

PENSIONS COMMITTEE – 8 FEBRUARY 2005

LOCAL GOVERNMENT PENSION SCHEME - UPDATE

SUMMARY

This report updates the Committee on recent developments affecting the Local Government Pension Scheme (LGPS)

RECOMMENDATIONS That

- (1) The changes made and proposed for the LGPS are noted, and**
- (2) The detailed response to the ODPM on the Green Paper be delegated to the Director of Finance and Business Services on the basis of the comments shown in the appendix.**

1. Review of the LGPS - Introduction

In August 2001 the Office of the Deputy Prime Minister (ODPM) announced a stocktake of the Local Government Pension Scheme. The stated objectives were to simplify the regulations and to adapt the Scheme to match the changing work patterns of recent years. It is being carried out against the background of emerging policy and legislative/regulatory proposals from the Department for Work and Pensions (DWP) and the Inland Revenue that will affect all pension funds. Ministers have stated their wish to see the LGPS remain a funded, final salary scheme. However, to achieve this it must be regulated on the basis of fairness and affordability and be proportionate in terms of the balance between the benefits which are provided for its members and the costs which are incurred by its providers.

The stocktake is being undertaken by the ODPM in two phases. The first phase dealt mainly with relatively minor proposals to simplify the regulatory framework of the LGPS from 1 April 2004. A report to this Committee in December 2003 noted the proposals and section 2 of this report advises the Committee of the changes which have now been implemented.

The second, more controversial phase, puts forward proposals relevant to the 'affordability' of the scheme. It consists of two parts:

- a) Regulation changes taking effect from 1 April 2005 were laid before Parliament on 22 December 2004. These are outlined in section 3 below.
- b) A Green Paper entitled "Facing the future - Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales". This was published in October and includes a number of proposals, some of them radical, for the longer-term future of the Scheme. The Council together with other consultees has until 31 March 2005 to respond to it. Section 4 below outlines the main proposals

and suggests how a response should be made. The Employers' Organisation Local Government Pensions Committee (LGPC) is also preparing its response and has circulated a draft of this together with a questionnaire to help it gauge local authority views.

Finally, draft amendments to the LGPS Management and Investment of Funds Regulations have also been issued. These are outlined in Section 5 below.

2. Changes implemented in April 2004

A number of relatively minor changes have been implemented, including those first notified to this Committee in December 2003 as proposals. They include:

(a) General Qualification for Benefits

The minimum total membership period giving rise to entitlement to LGPS benefits reduces from two years to three months. Leavers with more than three months membership, but without an entitlement to immediate benefits, will now have an entitlement to deferred benefits.

Individuals who joined the pension scheme for the first time after 1 April 2004 and who then leave the scheme with less than three months membership will still be entitled to a refund of their contributions.

Members who joined the scheme prior to 2 April 2004 are protected under transitional arrangements and will still be able to elect for a refund of contributions, if they leave with less than two years membership.

(b) Revised definition of ill-health

Previously medical practitioners had to certify that a scheme member retiring on ill-health was "permanently incapable" of carrying out his duties. Since April 2004 the new regulations merely require this to be the case based on a "balance of probabilities" test.

The Committee was advised in December 2003 of a proposal that ill-health pensions be reviewed on a regular basis until the member reaches age 65 and that if the member's health is found to have improved, then any enhancement in pension may be reduced. However, this proposal has now been delayed for consideration as part of the Green Paper referred to elsewhere in this report.

(c) Funding Strategy Statement

Each administering authority must have prepared and published a Funding Strategy Statement (FSS) by 31 March 2005. Guidance has been issued by the Chartered Institute of Public Finance and Accountancy. The Funding Strategy Statement must be kept under review so that it reflects changes to the Statement of Investment Principles, and the actuary is required to have regard to the Strategy in determining employers' contributions. The key aim of

the Strategy is to “encourage authorities to establish a clear and transparent fund specific strategy which would identify how employers’ pension liabilities are best met going forward“ – the idea being to encourage constant employer contribution rates and prudent views of long-term liabilities.

This authority’s FSS is presented for approval elsewhere on this agenda.

