BRENT COUNCIL	**Pension Fund Sub Committee** 29 November 2011 **Report from the Director of Finance and Corporate Services**
For Information	
Local Government Pension Scheme – Savings Proposals	

1.0 Summary

In June 2010 Lord Hutton was commissioned to chair an independent review of public sector pensions. The Commission has provided the government with interim and final reports detailing its proposals. The interim report recommended that if the Government wished to make savings to reduce rising cost pressures, raising employee contribution rates would be the most effective way to achieve that objective. As the Local Government Pension Scheme (LGPS) is the only funded public sector scheme the government have agreed that the LGPS may find alternative ways of making the required £900 million savings before April 2015, the proposed date for changes to all public sector schemes. On 7th October the government issued a consultation paper to administering authorities detailing approaches to achieving the required savings. This report summarises the proposals and how officers intend to respond.

2.0 Recommendations

2.1 That members note the report and that a further report will be made detailing the proposed changes to the LGPS when the outcome of current negotiations is known.

3.0 Detail

3.1 In 2008 a revised LGPS scheme was introduced with the objective of reducing the cost pressures on the scheme. However, the 2010 Actuarial Valuation has shown that increased costs arising from longevity and poor returns need to be further addressed. The government has already reduced long term costs by changing the inflation measure from the Retail Price Index to the Consumer Price Index, but it is felt that further changes are needed to mitigate employer contribution rates.

3.2 The consultation paper issued by the Department for Communities and Local Government (DCLG) proposes that the LGPS may make cost savings via a combination of member contribution increases and reduction in accrual rates (the percentage of salary earned as pension each year). There are two proposals for achieving the measures which in total represent an average percentage increase of 3.2% in member contributions.

3.3 The Local Government Group (LGG) have previously given advice to the DCLG, and their suggestions have been distributed to administering authorities. Their proposals are designed to provide more fairness and choice to members. A summary of these have been added to those of the DCLG below.

DCLG Proposals

3.4 In order that the cost saving measures achieve the commission's aim of fairness to members the DCLG has set the following parameters which protect the lower paid:

- there should be no increase in employee contributions for those earning less than £15,000
- there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis
- high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis

3.5 DCLG Option 1:

- Increase member contributions = £450m scheme saving
- Decreased member accrual rate = £450m scheme saving

A phased increase in employee contributions is proposed starting in 2012/13, along with a change in the current pension accrual rate of 1/60th of final pay for each year of service. This would reduce to 1/64th for service between 1 April 2013 and 31 March 2014, and to 1/65th for each year of service after 31 March 2014.

3.6 DCLG Option 2:

- Lower increase to member contributions than Option 1= £300m scheme saving
- Decreased member accrual rate greater than Option 1= £600m scheme saving

As shown the savings from member contributions would be at a lower level than in option 1 but offset by greater reductions in the rate at which future pensions accrue. The Government suggest that one approach could be an increase of employee contribution rates from April 2012 to raise £300m plus a change in the scheme accrual rate to raise the remaining £600m. Under this option the accrual rate would reduce to 1/67th per year of service built up after March 2014.

3.6 LGG Options 1, 2 and 3 – Note that these are the Local Government Group's response to previous consultations with the DCLG.

- Change the normal retirement age, for future service accrual, to 66 from 01.04.14
- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000
- choice for employees, by giving those with earnings of £15,000 or more the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with earnings of less than £15,000 would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

Comment

3.7 There is a pressing need to improve the funding level of schemes and reduce future liabilities falling on employers. The proposals target the headline need to address those costs but do not fully consider other implications and potential consequences. Local authorities have made proposals to mitigate some of the damaging consequences, such as staff opting out and the confusion and administrative difficulty involved in frequent changes to the scheme. It should also be noted that the teachers 'pension scheme is also part of the review.

3.8 All of the above proposals introduce a further layer of complication to the scheme. Members will be aware that the LGPS accrual rate was amended in 2008. This rate will change again in 2015. Other amendments are also proposed, such as that benefits would be based on career average earnings. Repeated changes will be difficult to communicate to members and do not represent the simplicity aimed for by the commission. Confusion, mistrust and steep increases in contribution rates may result in significant numbers of staff opting out of the scheme. If this trend were to persist there may be a need for councils to inject cash into the fund in addition to the current employer contributions, and an important recruitment tool may be lost. The reality remains that measures must be taken but that there must be a trade off between cost saving and simplicity.

3.9 There currently exists inequality between the various public sector pension schemes. For example members of the Civil Service "Classic" Pension Scheme currently pay a 1.5% contribution rate. The accrual rate of the scheme is 1/64 (when taking into consideration the pension and guaranteed lump sum) A 3.2% increase in top civil servants pension contributions would result in a total contribution of 4.7%. This compares to the LGPS, where a social worker earning £21,001.00 currently contributes 6.5% of pay – they would be required to pay incrementally up to 8.3% under option 1 or up to 7.5% under option 2. The social worker would accrue benefits at a similar rate to that of the Civil Servant. This is inequitable and does not address the goal of fairness across public sector pension schemes.

3.10 Officers intend to respond to the consultation requesting a simpler and fairer approach. It will be argued that the most sensible proposal would be to reduce the accrual rate, thus reflecting that staff will work longer, but temper proposals to increase contributions at a time when pay increases are at a minimum. It will also be sensible to introduce benefit changes at one point in time so that administration is simplified.

4.1 **Financial Implications**

4.2 These are covered in the detail of this report.

5.0 Legal Implications

5.1 There are no legal implications arising from this report

6.0 Diversity Implications

6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

7.0 Staffing/Accommodation Implications

7.1 These are covered in the report

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