

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

EXECUTIVE REPORT

23 JULY 2012

1. **LOCAL GOVERNMENT PENSION SCHEME 2014 PROPOSALS –
EMPLOYER CONSULTATION**

Report of the Chief Fire Officer.

Recommended

THAT the Executive Committee approves the responses to the employer consultation to the proposed revisions for the Local Government Pension Scheme (LGPS) 2014. The proposed changes will be effective from 1 April 2014.

2. **PURPOSE OF REPORT**

This report is submitted to the Executive Committee to seek approval to the Authority's response as set out in Appendix 1, to the Local Government Association employer consultation on the proposed revisions for the Local Government Pensions Scheme (LGPS) 2014. This Scheme has been negotiated following the Department for Communities and Local Government consultation document Local Government Pension (Benefits, Contribution and Membership) Regulations 2007 (SI 2007/1966) (as amended); Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended).

3. **BACKGROUND**

- 3.1 Following Lord Hutton's review of public sector pension schemes and the Government's acceptance of Lord Hutton's rationale for change, a period of consultation took place regarding the proposed changes to the LGPS, this consultation concluded on 6 January 2012.
- 3.2 The Authority's response to this initial consultation was agreed and approved at the Executive Committee on 12 December 2011. The aim of the consultation was to consider proposals for achieving short term savings of £900 m within the LGPS by 2014-15.

- 3.3 The process of reform was only ever designed to address the future costs of the LGPS. There was no remit to consider or recommend any action to be taken in respect of past service costs and deficits
- 3.4 On 31 May 2012 the Local Government Association and local government unions, with the support of the Government announced that agreement had been reached on proposals for a revised LGPS to be implemented from 1 April 2014.
- 3.5 The scope of this consultation is to seek views on the following proposed changes to the Local Government Pension Scheme 2014 in England and Wales:
- Career Average - Shift to a career average basis for calculating benefits with a 1/49th accrual rate.
 - The 50/50 Option – an option for members to pay 50% of the contribution for 50% pension whilst retaining the full value of other benefits
 - Contribution Based on Actual Pay for Part Time Staff – where contribution rates are based on actual pay and not full time equivalents. This will mean part time employees will pay lower contribution rates.
 - New Scheme Contribution Rates – the average membership contribution will remain at 6.5 % as is now but there will be some changes to bands and some rates. The lowest paid would pay the same or less. The proposed contributions bands can be seen in appendix 2.
 - Protection of Current Benefits - The new LGPS will commence on 2014. Only membership after that point will be in the new scheme, under the new LGPS 2014 rules.
 - Pensions Protection Transfer – It is proposed that the provisions of the current scheme are extended to ensure that all staff whose employment is compulsorily transferred will still be able to retain membership of the LGPS when transferred.

Additional detail on these changes can be found in Appendix 2.

- 3.7 Should the outcome of the consultation be positive and accept the proposed changes, Government will move forward with a statutory consultation in the autumn.
- 3.8 All information provided in response to the consultation may be published or disclosed in accordance with the access to information legislation (these are primarily Freedom of Information Act 2000, the Data Protection Act 1998 and Environmental Information Regulations 2004).
- 3.9 The employer overview of the LGPS 2014 can be viewed at Appendix 2.
- 3.10 The link to full details of the LGPS 2014 proposal including proposed member contributions and examples of benefits are available on the LGPS website: www.lgps.org.uk

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment has been undertaken. The initial assessment did not raise any concerns and a full Impact assessment has not been advised at this time.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues of a legal nature which should be drawn to the attention of the Authority's Monitoring Officer as the responses form part of a consultation process. The outcome of the consultation may have legal implications.

6. **TRADE UNION CONSULTATION**

The Local Government Association and local government trade unions with support from the Government, announced that agreement had been reached on proposals for the revised Local Government Pension Scheme (LGPS) to be implemented 1 April 2014.

7. **FINANCIAL IMPLICATIONS**

There are no direct financial costs for the Authority related to this consultation process.

BACKGROUND PAPERS

Department for Communities and Local Government – Local Government Pension (Benefits, Contribution and Membership) Regulations 2007 (SI 2007/1966) (as amended); Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended) consultation document
LGPS 2014 Employer Overview
WMFRA Executive Minutes 12 December 2012

VIJ RANDENIYA
CHIEF FIRE OFFICER

APPENDIX 1

LGPS 2014 Proposals- Employer consultation form

Please be aware that only one form should be returned for each employer with participating scheme members. If multiple forms are returned they will be excluded from the consultation (see note 1).

Forms provided without a valid email address and phone number will be also be excluded as we will be auditing responses to ensure they originate from a bona fide LGPS employer

Forms should be returned by 27th July, either sent to
Elaine English
Workforce Team
Local Government Association Local Government House
Smith Square, London, SW1P 3HZ

Or scanned and emailed to Elaine.english@local.gov.uk. In either case forms must be signed by an authorised employer representative.

