

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

EXECUTIVE COMMITTEE

12 DECEMBER 2011

1. LOCAL GOVERNMENT PENSION SCHEME

Report of the Chief Fire Officer.

RECOMMENDED

THAT the Executive Committee approve, on behalf of the Authority, the responses to the 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). The proposed changes will be effective from 1 April 2012.

2. PURPOSE OF REPORT

This report is submitted to the Executive Committee to seek approval to the Authority's response, to 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 Lord Hutton was commissioned to review public sector pension schemes and within his interim report recommended that, if the Government wanted to make short term savings, then raising employee contributions would be an effective way to achieve this.
- 3.2 The Government accepted Lord Hutton's rationale and at the Spending Review announced their intention to raise employee contributions in public service schemes. The proposed changes, subject to the outcome of this consultation, will take effect 1 April 2012.

- 3.3 This consultation paper sets out the Government's draft proposals to achieve short term savings of £900m within the Local Government Pension Scheme (LGPS) by 2014-15, this being equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes.
- 3.4 This consultation exercise marks the start of the formal consultation process for the proposed amendments to the LGPS Regulations (mentioned above), as required by section 7 (5) of the Superannuation Act 1972.
- 3.5 This report sets out the recommended response from West Midlands Fire and Rescue Authority.
- 3.6 The scope of this consultation is to seek views on the following proposed changes to the Local Government Pensions Scheme in England and Wales:

3.6.1 Option 1:

This proposal to achieve the required £900m savings by 2014-15 (3 percent of forecast pensionable pay bill) comprises of two separate elements:

- Increased levels of employee contribution rates, effective from 1 April 2012 to raise £450m(1.5 percent of pensionable pay bill); and
- Change the Scheme's accrual rate from April 2013, to raise additional funds to raise £450m(1.5 percent of pensionable pay bill).

3.6.2 Option 2:

A variant proposal to achieve the required £900m savings by 2014-15 (3 percent of forecast pensionable pay bill) comprises of two separate elements:

- Increased levels of employee contribution rates, effective from 1 April 2012 to raise £300m (1 percent of pensionable pay bill); and
- Change the Scheme's accrual rate from April 2013, to raise additional funds to raise £600m (2 percent of pensionable pay bill).

3.6.3 Normal Age Retirement:

Lord Hutton recommended that the pension age in public sector schemes could be linked to the State Pension Age.

- 3.7 Following consultation a summary of the responses will be published on the Department's website within three months of the end of consultation which is 6 January 2012.
- 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 specific proposals can be viewed by using the Department for Communities and Local Government link below:
<http://www.communities.gov.uk/documents/localgovernment/pdf/2004147.pdf>
- 3.10 The consultation questions and recommended responses are identified below:

Question 1:

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

West Midlands Fire and Rescue Service (WMFRA) Response Q1:

At the Spending Review the Government announced intentions to increase employee contributions by 3.2 percentage points on average, to be phased in over the three years to 2014/15. This appears to have been achieved.

Question 2:

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

WMFRA Response Q2:

WMFS is concerned that the risk of 'opt outs' for new and existing members will affect all pay grades but specifically those of lower income. It is not believed that this has been fully acknowledged and therefore addressed. The increase in 'opt out' or 'opt not to join' may present a potential serious problem of funds maturing much quicker with associated increase in costs and the broader consequences of people retiring on low income levels requiring increased State support. To mitigate against people opting out members could be given a choice of increased contribution rates for a shorter period or reduced contribution rates for a longer period.

There are administrative issues with the proposals which need to be considered which create an added burden for both the Local Government Pension Schemes(LGPS) providers and the local employers. This includes the need to contact members regularly who have 'opted not to join' the scheme as well as any choice option that may be given to members to join.

Question 3:

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

WMFRA Response Q3:

To minimise the impact there should be improved communication that clearly focuses on the implications of the revised scheme format. This should include a guide on the impact of the scheme and comparisons with other schemes that employees may consider changing to. This may establish the benefits of remaining with the revised scheme rather than changing to an alternative scheme which may not be as competitive.

The outcome of the proposed changes to the scheme will have early and long term impacts on LGPS members considering the ongoing economic climate and the potential detriment from 'opt outs'. This could be mitigated by giving a choice of **alternative options** to members on entry to the scheme, such as no increase in pension contributions for increase in retirement age or reduced benefits. This is a choice that is not being offered here and would take into consideration individual employee's ability (and desire) to actually pay additional contributions.

Questions 4:

Are there 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?

WMFRA Response Q4:

The impact of the potential changes could affect approximately 30% of WMFS workforce this is the proportion that is eligible to join the Local Government Pension Scheme (LGPS). The changes will only affect LGPS members however of our employees entitled to become members of the LGPS, a majority of these employees are white British and female. Of these females a higher proportion are in lower paid roles. So although they may appear to be disproportionately effected by the changes at West Midlands Fire Service this relates to the demographics of our workforce.

Of our employees who are eligible to be members of the LGPS a majority are over 35 years and have in excess of 10 years service. The age profile of our workforce, who are entitled to be a member of the LGPS. These will be the employees who will be affected earliest by the proposed changes.

Low paid contributors may 'opt out' and therefore reach retirement with inadequate income disadvantaging them relative to other income groups.

Question 5:

Within the consultation period, consultees' 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.

WMFRA Response Q5:

The link to state pension age is supported but individuals should be given sufficient notice so that they have a reasonable period in which to accommodate a change. Individuals should have the option to retire earlier from, say, 60 years of age on an actuarial reduced pension so there is no cost to employers. Individuals could increase their pension savings to give themselves this option and thus reduce any reduction.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment has been undertaken. The Department have confirmed that they will use the evidence and views provided by the consultation to fully inform all Impacts Assessments. These Assessments will inform any final decisions and will be published on the Department's website.

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**

As the consultation process for the Model policy are still ongoing there has been no agreement yet. Senior support managers have had the opportunity to put forward comments on our consultation response. The Department are seeking the view of stakeholders including Local Authorities, Fire and Rescue Authorities, Police Authorities Audit Commission, National Probation Service for England and Wales, Local Government Association, and the Trade Union Congress, and employers' organisations.

7. **FINANCIAL IMPLICATIONS**

There are no direct financial costs for the Authority related to this consultation process – the proposal is to increase employee contributions.

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

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