3. Changes from April 2005

The main features of the changes which will take effect from 1 April 2005 are as follows:-

- (a) Removal of the ‘Rule of 85’ in respect of future service accrual from 1 April 2005, and standardization of the normal retirement age at 65 years (in line with the Government’s intention to move to a common retirement age of 65 for all schemes). Employees will retain the right to elect to retire at any time after age 60, but if retiring before age 65 their pension will be actuarially reduced in respect of service after 1 April 2005. To provide transitional protection, this change will not apply to individuals who would attain age 60 before 1 April 2013 and satisfy the current 85-year rule before they retire.
- (b) The age at which a member will be entitled to immediate payment of benefits on redundancy or efficiency retirement is raised from 50 to 55 years. This will apply to all individuals who will not have reached 50 years of age by 31 March 2005.
- (c) The age at which a member can elect to receive deferred benefits on compassionate grounds is raised from 50 to 55 years and where they are taken before age 65 they will be actuarially reduced, unless the former employer agrees to waive that reduction on compassionate grounds. If the reduction is waived, the resulting strain on the fund must be met by a capital payment within one month.

The changes will increase the time period before ‘unreduced’ benefits can be paid and will therefore reduce costs. The Council will need to take account of these changes in the management of any future organisational change. The impact of these changes on the Council’s discretions and its financial terms for early retirement will also need to be reviewed.

Communication of these changes is paramount to good employee relations and managing staff expectations and how they affect them as individuals. Scheme members need to be advised that the changes are necessary to make the scheme more attractive, affordable and sustainable and be re-assured that the Local Government Pension Scheme remains a good scheme and a valuable part of the remuneration package.

It is anticipated that a number of communication routes will be used – direct information to scheme members, the provision of a help-line and possible road-shows.

4. Consultation on future changes - the Green Paper

The ODPM issued the Green Paper "Facing the future - Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales" on 4 October 2004. A summary of the Green Paper, derived from a Local Government Pensions Committee Circular, is included in the Appendix together with officers' comments (in a different type face) on each proposal. The most significant issues and proposals are outlined below. The Employers' Organisation has prepared a draft response and issued a questionnaire to gauge local authorities' views on key points. The changes could be introduced from 2008. It is suggested that officers submit a detailed response to the ODPM by the 31 March 2005 deadline, and also respond to the Employers' Organisation questionnaire, based on the comments shown in the Appendix.

Trade Unions have also been consulted on these proposals and are making their own response.

The main points:

- (a) The anticipated cost of the proposed scheme is 21% of payroll, of which it is proposed employees meet 7%. Employee contributions could be varied so that higher earners pay more, the rationale being that at present, after tax relief, they pay a lower contribution rate.
- (b) The normal retirement age to be 65, with actuarial reduction applied to early payment (including redundancy but not ill health) - this is already included from April 2005, but there would also be provision for retirement after age 65, with an actuarial increase in benefits payable.
- (c) Annual pension to be 1.6% of final salary per year of service. There would be no automatic lump sum, but an option to convert up to 25% of pension to a lump sum on the basis of £12 in lump sum per £1 annual pension. For pensioners taking a lump sum equal to the "3/80ths" entitlement under the existing scheme, this would leave them with an annual pension 3% higher than at present. Those accepting an annual pension equivalent to that under the existing scheme, would receive a lump sum 12% higher than at present.
- (d) Only basic pay to be pensionable, not bonuses or overtime etc.
- (e) More flexible arrangements regarding the drawing of pension while still working, to facilitate a gradual approach to retirement.
- (f) A review of ill health retirement, including differentiation between employees unable to continue in their existing job and those unable to perform any gainful employment. The pension could be reduced or withdrawn if the individual's medical or employment situation changes.

There are other proposals concerning survivor benefits, death in service, redundancy compensation, a defined contribution top-up scheme, transitional arrangements, changes related to Inland Revenue changes applicable from April 2006, and scheme governance. The appendix gives more details.

5. Proposed Amendments to the Management and Investment of Funds Regulations

Draft amendments to these regulations were issued by the ODPM on 24 September 2004. They include the following items:-

(a) Stock Lending

The regulations propose increasing the limit in the amount of the fund's investments that may be subject to stock lending from 25% to 35%. A decision on this at a local level could only be taken where an authority had taken "proper advice" and changed its Statement of Investment Principles (SIP).

(b) Representation Policy Statement

The SIP is to include, from 3 October 2005, a note of local policy on a range of issues concerning representation and participation of key stakeholders on pension/investment committees.

(c) Communication Policy Statements

The regulations will require the authority to prepare, publish and review a policy statement setting out its communication strategy for the Fund as a whole, and for the promotion of the Scheme among constituent employers and with their employees. Publication will be required by 1 April 2006.

If these regulations are enacted as proposed, then an updated SIP would be presented to this Committee's next meeting for approval to meet item (b) above, and a way forward on (c) would also be suggested.