Employer name		West Midlands Fire Service	
Name of LGPS fund in which the employer participates ¹		West Midlands LGPS	
Number of employees participating in the LGPS on 30th June 2012		487	
Authorised representative	Print name	David Johnson	
	Sign		
	Email	David.johnson@wmfs.net	
	Telephone	0121 380 7200	
As an overall package the employer named above (please tick)			
Supports			<input checked="checked" type="checkbox"/>
Does not support			<input type="checkbox"/>
The proposals agreed by the LGA and local government unions for a reformed LGPS			

¹ This field should be completed in all cases and is the name of the local fund that you are a participant in. If you have multiple admission agreements and participate in more than one fund please provide only one response naming one of the funds but provide the total number of participating employees across all funds in the box below

Comments
<p>The proposed changes for the LGPS Scheme 2014 focus on mechanisms to manage future scheme costs and provides protection of current benefits accrued in other schemes.</p> <p>The average contribution rates will remain at 6.5% and for part time staff the rates will be based on actual pay.</p>

This document describes proposals for the LGPS in England and Wales and does not override any existing legislation.

LGPS 2014 EMPLOYER OVERVIEW

This brief overview sets out the main features of the proposed LGPS 2014 which commences from 1st April 2014. This new scheme has resulted from the first phase of the LGPS 2014 project - a process of negotiation between the Local Government Association (LGA) and the local government unions in consultation with government. Full details of the LGPS 2014 proposals including proposed member contributions and examples of benefits are available on the LGPS website (www.lgps.org.uk).

COSTS OF THE LGPS 2014

The design of the LGPS 2014 has been costed by the Government Actuary's Department (GAD) at 19.5% of pensionable payroll. As the employee contribution yield is proposed to remain at 6.5% this gives a notional employer Future Service Rate (FSR) of 13%. This compares with the most recent GAD costs of 21.7% for the current scheme (15.2% employer FSR).

Each LGPS fund will have different individual circumstances for fund actuaries to take in account when determining the FSR. However we would expect to see an average reduction in the FSR in the region of 2%, across the 89 funds in England and Wales. That translates to around £600m per annum across the 89 funds.

This reduction in the FSR would be largely achieved by the link between Normal Pension Age and State Pension Age for all membership in the LGPS 2014 as contained in the design of the LGPS 2014.

An automatic link between State Pension Age and longevity will be announced by the Office of Budget Responsibility later in the summer. This link between longevity and pension age will negate a significant degree of the risk (and potential future cost) currently associated with increasing longevity.

However, the FSR is only one element which goes toward the total employer contribution rate. The other major factor is the past service cost.

The revised scheme design will have no impact on past service costs which will continue to be managed via existing deficit reduction strategies and employer contributions. If assumptions in relation to fund performance prove to have been optimistic at the 2013 valuation then any improvements to the overall employer rate due to the revised design may well be wiped out.

Given the difficult market conditions currently in effect many employers may see the impact of the new scheme design reflected in total contribution rates being not as high as they would otherwise have been rather than seeing a reduction.

LGPS 2014 – Employer Overview v 1.4



This document describes proposals and does not override any existing legislation.

FUTURE COST MANAGEMENT

A revised scheme design is just the first part of the process contained in the LGPS 2014 project. A mechanism to manage future costs is still to be agreed. This mechanism will impose a cap and collar on future costs, modifying the scheme design should costs move outside of a tight set of parameters.

The mechanism will operate within the provisions of the upcoming Public Service Pensions Bill and will be included in scheme regulations in place for the 2013 valuation.

Future costs will also be managed by the link between Normal Pension Age and State Pension Age for all membership in the LGPS 2014.

In order to ensure that this link continues to effectively manage risk in the scheme we propose working with fund actuaries to develop an LGPS longevity index. Such an index would enable fund actuaries to track the match between increases to SPA and longevity within the scheme and recommend action should they diverge.

These measures combine to ensure that in future not all of the risk falls on the employer but is shared with employees.

NEW SCHEME BENEFITS

The table below shows the main provisions of the proposed new Local Government Pension Scheme (LGPS 2014) for membership from 1st April 2014.

	LGPS 2014
Basis of Pension	Career Average Revalued Earnings (CARE)
Accrual Rate	1/49th
Revaluation Rate	Consumer Price Index (CPI)
Normal Pension Age	Equal to the individual member's State Pension Age (minimum 65)
Contribution Flexibility	Members can opt to pay 50% contributions for 50% of the pension benefit

LGPS 2014 – Employer Overview v 1.4



This document describes proposals and does not override any existing legislation.

Definition of Pensionable Pay	Actual pensionable pay - to include non contractual overtime and additional hours for part time staff
Vesting Period	2 years

LGPS 2014 contains some new features. All other benefits remain the same as in the current scheme.

