

Report

Subject : Local Government Pension Scheme (LGPS) Changes
Report to : The Cabinet
Date : Wednesday 26 March 2008
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Cabinet Member for Resources : Councillor Thorpe

1. Introduction

On 1 April 2008 the current Local Government Pension Scheme (LGPS) will be replaced by a new scheme, although the name will remain the same. Most of the regulations will be mandatory but employers will have limited discretions, which will be explored later in this report.

2. Revised LGPS Regulations

The main provisions of the New-Look LGPS are set out below:

- New employees must have a contract of employment of three months or more to be entitled to join the scheme. They will then be subject to automatic entry into the scheme.
- All existing members will move to the new scheme on 1 April 2008.
- The new scheme provides a pension of 1/60th of final pay for each year of membership after 31 March 2008. Membership to 31 March 2008 will still be calculated at 1/80th pension plus 3/80th lump sum.
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation.
- Contributions will be payable on the same definition of pay as now (but no contributions can be collected from pay after age 75).
- Employers will pay contributions according to agreed bands depending on salary level. The contribution rate for employees on the protected 5% contribution rate will be increased on a phased basis, bringing it into line with other scheme members by 1 April 2011.
- Scheme members must have a minimum of three months membership or have had a transfer from another scheme into the LGPS in order to be entitled to benefits, excluding death in service benefits.
- Benefits will be calculated on final pay being the best one of the last three years pensionable pay plus the average of any fees received in the last three 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 three consecutive years in the last ten (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 will be subject to an actuarial reduction (unless the employer waives the reduction on compassionate grounds).



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- Employees can stay in the scheme beyond age 65 but benefits must be drawn before age 75. Benefits drawn after age 65 will be actuarially increased.
- Flexible retirement with employer consent will be permitted from age 55. (The council already has a policy relating to flexible retirement.)
- 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.
- A death grant of three times pay for death in service; death grant of five times pension if a deferred beneficiary dies; and a death grant of ten times pension less the amount of pension already paid if a pensioner dies before age 75.
- Changes to the accrual rate for spouses; civil partners and nominated co-habiting partners.
- The ability to buy extra scheme pension in multiples of £250 up to a maximum of £5,000.
- The ability for employers to augment membership by up to ten years; and/or grant extra pension of up to £5,000 and/or contribute, with the Scheme member to a Shared Cost AVC. (The council already has a policy in relation to Shared Cost AVC schemes.)
- Trivial pensions may be commuted into a single lump sum payment in accordance with HMRC rules.

3. Employers' Discretions:

Employers are required to establish a policy on how existing and new employees will be allocated to a contribution band and when the bands should change. The Wiltshire County Council Pension Department has recommended that employers apply the bands annually and only amend in certain circumstances. The Wiltshire authorities have liaised regarding this and all are recommending that this policy is adopted.

4. **Recommendation:** that Salisbury District Council adopts the policy in relation to contributions bands and application as detailed in 3 above. A draft policy has been prepared which reflects this and is attached at appendix A for approval.

5. Implications:

Financial : It is the stated aim of the Government to make the LGPS affordable and all of the proposals that have been put forward are designed to be affordable. It is not possible to predict any specific financial implications for Salisbury District Council. The change to employee's contributions has no direct affect on the employer's contribution. With effect from 1 April, however, the employer's contribution will no longer be a percentage alone, in future it will be 14.9% for future service contribution plus an annual lump sum of £336K for past service contribution. Provision has been made in the 2008/09 budget for this. The lump sum will be subject to actuarial review.

Legal : Local Government Pension Schemes (Transitional Provisions) and (Administration) Regulations 2008 come into force on 1 April 2008. They apply to new and existing scheme members. Failure to have an appropriate policy in place in relation to the exercise of discretionary powers could lead to a legal challenge with regard to failure to meet the LGPS legislation.

Personnel (POD) : Contained in the report.

Equalities : Contained in the report.

Human Rights : It is unlikely that the council would be seen as carrying out a public function when acting as an employer.

Community Safety : N/A

Environmental : N/A

ICT : N/A

Council's Core Values : N/A

Wards Affected : N/A

New-Look Government Pension Scheme with effect from 1 April 2008

1. Policy

On 1 April 2008 the Local Government Pension Scheme (LGPS) will be replaced by a new scheme, although the name will remain the same. This policy provides clear guidance on the features of the new scheme, including the process the council will apply to determine which contribution rate an employee, who is an active member of the LGPS, will pay in respect of their pension from 1 April each year. This policy also provides guidance on occasions that may occur which will result in an employee being moved to a higher or lower contribution band other than on 1 April each year.

