

For Information Only - the potential changes to the Local Government Pension Scheme Contribution Tariffs (LGPS)

1. Purpose

- 1.1 To inform Members of proposed changes which may affect employees who are in the Local Government Pension Scheme (LGPS)

2. Recommendation

- 2.1 That Members note the proposed revised Employee Contribution Tariff shown in Appendix 1

3 Details of the Report

3.1 **Background**

The LGPS, as provided in England and Wales, is a statutory public service funded occupational pension scheme which provides guaranteed pension benefits to local authority employees, and to employees of related and admitted employers.

The Scheme's local administering authorities pay benefits and manage its pension funds within the terms set out in secondary legislation made under the Superannuation Act 1972. A prudential regulatory framework provides Scheme pension fund administering authorities with all the necessary powers to manage and invest their pension funds. Investment income generated, as well as the operating and other costs incurred, is the responsibility of the appropriate LGPS administering authority; any surplus is available to reduce employers' liabilities and to re-invest within the authority's investment strategy.

At the 31 March 2007 triennial actuarial valuation, funds' total assets were valued at £132 billion with liabilities totalling £159 billion giving a shortfall between assets and liabilities of £27 billion, or a scheme-wide funding level of 83% (up from 74% in 2004). The LGPS provides inflation-linked pension benefits based on a member's final salary at retirement and has some 3.7 million members.

There was a major Scheme reform introduced in April 2008 (Members received a presentation from Staffordshire County Council who act as our administering authority). At this time LGPS revised benefit terms and the Scheme's accrual rate was improved from 1/80ths to 1/60ths with the normal retirement age of 65 years being retained. Along with this a new ill health provisions were introduced.

Employees currently contribute between 5.5% and 7.5% of their pay. Employers' contributions are fixed until 31 March 2011 and are adjusted following the triennial valuation of individual LGPS pension funds. Each individual pension fund authority is required to set an employers' level of contribution to ensure its fund is solvent and able to meet its existing and future liabilities.

The Government's aim is to retain its commitment to public service pension provision however the schemes should remain affordable and sustainable in the long term and be consistent with the principle of fairness for all taxpayers and between generations.

3.2 Summary of issues the Government is consulting on

- Review the current stock market impacts on LGPS pension fund liabilities in relation to Scheme funding, cost stability and security. (New LGPS cost-sharing regime - this is carried out by the Administering Authority, in our case Staffordshire County Council).
- Consider a re-alignment of the employee member pension contribution tariff, and particularly the proportion of pensionable pay being contributed by higher paid members towards their pension benefits.
- A more flexible model to be explored (Administering Authority)
- Revised Employee Contribution Tariff (Administering Authority)

4 Consultation

- 4.1 Ongoing at regional level/ national level, which will include Trade Union bodies

5 Financial Implications

- 5.1 There are no immediate direct financial implications, however, it is recognised that any changes to the pension scheme will impact on costs as contributions form a major outgoing, but also that any perceived reduction in benefit from the Pension scheme may adversely affect recruitment and retention in Local Government and increase the likelihood of industrial action.

6 Strategic Implications

- 6.1 We will continue to be advised by our Administering Authority (Staffordshire County Pension Advisors) and align our policies accordingly.

7. Human Rights Issues

- 7.1 Any potential Human Rights issues are more effectively covered under employment and pension legislation.

8. Risk Management Issues

- 8.1 None directly although these discussions take place on a national stage our Administering Authority takes part in providing opinion where relevant via the Local Government Association (LGA).

A Revised Employee Contribution Tariff

- 1 A proposition is being considered by Ministers to amend the existing LGPS tariff which set the level of employee contributions linked to their pensionable pay, with new, higher tariffs for members who annually earn in excess, say, of £75,000, together with an extension of the lower rate of contributions for the lower paid.
2. The new LGPS Scheme introduced on 1st April 2008 included a new banded contribution arrangement with a top level of 7.5% of pensionable pay for those whose earnings are in excess £75,000. However, it is now believed that there are many high earners in the local government workforce who are paying a proportionately modest amount towards their pension benefits.

At the same time, given the very high proportion of part-time employees in the Scheme, it seems equitable to re-consider the extent, in tariff terms, of the lower rate of 5.5% of pensionable pay. This latter step should directly help to recruit and retain membership of lower paid employees into the Scheme who, according to recent UNISON research, find the costs of membership prohibitive.

3. An example of the scope of a possible future regulatory amendment is illustrated below. Under this example, members earning over £110,000 per year could pay a contribution rate of 10% of pay, and those below in the next band (earning over £75,000) a rate of 8.5%. Meanwhile, many members earning less than £22,001 p.a. would benefit from a lower rate. The table is illustrative at this stage and does not represent any firm commitment by Ministers.
4. Those earning between £30,001 to £75,000 per year would also have to contribute more: +0.2% or +0.3%, to avoid “cliff edge” increases in contributions within the tariff.
5. Subject to the outcome of any statutory consultation the new contribution tariff could take effect from 1 April 2010.

Table 1 – Possible New Contribution Tariff			
Band	Pay Range (pay per year)	New Contribution Rate	Difference from current LGPS rate
1	£0 - £15,000	5.5%	No change for members earning up to £12,000 per year -0.3% for members earning from £12,001 to £14,000
2a	£15,001 to £18,000	6.0%	+ 0.1% This apparent anomaly is justified by the significant reduction in rate for Band 3 below
2b	£18,001 to £22,000	6.0%	-0.5%
3	£22,001 to £30,000	6.5%	No change
4	£30,001 to £40,000	7.0%	+0.2%
5	£40,001 to £75,000	7.5%	+0.3%
6	£75,001 to £100,000	8.5%	+1.0%
7	£100,001.+	10.0%	+2.5%
Yield = 6.42% of payroll			