6.1 It is too early to say at this stage what impact these changes will have overall to employees and employer, but issues around equalities do appear to have been addressed (greater flexibility and the introduction of co-habiting partner pensions for example). There is also more flexibility around retirement age and the opportunity to enable flexible retirement without loss of benefits.
- 6.2 The new bands will require careful operation when setting up new employees, and the preferred way of allocating these as set out in paragraphs 5.3 and 5.4 will minimise the changes without disadvantaging the scheme overall.

7. RECOMMENDATIONS

- 7.1 The Human Resources Committee are asked to note the change to the scheme as set out in paragraph 4. and to approve the policy changes regarding the allocation of bands as set out in paragraphs 5.3 and 5.4.

Anne Ewing
Head of Human Resources

BACKGROUND PAPERS

LGE Circular 198 – May 2007 New-Look LGPS in England and Wales
LGE Circular 206 – December 2007 New-Look LGPS in England and Wales
Consultation on Third Tier Ill-Health Benefits
www.lge.gov.uk

APPENDIX 1

Table 1 – Revised contribution rates

Band	Whole Time Salary Range	Contribution Rate
1	£0 - £12,000	5.5%
2	>£12,000 - £14,000	5.8%
3	>£14,000 - £18,000	5.9%
4	>£18,000 - £30,000	6.5%
5	>£30,000 - £40,000	6.8%
6	>£40,000 - £75,000	7.2%
7	.£75,000	7.5%

The figures in Table 1 will increase on 1 April each year in line with the Retail Prices Index with the first increase being April 2009

Table 2 - Revised rates for employees on the lower contribution rate

Date	Contribution rate
31 March 2008	5%
1 April 2008	5.25%
1 April 2009	5.5%
1 April 2010	6.5% or the equivalent band rate, whichever is the lower
1 April 2011	The equivalent band rate