Although some other changes were discussed, including to the ill health tiers, no agreement was reached at this point. However the door remains open to a future review of the ill health provisions.

MAJOR CHANGES FROM THE CURRENT SCHEME

CAREER AVERAGE

The shift to a career average or CARE basis for calculating benefits with a 1/49th accrual rate will be broadly cost equivalent to the current final salary with a 1/60th accrual rate basis of calculation. This is because CPI (Consumer Price Index) is proposed to be the revaluation rate used to increase each year's pension for inflation. CARE pensions are calculated each year then revalued rather than being based on the final year's pensionable pay.

THE 50/50 OPTION

LGPS 2014 is proposed to contain an option for members to pay 50% of the contributions for a 50% pension whilst retaining the full value of other benefits of the scheme. This is intended to attract non-members on low pay to the scheme and retain members who suffer periods of financial difficulty.

This will be a useful tool in encouraging younger employees to join the scheme thereby managing the risk of increased employer rates brought about by an increased maturity in membership.

Although not having any immediate effect on employer rates (i.e. the employer rate is the same for all members regardless of whether they pay full or 50/50 option) it will have an effect at valuation. For example, a significant take up of this option by existing members would result in a lower employer rate at subsequent valuations. Although an increase in participation by existing non members may result in increased cash costs in the short term these should be mitigated by the resulting impact on overall rates brought about by improvements in membership profile. However the option is not designed to replace long term membership of the full scheme but is intended to provide a short term alternative to those considering opting out of the scheme.

LGPS 2014 – Employer Overview v 1.4



This document describes proposals and does not override any existing legislation.

CONTRIBUTIONS BASED ON ACTUAL PAY FOR PART-TIME STAFF

In LGPS 2014, all members are proposed to have contribution rates determined by reference to their actual – rather than full time equivalent – pay which is not the case in the current scheme. This will mean that some part-time workers will pay a lower contribution rate than in LGPS 2008. It should also result in a simpler definition of pensionable pay for the new scheme that will be easier to calculate and remove many of the current complexities for employers.

However employers will still be required to hold and supply the data necessary to calculate pensionable pay on the current basis for pre 2014 membership.

NEW SCHEME CONTRIBUTIONS

The average member contribution to LGPS 2014 will remain at 6.5% as now. However, it is proposed there will be changes to bands and some rates. The lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.

The bands and rates will be reviewed prior to the introduction of LGPS 2014 to ensure they obtain a yield of 6.5% of pensionable payroll taking into account any movements in pay up to the review. Please note that the rates quoted after tax relief are indicative and will depend on members' individual circumstances.

PROPOSED CONTRIBUTION BANDS AND RATES FOR APRIL 2014

Pensionable Pay	Headline/Gross Contribution	Contribution After Tax Relief
Up to £13,500	5.5%	4.40%
£13,501 - £21,000	5.8%	4.64%
£21,001 - £34,000	6.5%	5.20%
£34,001 - £43,000	6.8%	5.44%
£43,001 - £60,000	8.5%	5.10%
£60,001 - £85,000	9.9%	5.94%
£85,001 - £100,000	10.5%	6.30%
£100,001 - £150,000	11.4%	6.84%

LGPS 2014 – Employer Overview v 1.4



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More than £150,000	12.5%	6.88%
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This is a major shift from the government's initial reference scheme which proposed a 3% increase in the average employee contribution rate i.e. up from 6.5% to 9.5%. At the same time a commitment to protect all members below £15,000 (a third of the membership) from any increases and those below £21,000 (another third) to a maximum increase of 1.5% was given by the government. This would have resulted in rises significantly above 3% for the remaining third of the membership.

A very strong message from members that any increases would result in damaging levels of optants out was very much in mind when reaching this agreement. However forthcoming cost control mechanisms mean that future rises in employee contributions are not ruled out.

PROTECTION OF CURRENT BENEFITS

The new LGPS will start on 1st April 2014. Only membership after that point will be in the new scheme, under the new LGPS 2014 rules.

Existing pensioner and deferred members will not see any change to their benefits.

Employees with membership in the current final salary scheme will retain the link to final salary for all membership built up before 1st April 2014 and the Normal Pension Age as under the current rules for membership up to that date.

Previously agreed protection will continue, including the provisions for those members who were protected against the removal of the Rule of 85 in 2006. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.

PENSION PROTECTION ON TRANSFER

It is proposed that the provisions of the current scheme are extended to ensure that all staff whose employment is compulsorily transferred will still be able to retain membership of the LGPS when transferred.

This is an undertaking given by government in all of the public service pension scheme Heads of Agreement. However as many of these schemes do not have the Admitted Body Status provisions of the LGPS the exact impact of this undertaking is still to be determined.

LGPS 2014 – Employer Overview v 1.4

