

meeting **PENSIONS COMMITTEE**

date **31 OCTOBER 2011**

agenda item number **5**

**REPORT OF THE SERVICE DIRECTOR (HUMAN RESOURCES &
CUSTOMER SERVICES)**

**CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE
CONTRIBUTION RATES AND CHANGES TO SCHEME ACCRUAL RATES,
EFFECTIVE FROM 1ST APRIL 2012 IN ENGLAND AND WALES**

1. Purpose of the Report

- 1.1 The purpose of this report is to provide the Pensions Committee with an overview of the consultation being undertaken by the Department for Communities and Local Government (DCLG), on the proposed increases to employee contribution rates and changes to scheme accrual rates, to be effective from 1 April 2012.
- 1.2 Seek Members views on a response to the consultation process.

2. Information and Advice

- 2.1 The consultation is set out in the DCLG's letter dated 7th October 2011 which is addressed to the Local Government Pension Scheme (LGPS) interests in England and Wales. This letter with three annexes is as noted in the attached appendix to this report.
- 2.2 The consultation paper sets out the Government's draft proposals to achieve short terms savings of £900m within the LGPS by 2014-15, equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes. Following the consultation exercise outcome, it is intended for the scheme's regulatory framework to take effect from April 2012. It is to be noted that that the proposed amendments, and any others brought forward, will continue to be discussed at forthcoming meetings of the Police Review Group, and other

- meeting arranged by the DCLG with LGPS partners within the statutory consultation period.
- 2.3 The DCLG is proposing in its consultation that some of the short-term savings of £900m should come from increases in employee contributions, with the remainder to come from changes in the scheme's pension accrual rate.
- 2.4 The proposals for the LGPS are as noted in paragraphs 4.1 to 4.5 of the letter and a more detailed analysis is presented in Annex A. 'Approach 1' suggests how a £450m saving could be made from a phased increase in the employees contribution rate over the 3 year period from 2012/13 to 2014/15, with the balance of £450m being achieved by a stepped change in the schemes current accrual rate of $1/60^{\text{th}}$ to $1/64^{\text{th}}$ from April 2013, and $1/65^{\text{th}}$ from April 2014.
- 2.5 'Approach 2' suggests how a £300m saving could be made from a phased increase in the employees contribution rate over the 3 year period from 2012/13 to 2014/15, with the balance of £600m being achieved by a change in the schemes current accrual rate of $1/60^{\text{th}}$ to $1/67^{\text{th}}$ from April 2014.
- 2.6 The Local Government Group, in response to the Secretary of State's invitation of 20 July, submitted a proposal to secure £900m savings by 2014-15. This consisted of an increase to the normal pension age to 66, and a member choice of an increased contribution rate or change in the scheme's accrual rate. The Group's submission, including detailed costings, can be found in Annex B and C respectively. The DCLG intends to analyse and consider the details of the submission with advisers to the group within the consultation period.
- 2.7 The DCLG have noted that any further alternative proposals which may be submitted should, if possible, be actuarially costed; be capable of implementation within the current regulatory framework; and not take into account of the recent change of inflation proofing from RPI to CPI or the impact of projected workforce reductions which have already been factored in recent LGPS valuations.
- 2.8 The DCLG have asked that consultees who may wish to submit alternative proposals should indicate accordingly by 28 October at the latest, and submit specific costed options no later than 25 November.
- 2.9 The DCLG have invited consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following

questions:

Q1 – Do the proposals meet the policy and objectives to meet the necessary level of savings in the LGPS?

Q2 – Are there any consequences or aspects of the proposals that have not been fully addressed?

Q3 – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

Q4 – Are there any equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

Q5 – Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

2.10 The closing date for responses to the consultation is 6 January 2012.

3. Statutory and Policy Implications

3.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder and those using the service and where such implications are material they have been described in the text of the report.

4. Recommendation

4.1 The Pensions Committee is recommended to note the contents of the report, and agree to reflect members views in a formal response to be provided on the consultation to the DCLG.

4.2 Officers draft a response to reflect Members views and circulate for comment prior to submission by the Chairman of the Pensions Committee.

M TOWARD

SERVICE DIRECTOR – HUMAN RESOURCES & CUSTOMER SERVICE

Background Papers Available for Inspection

Independent Public Service Pensions Commission – Interim Report : 7.10.11

The Chief Secretary to the Treasury's statement on 19.7.11

Letter dated 21.9.11 from the Local Government Group to the Secretary of State for Communities and Local Government

Electoral Divisions Affected

6. All