6. Summary of Financial Implications

There are no immediate additional financial implications arising from this report. The actuarial valuation reported elsewhere on this agenda determines contribution rates for 2005/06, 2006/07 and 2007/08 and already takes into account the changes effective from April 2005, as described in section 3 above. Taken in isolation, these changes have the effect of reducing the employer contribution rate.

The 2007 actuarial review, to determine contributions from April 2008 onwards, will take into account any changes arising from the Green Paper. The proposals are estimated to cost 21% of payroll (which is more than the current average 20% cost), with employees contributing 7%. This implies an estimated average employer contribution of 14%. However, this will be affected by many factors, including changes arising from the Green Paper consultation, the characteristics of Bexley's own scheme members, and investment performance over the coming years. Bexley's long term employer contribution rate is around 11%.

7. Summary of Other Implications

There is no environmental impact of this report. The proposals for pension reform seek to address issues of equal opportunities and human rights.

Local Government Act 1972 – section 100d

List of background documents

ODPM Green Paper “Facing the future - Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales”

LGPC Circular 166 on the ODPM Green Paper

ODPM letter “LGPS and Management and Investment of Funds (Amendment) Regulations 2003” – 24 September 2004

LGPC Circular 168 on the response to the Green Paper

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ODPM GREEN PAPER: “FACING THE FUTURE – PRINCIPLES AND PROPOSITIONS FOR AN AFFORDABLE AND SUSTAINABLE LOCAL GOVERNMENT PENSION SCHEME IN ENGLAND AND WALES”

(The following is edited from LGPC circular no. 166, and shows officers’ comments in a different type face)

Purpose of this Circular

1. This Circular provides a summary of the Green Paper, *Facing the future – Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales*, which the Office of the Deputy Prime Minister (ODPM) issued on 4 October 2004. The Green Paper sets out a range of principles and propositions for a new-look LGPS which could be introduced from 2008.
2. The actions the Local Government Pensions Committee intends to take in order to respond to the Green Paper by 31 March 2005, being the ODPM’s deadline for receipt of comments, are set out in paragraph 9 below.

Background – the initial phases of the Stocktake of the LGPS

3. The Government commenced a stocktake of the Local Government Pension Scheme in England and Wales in 2001. This led to a number of changes to the Scheme from April 2004 with further, more significant, changes proposed by the ODPM operative from April 2005.
4. The April 2005 changes would:
 - a) increase the minimum age of retirement¹ from 50 to 55, except in the case of:
 - scheme members who will be aged 50 or over on 31st March 2005; they will retain age 50 as their earliest retirement age, and
 - scheme members who are retired on the grounds of permanent ill health (as ill health retirements do not have a minimum age criterion)
 - b) increase the Normal Payable Date in respect of retirement benefits accruing after 31 March 2005² to age 65. This will be achieved by removing the scheme’s ‘85 year rule’³ in respect of membership accruing in the Scheme

¹ i.e. for retirements on redundancy or efficiency grounds and for voluntary retirement with the employer’s consent before age 60,

² For those current Scheme members who will be aged 60 or over by 31 March 2013 and whose combined age and Scheme membership on that date will equal or exceed 85 years, it is proposed that the effective date of the change in the Scheme’s Normal Payable Date will be 31 March 2013 rather than 31 March 2005. This affords an additional degree of protection for older, longer serving, Scheme members. For such members, all references in paragraph 4(b) above to 31 March 2005 and 1 April 2005 should be replaced by 31 March 2013 and 1 April 2013 respectively.

³ i.e. the rule that allowed benefits to be drawn in full on or after 60 and before age 65 (or prior to age 60 with the employer’s consent) provided the member’s age and period of scheme membership (in whole years) equalled or exceeded 85 years.

after that date. Thus, the retirement benefits a member accrues after 31 March 2005² would, if voluntarily drawn before age 65, be paid at an actuarially reduced rate. The retirement benefits that members have already accrued up to 31 March 2005² would continue to be subject to the Scheme rules as they applied before the removal of the '85 year rule' i.e.

- if paid at age 65, the benefits accrued prior to 1 April 2005² would be paid in full;
- if voluntarily drawn between 60 and 65 (or drawn with the employer's consent before age 60), and the member's combined age and service is 85 years or more, the benefits accrued prior to 1 April 2005² would be paid in full;
- if voluntarily drawn between 60 and 65 (or drawn with the employer's consent before age 60) and the member does not meet the 85 year rule⁴, the benefits accrued prior to 1 April 2005² would be paid at an actuarially reduced rate.

