



meeting

PENSIONS ADMINISTRATION SUB - COMMITTEE

date

2 FEBRUARY 2006

agenda item number

REPORT OF THE DIRECTOR OF RESOURCES

THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO.3) REGULATIONS 2005: CONSULTATION DRAFT

1. Purpose

- 1.1 To inform the Pensions Administration Sub Committee of the draft regulations issued by the Office of the Deputy Prime Minister, to amend the Local Government Pension Scheme Regulations 1997.

2. Background

- 2.1 On 2 December 2005 the Minister for Local Government (Phil Woolas) made a statement the House of Commons concerning proposed changes to the LGPS in England and Wales. These were followed by the issue of draft amendment regulations, a covering letter from the ODPM dated 5 December 2005, a regulatory impact assessment and a subsequent addendum letter of 10 December 2005. The ODPM have asked for comments by no later than 28 February 2006.
- 2.2 In summary, the draft regulations propose that from 6 April 2006 (unless a different date is shown below):
- a) employees will be able to join and remain in the scheme up till their 75th birthday;
 - b) the 15% limit on employees contributions should be removed;
 - c) the contribution rate that employees who go on strike should pay if they wish the strike days to count as pensionable service should be the standard employees contribution rate plus the common employers' contribution rate as specified in the Fund's last valuation report (rather than a set rate of 16% as currently specified in the LGPS Regulations);
 - d) benefits must be paid by age 75 and benefits for employees who defer drawing benefits beyond age 65 should be actuarially increased (i.e. just as benefits drawn before age 65 may be subject to an actuarial reduction to reflect the fact that they will be paid for longer, benefits

drawn after age 65 will be actuarially increased to reflect the fact that they will be paid for a lesser period of time);

- e) the earliest age that benefits may be paid on the grounds of redundancy or efficiency, or at which an employer can agree to the early release of pension benefits, remains as age 50 (but will have to increase to 55 by 2010);
- f) the ability for a member to surrender a part of his pension in favour of spouse, civil partner or dependant (payable should they survive the member) should be removed;
- g) flexible retirement should be permitted at or after age 60, linked to a reduction in hours or grade agreed by the employer and the employer should be able to waive, in whole or in part, any actuarial reduction that would have been applied to the early payment of those benefits. The draft regulations do not mention any change to the current rules requiring administering authorities to have an abatement policy in relation "re-employed" pensioners;
- h) children's pensions coming into payment after 5 April 2006 will, for those who carry on in full time education or training for a trade, profession or calling beyond age 17, have to cease by age 23 (even if they carry on in full time education, etc beyond that age);
- i) the amount of augmented membership that an employer may, in future, grant to a scheme member should have a single limit of 6 2/3rd years;
- j) the maximum number of added years that a scheme member should, in the future, be able to purchase should be limited to 6 2/3rd years;
- k) retirees should not be able to convert some or all of their scheme lump sum into additional pension;
- l) retirees drawing benefits on or after 6 April 2006 will be able to commute some of their pension to receive a bigger lump sum. For each £1 of annual pension surrendered, the member will receive a lump sum of £12. Retirees will be able to take up to 25% of the capital value of their pension benefits in the form of a lump sum;
- m) the 85 year rule is to be removed in respect of benefits accruing after 30 September 2006 but members should be able to nominate an individual retirement date falling on or after age 60 and before age 65 and make extra contributions to offset any reduction to benefits paid before age 65. Working beyond the nominated date would result in an actuarial increase in the rights accrued;
- n) transitional protections should apply to older members who will be aged 60 or over by 31 March 2013 (although the exact form of the protections and who they apply to is still open for discussion);
- o) the existing limits on benefits are to be removed and the new HM Revenue and Customs rules will apply. In essence these provide for

Annual and Lifetime Allowances of, in 2006/07, £215,000 and £1.5 million respectively (unless the member has a Personal Lifetime Allowance in excess of £1.5 million). If the value of benefits in a year increases by more than the Annual Allowance a tax charge arises on the excess; similarly, if the total value of a member's pension benefits, when paid, exceeds the Lifetime Allowance (or Personal Lifetime Allowance there will be a tax charge on the excess. Consideration is still being given to how to deal equitably with the pension rights of those members who joined the LGPS on or after 1 June 1989 who are currently subject to the Earnings Cap of £105,600. Also, although it is proposed that the facility for employers to be able to reduce or waive the contributions of employees who have been in pensionable local government employment for at least 40 years should be removed, the draft regulations, as currently worded, do not remove the maximum pensionable service limit of 40 years (or, for those who joined the Scheme before 1 June 1989, 40 years at age 60 and 45 years at age 65).

2.3 The statutory consultation exercise for 2006 amendments are as follows:

- a) Consultation between December 2005 and February 2006;
- b) Discussions on contents of consultation to continue within the framework provided by the Tripartite Committee;
- c) If required, consultations on the transitional protections to be integrated with those taking place for the new look Scheme;
- d) Regulations made and laid in March 2006, to achieve coming into force with effect from 6 April for HM Revenue and Customs taxation simplifications; and coming into force with effect from 1 October the provisions for dealing with the 85 year rule and transitional protections.

2.4 The discussions on a new look LGPS for 2008 are as follows:

- a) Discussions began in December 2005;
- b) Monthly meetings thereafter until early 2006;
- c) Issue policy discussion paper June 2006 for comment by early September;
- d) Statutory consultation exercise on draft regulations implementing a new look LGPS to begin November 2006 until early New Year 2007;
- e) New look LGPS provisions in place April 2007;
- f) New look LGPS provisions coming into force April 2008.

3. Recommendation

3.1 It is recommended that:

- a) the Pensions Administration Sub-Committee note the contents of this report;
- b) a response to the draft consultation be drafted and sent to the ODPM by Pensions Manager before 28 February 2006, based on the views of the Pension Administration Sub-Committee Committee; and
- c) that the response be endorsed at the meeting of the Pensions Committee on 9 March 2006, and if required, an addendum to the response is sent to the ODPM.

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Director of Resources

Personnel Implications

There are no immediate implications, however, should the proposals become law, there will be an impact on the terms and conditions of current employees.

Equal Opportunities Implications

None.

Crime and Disorder Implications

None.