2. Background

Following consultation by the Department of Communities and Local Government (DCLG) during 2006, changes to the Local Government Pension Scheme were developed. All existing members of the LHPS will move to the new scheme from 1 April 2008.

3. Principles

A significant change in the LGPS is the introduction of contribution banding rates for employees. The council will apply the following principles to allocate a member of staff to the correct contribution band:

- All active members of the LGPS will be allocated to one of the following contribution bands (based on their full time equivalent pensionable pay) in order to calculate each employee's contributions:

Band	Range	Contribution Rate
1	£0-£12000	5.5%
2	£12001-£14000	5.8%
3	£14001-£18000	5.9%
4	£18001-£30000	6.5%
5	£30001-£40000	6.8%
6	£40001-£75000	7.2%
7	More than £75000	7.5%

- The contribution bands in the table will increase on 1 April each year by the rise in the Retail Price Index.
- All active members of the Local Government Pension Scheme will be allocated to the relevant contribution band on 31 March each year or at the commencement of their employment with the council.
- The council will reassess and adjust an individual employee's contribution band part way during the financial year in the following instances:
 - When there has been a contractual change during the year (eg promotion) requiring the salary to be adjusted. This will avoid underpayment of contributions by the council and will prevent any potential claims of inequality from a new employee being appointed on the same pay but within a higher employee contribution band.
 - Where an employee has been placed in the wrong contribution band in error that may result in there being a shortfall in contribution rates at subsequent evaluations.

4. Pensionable Pay

The council is required to calculate each employee's pension contributions based on their pensionable pay and relevant contribution band. An employee's pensionable pay is the total of:

- The salary, wages, fees and other payments paid to him/her for his/her own use in respect of his/her employment and
- Any other payment or benefit specified in his/her contract of employment as being a pensionable emolument eg market forces supplement, regular honoraria payments

An employee's pensionable pay does not include:

- Payments for non-contractual overtime
- Any travelling, subsistence or other allowance paid in respect of expenses incurred in relation to the employment
- Any payment in lieu of untaken annual leave
- Any payment in lieu of notice to terminate his/her contract of employment.

No sum may be taken into account in calculating pensionable pay unless income tax liability has been determined on it.

5. Basis of Allocation to Contribution Rate

The following arrangement will apply when allocating staff to the relevant contribution band:

- Employees will be allocated to the relevant contribution band based on their full time equivalent (FTE) pay.
- Part time employees will also be allocated to the relevant contribution band based on their FTE pay.
- Staff employed on term time only contracts for business reasons will have their contribution band determined by FTE pay for term time week (ie as a proportion of the year)
- Staff employed on term time only contracts for personal/lifestyle reasons will be treated as part time employees. Their contribution band will, therefore, be based on their FTE pay.
- Staff employed on annualised hours contracts will be treated as part time employees. Their contribution band will, therefore, be based on their FTE pay.
- Employees with multiple posts may be allocated to different bands, as the contribution band will be based on the FTE pay for each post they hold.

6. Casual Staff

In order to be eligible to become a member of the LGPS an employee is required to have a contract of employment of at least three months duration. Casual staff who have already opted into the scheme and are active members on 31 March 2008 will, like all other active members of the scheme on that date, remain members of the scheme.

7. Opting Out

The LGPS regulations state that members of staff who are employed on permanent or temporary contracts of more than three months duration will automatically become a member of the LGPS when they commence their employment.

If a new employee decides that they wish to opt out of membership they will be required to complete an Opt-Out form immediately and return it to Payroll. This will ensure that any deductions are refunded back through their pay or that pension deductions are not taken from the start of employment. This must be done within three months of joining because after this period it is not possible to provide a refund, as the pension contributions made will become a deferred pension instead.

Employees who have previously opted out of the current scheme will automatically remain as opted out of the New Look LGPS from 1 April 2008 unless they opt to join.

8. Existing Employees Paying the 5% Protected Rate

The contribution rate for those existing employees who pay contributions at a protected 5% rate will be increased, on a phased basis, to bring their contribution rate into line with all other Scheme members with effect from 1 April 2011. To achieve this the contribution bands for these staff will, for a transitional three year period, be whichever is the lower of the appropriate rate shown in the table of Contribution Bands in section 3 above or:

- 5.25% from 1 April 2008
- 5.5% from 1 April 2009
- 6.5% (or the equivalent band rate, whichever is the lower) from 1 April 2010
- The equivalent band rate from 1 April 2011
- The standard band rates will apply from 1 April 2011 onwards.