1. The Local Government Pensions Committee (LGPC), having carefully considered the above proposals and having sought to balance the range of views of the employers that it represents, recognised the need for the proposed April 2005 changes due to:
 - a) the increasing life expectancy of Scheme members,
 - b) the demographic situation (i.e. the fall in the ratio of workers to pensioners) resulting in a need to encourage older people, with all their acquired skills and knowledge, to remain in employment for longer, and
 - c) the need to ensure a fair balance is struck between the benefits which are provided to Scheme members and the costs which are incurred by the employers and local tax payers.

The Green Paper – the latest stage of the Stocktake of the LGPS

2. On 4th October 2004 the ODPM issued a Green Paper, *Facing the future – Principles and propositions for an affordable and sustainable Local Government Pension Scheme in England and Wales*.
3. The Green Paper states that the Government is committed to introducing new pension arrangements for local government in England and Wales, which could be introduced from 2008. Ministers have expressed their commitment to retaining a defined benefit final salary arrangement which is relevant to the local government workforce provided that it remains both affordable and sustainable.

⁴ And has not met any protected Normal Retirement Age under the LGPS Regulations 1997

A new-look Local Government Pension Scheme

4. The Green Paper makes a number of propositions for the possible content of a new-look LGPS. The main matters covered by the Green Paper are set out below:

Eligibility

The Scheme would cover the same range of employers as now.

Employees could participate at any age, and would be deemed to have opted into membership of the Scheme (apart from employees employed on fixed term contracts of less than 3 months who would have to elect to join the Scheme as would employees of admitted bodies).

This approach is supported. Clarity over the situation for 'casual' staff would be welcome (for example - is a casual employee with a year's contract to work as and when required, but who may only work for a few weeks, eligible).

Contribution Rates

The Green Paper states that the various propositions it contains for a new LGPS would, if taken together, result in a total future scheme cost of about 21% of payroll. It suggests that employee contributions could be varied, based on pay levels. For example:

<£5k	Contribution rate of 2.5%
£5k but < £7k	Contribution rate of 5.5%
£7k but < £38k	Contribution rate of 7%
£38k but < £80k	Contribution rate of 9%
£80k and over	Contribution rate of 10%

The Scheme could provide that employees paid the contribution rate relevant to their level of earnings or, alternatively, paid tiered contributions i.e. 2.5% on the first £5k, 5.5% on the next £2k, etc. If the former approach were taken, the average contributions from employees across all pay bands based on the above would be 7% of payroll. If the latter route were taken the percentages shown above would need to be higher.

The suggestion of banded levels of employee contributions is not supported as the LGPS should not be used to equalise perceived inequalities in National taxation (the contribution rates above are set, in part, to equalise the net cost to employees after tax relief has been taken into account. This is an issue for national taxation rather than individual pension schemes). The administration of such an arrangement would also be burdensome.

Moving to 7% employee contribution rate is supported, subject to this not leading to demands for increased salaries which would lead to further employer and scheme costs.

Scheme Retirement Age

Any new arrangement would contain a normal scheme retirement age of 65. Where benefits are paid before this age, except on ill-health grounds, they would be actuarially reduced to reflect the fact they were being paid early. Benefits brought into payment after this age would be actuarially increased.

This proposal is generally supported with appropriate provision for those made redundant or retiring on efficiency grounds. The option for the employer to provide unreduced benefits, at full cost to the employer, could be helpful in implementing organisational change.

Accrual Rate

Benefits could accrue at 1.6% per annum, i.e. after 10 years service a member would receive a pension based on 16% of their basic salary and after 40 years service a member would receive a pension based upon 64% of their basic salary. This is a slightly better accrual rate than at present i.e. a $1/62.5^{\text{th}}$ accrual rate rather than the present accrual rate of roughly $1/64^{\text{th}}$ (which a $1/80^{\text{th}}$ pension and a $3/80^{\text{th}}$ lump sum roughly equate to).

It is not intended with such an accrual rate that the Scheme would provide an automatic lump sum, but could instead allow members to commute up to 25% of their pension for a tax free lump sum at a rate of 12:1; in other words, for every pound of pension foregone, £12 of lump sum would be awarded.

