



meeting	PENSIONS ADMINISTRATION SUB COMMITTEE	
date	24th OCTOBER 2005	agenda item number

REPORT OF THE DIRECTOR OF RESOURCES

UPDATE ON THE DEPUTY PRIME MINISTER'S TRIPARTITE COMMITTEE

1. Purpose

- 1.1 To inform the Pensions Administration Sub-Committee of the proposals from the Employers Association and the Unions, in regard to dealing with the costs of revocation. The proposals if agreed to be effective from April 2006.

2. Background

- 2.1 The Deputy Prime Minister on 18 March 2005 announced his intention, subject to statutory consultation, to retrospectively revoke the changes of the LGPS (Amendment) (No.2) Regulations 2004 which were to come into effect on 1 April 2005. At the same time, the creation of a Tripartite Committee, with representatives from Local Government and Trade Unions was announced to consider the long-term future of the LGPS with 'nothing ruled in or ruled out'.
- 2.2 At the first formal meeting of the Tripartite Committee on 24 May 2005, Local Government and Unions were tasked with coming forward with:
- Draft terms of reference;
 - The principles on which discussions should be based, and
 - The basis for a longevity study.
- 2.3 Further to the next Tripartite meeting on 30 June 2005, the Deputy Prime Minister (DPM) tasked the Employers and Unions to produce proposals by the end of September, for his consideration. The proposals to include:
- Based on factual data, how the cost of revocation of the April 2005 changes to the Local Government Pension Scheme (LGPS) should be met; and
 - The necessary changes required to be made to the LGPS from April 2006 to achieve this.

- 2.2 In the event of failure by to reach an agreement on proposals between the Employers and Unions, it could mean that the DPM would have to impose a solution from April 2006.

3. Employer Proposals

- 3.1 The Employer proposals are as noted in the attached bulletin which was issued on 22 September 2005. The proposals were intended for consideration by unions in preparation for the next Tripartite Committee meeting in September.

- 3.2 In summary, the proposals contained a package of measures to deal with the estimated £400 million cost to the employers of the delayed changes. These included:

- a) The 85 year rule needs to be removed to comply with Age Discrimination legislation which is to be effective from 1 October 2006. Whilst the Age Discrimination Rules Consultation (reported to Committee on 12 September 2005), excluded occupational pensions schemes, it appears that there was an error in the draft consultation, and should have included all statutory schemes. Therefore, the combination of age and service as applicable to the 85 year rule is in breach of the equality directive. Standardising the retirement age at 65 for benefits employees accrue from next April, whilst allowing employees to pay extra contributions if they wish in order to still be able to get an unreduced pension if they choose to retire on or after 60 and before 65;
- b) No phased protection for older workers;
- c) Increasing the earliest age of retirement to from 50 to 55;
- d) Apply an increase of 1% in the employees' contribution rate for the next two years to meet the estimated £400 million cost of the delays to the changes to the LGPS. This would mean that the cost of the delay would not have to be borne by the Government or by Employers
- e) The ability to take a bigger tax free lump sum on retirement;
- f) The right to accrue more than 40 years pensionable service;
- g) The introduction of flexible retirement provisions.

4. Union Proposals

- 4.1 Whilst the Unions rejected the Employer proposals issued in September 2005, at a meeting of the 'Stakeholder' group on 7 October, alternative proposals for scheme changes were tabled by the Unions, as listed below:

- a) The same approach, particularly in relation to timescale, should be applied by Government to reviewing all public service schemes;

- b) Pension age should be maintained, or parity with other public service schemes should be applied where this is more favourable;
- c) If rule of 85 terms are abolished under anti-age discrimination legislation there should be a lower (than 65) pension age for all in future;
- d) Voluntary flexible retirement with late retirement enhancements, and no abatement of pension on subsequent re-employment;
- e) No increase in average employee contributions, but explore introduction of graduated contribution rates. Non-tax payers to have their contributions partially funded (by the Inland Revenue) as if net of tax;
- f) Improved benefit accrual rate, with retirement pension/lump sum flexibility;
- g) Definition of final pensionable salary changed to be best in the last 5 years before retirement/leaving;
- h) Full partners pensions backdated to 1972;
- i) Improved lump sum on death in service of 3 times pay.

5. Further meetings

5.1 As the ODPM intends to implement changes from 1 April 2006 to address the issue of revocation, it would need to issue amendment regulations for consultation during November. The following is a series of meetings proposed to progress discussions in line with this timeframe:

- a) Meeting of the Tripartite Committee on 10 October;
- b) Further meetings between actuaries representing the funds, unions and the Government's Actuary's Department to discuss matters relating to cost calculations;
- c) At least one further meeting of the Stakeholders group and/or Tripartite Committee in October;
- d) A meeting of employer and union representatives with the Deputy Prime Minister is scheduled for the first week in November.

6. Response to Proposals

6.1 As per the response to the proposed regulations which were subsequently revoked on 3 August 2005, we agree with some of the proposals put forward by the Employers, such as the increase in the employee contribution rate and 'flexible' retirement. However, the current proposals continue with the erosion of benefits built up by employees in good faith over many years. It would also in effect penalise employee

expectations, especially if there was no phased protection for older workers. Furthermore, the proposals continue with the theme of having employees remain in employment longer with minimal gain.

- 6.2 There should be more of an equitable stance taken by the Employers in relation to the fund changes and the cost to the employer needs to be managed more effectively.
- 6.3 In regard to the proposals made by the Unions, clearly they are favourable to the employees, however, the result would be a higher cost scheme. The proposals are more reflective of a 'new look' scheme but do not necessarily address the cost implications of revocation.
- 6.4 Whilst we have not been formally invited to respond on the proposals, it is appropriate to bring them to the Committee's attention and for comment. There will however be an opportunity to respond at a later stage when the ODPM issue their proposals.

7. Recommendation

- 7.1 That the Pensions Administration Sub-Committee notes the content of this report.

A DEAKIN Director of Resources

Personnel Implications

None.

Equal Opportunities Implications

None.

Crime and Disorder Implications

None.