

Meeting of:- Cabinet

On:- 25th September 2006

Agenda Item No.:-

Topic:- Local Government Pension Scheme - Consultation

Type of Report:- Non-Key Decision

Executive Summary:-

Purpose

To update and seek members views to the continuing consultation process on the future direction of the Local Government Pension Scheme (LGPS)

Background

In 2001 the Government commenced a Stocktake of the LGPS to ensure its long term sustainability set against a background of changing demographic and fiscal pressures.

This resulted in a number of minor changes. However, in June 2006 the Department for Communities and Local Government issued a further consultation paper entitled :-

Where next ? – options for a new look Local Government Pension Scheme in England and Wales - June 2006

The contents of this document are summarised below for consideration

Options

Are summarised below

Risks

None anticipated

Recommendation

That members signal their support for Option A to Government as part of the National review of the Local Government Pension Scheme as it remains a final salary scheme and represents the most cost effective of the four options.

Background Papers:-

Where next ? – options for a new look Local Government Pension Scheme in England and Wales - June 2006

Financial Implications:- Based on current pensionable pay option A would yield savings of approximately £80k (0.6%)

Equalities Implications:- None

Legal Implications:- None

For further details please contact:- S Daynes

Background

The Government policy on the LGPS has remained consistent in so far as the scheme should be:-

- a) affordable and viable
- b) fair to taxpayers
- c) attractive to existing and new scheme members
- d) a valued integral part of the overall remuneration package
- e) provides defined index linked benefits to its members

To this end Ministers are seeking views on four options of a new look scheme which have been developed with Employers organisations and Staff side representatives over the past 6 months, and builds on the responses received to the October 2004 Green Paper *Facing the Future – Principles and propositions for a new look Local Government Pension Scheme in England and Wales*. The four options are:-

- A) An updated current scheme, with additional benefit improvements;
- B) A new, final salary scheme with an improved accrual rate;
- C) A new career-average scheme; and
- D) A new, hybrid arrangement, based on career-average core with final salary *option*

The consultation concludes on the 29th September 2006 and it is intended that the New scheme be in place to all new entrants and existing scheme members from 1st April 2008. The following options are therefore presented for consideration :-

Option A: An updated current scheme, with additional benefit improvements

Core Structure: The current LGPS –providing benefits based on an employees final years salary which generates pension benefits based on $1/80^{\text{th}}$ of final salary per year of membership, and a tax-free lump sum of $3/80^{\text{th}}$ of final salary per year of membership.

Secondary benefit improvements: Death in service payment increased from twice to three times pay, partners' pensions for cohabitants (subject to the overarching legal position and timetable) and better targeted ill-health benefit provisions on a two tier basis.

Benchmark cost: On the basis of the costing methodology applied, this Option would cost a total of 19.4%(17.3%)of pensionable pay, i.e. 0.6% (0.3%) **less than** the current scheme at 1st October 2006.

Note percentages referred to are the costs of existing scheme members – figures in brackets are for new entrants

Option B : A new, final salary scheme with an improved accrual rate

Core structure: Retains the existing final salary based scheme, but moves from calculating benefits using " $1/80^{\text{th}}$ and $3/80^{\text{th}}$ " to a system whereby the total benefit package is calculated using an accrual rate of $1/60^{\text{th}}$, which provides scheme members with a pension fund which they can decide on how benefits are to be paid. As a consequence no automatic tax free lump-sum on retirement would be available.

Secondary benefit improvements: Death in service payment increased from twice to three times pay, partners' pensions for cohabitants (subject to the overarching legal position and timetable) and better targeted ill-health pension provision on a two tier basis.

Benchmark cost: On the basis of the costing methodology applied, this Option would cost a total of 20.9% (18.6%) of pensionable pay, i.e 0.9% (1.0%) more than the current scheme at 1st October 2006.

Option C: A new, career-average scheme

Core structure: Changes from a final-salary structure to a *career-average scheme* which bases pension benefits on individual scheme members average pay throughout their period of Pension Scheme membership. **Option C1** would have accrual rate of 1.85% and revaluation on the basis of the Retail Price Index (RPI) and **Option C2** would have an accrual rate 1.65% and revaluation on the basis of the Retail Price Index (RPI) plus 1.5%, this being an estimation of wage indexation (subject to the overarching legal position).

Secondary benefit improvements: Death in service payment increased from twice to three times pay, partners' pensions for cohabitants (subject to the overarching legal position and timetable) and better targeted ill-health benefit provision on a two tier basis.

Benchmark cost: On the basis of the costing methodology applied, Option C1 would cost a total of 20.6% (17.7%) of pensionable pay, i.e 0.6% (0.1%) more than the current scheme at 1st October 2006. Option C2 would cost a total of 20.5% (18.1%) of pensionable pay, i.e 0.5% more than the scheme at 1st October 2006.

Option D: A new, hybrid scheme

Core structure: As for options C1 or C2. Scheme members would also have a *one-off* choice of making extra contributions, on top of the contribution rate required for the career-average core structure, to obtain final salary linked benefits in retirement.

Secondary benefit improvements: Death in service payment increased from twice to three times pay, partners' pensions for cohabitants (subject to the overarching legal position and timetable) and better targeted ill-health benefit provision on a two tier basis.

Benchmark costs: The benchmark *scheme* cost is as for Option C1 or C2, depending on which career-average structure is chosen. On the basis of the costing methodology applied, the final-salary linked option would cost around an additional 3% for those electing to receive final salary benefits.

Some further thought will need to be given to what fixed contribution rate should be set in the event that this option is chosen, and to whether a mechanism for reviewing the future should be introduced in light of experience of take-up.

A summary of the four options is set out in table form below

Benchmark costings of the four options

Benchmark costs	Total cost	
	Existing Members	New Entrants
Current LGPS Scheme @ 1/10/2006	20.0%	17.6%
A: An updated current scheme, with additional benefit improvements	19.4%	17.3%
B : A new, final salary scheme with an improved accrual rate	20.9%	18.6%
C 1 : A new, career-average scheme	20.6%	17.7%
C 2 : A new, career-average scheme	20.5%	18.1%
D: A new, hybrid scheme	As C plus around an additional 3% for those who join the final salary arrangement	As C plus around an additional 3% for those who join the final salary arrangement

(Further information including the full consultation paper can be downloaded using the following address:-

http://communities.gov.uk/pub/208/wherenextoptionsforanewlookLocalGovernmentPensionSchemeinEnglandandWales_id1501208.pdf)