Example:

Suppose an employee with a salary of £24,000 retires after 40 years' service. Currently the annual pension would be $40/80$ of his salary = £12,000 and the lump sum $3/80$ of salary $\times 40 =$ £36,000. Under the proposals an annual pension of $1.6\% \times 40 \times$ salary = £15,360 could be taken, or part commuted to a lump sum. If £3,360 of the pension was commuted, it would yield a lump sum of £40,320 to add to the remaining pension of £12,000. The maximum lump sum would be $\text{£}15,360 \times 0.25 \times 12 =$ £46,080, leaving an annual pension of $\text{£}15,360 \times 0.75 =$ £11,520.

The Council is concerned that the proposed accrual rate, once the lump sum is taken into account, is greater than the existing scheme, thus adding to the cost of the scheme.

A commutation rate of 12:1 may be too low. Whilst the lump sum is tax free, if the rate is too low there is the strong possibility that members will not take it up. If it is not taken up there would be an increased cost to the Fund in providing a higher pension for the remaining lifetime of the employee.

Pensionable Pay

Pensionable pay could be limited to basic salary. All other payments, such as bonuses, fees, overtime and allowances, would be excluded. The basic salary on which contributions would be paid could be that at the start of the financial year or, if employment commences or changes during the period, the salary on the commencement of the job.

The principle of limiting pensionable pay to basic salary is supported, but there should be no fixed point in the year on which to base contributions. The way this is phased in needs to be carefully considered.

Flexible Retirement

Provision could be made for flexible retirement to ensure that members could, where this supports the business needs of the employer, chose to make arrangements for a more gradual approach to retirement, perhaps adjusting their work/life balance by reducing their hours or stepping-down to a less onerous job but, at the same time, able to draw some or all of their accrued pension whilst continuing to accrue further pension rights.

This is supported as long as it is on a cost neutral basis.

Ill Health Retirement

Tiered ill-health retirement benefits could be introduced, with improved enhancement for members whose employment is terminated on grounds of being permanently incapable of performing any gainful employment by reason of ill-health. Their benefits would be paid based on potential membership to age 65, although a review mechanism could be considered to take account of future improvements in medical science.

A second tier of un-enhanced ill-health retirement benefits could be available to those who are incapable of continuing in their role, but who are capable of undertaking other employment. The un-enhanced benefit would be subject to review, and could cease or be reduced if the member took up subsequent employment. Alternatively, the second tier could take a more radical form. Instead of the Scheme paying an ill health pension, employers could enter into income protection policies which are commercially available, with the Local Government Pension Scheme benefits only becoming payable when a member will not be, or will not be capable of, working again.

A two-tier approach is supported. The second tier should be on a reviewable period determined at the point of retirement by the Occupational Physician on a case-by-case basis.

Survivor Benefits

As well as providing survivor benefits to widow(er)s, children, and to registered civil (same sex) partners, it is proposed that survivor benefits could be extended to unmarried partners where the co-habitees are financially dependent or inter-

dependent, have been in an exclusive, long-term relationship established for a minimum of 2 years, and the member has completed a valid partner's pension nomination form. The maximum spouse's / partner's pension could be 50% of the member's post commutation pension (i.e. the amount of the member's pension after any lump sum has been taken by the member), although the survivor benefits could be less where there is a considerable age difference between the spouses / partners. Children's pensions would be 25% of the member's post commutation level of pension and would cease at age 18. There would be no enhanced short term survivor benefit (i.e. a benefit paid at a higher rate for the first 3 - 6 months following death).

The principle of providing partner's pensions is supported but there are concerns over how eligibility will be determined and the administrative burden this brings.

Short-term survivors benefits should be retained on compassionate grounds. There are very few cases in Bexley.

The age at which children's pensions should cease should mirror other child benefits - which may mean they continue beyond age 18 if they remain in full-time education. Clear guidance on this issue, and determining continuing eligibility, is requested.

Death In Service Lump Sum

The death in service lump sum could be increased to three times pensionable pay.

The current figure is twice pensionable pay and is less than those offered by comparable pension schemes. As the perceived benefits of this increase are likely to far outweigh the actual costs, the increase is supported.

Compensation Arrangements

The scheme could continue to offer unreduced benefits to early leavers aged 55 or over whose departure is outside their control (e.g. redundancy). The existing compensation arrangements (allowing the award of compensatory added years or a one off lump sum of up to 66 weeks pay) could be revoked and replaced with a provision allowing the payment of a one off lump sum payment. This could be extended to cover, for example, not just redundancy cases but cases involving compromise agreements. The recipient could even be allowed to exchange the cash payment for LGPS pension benefits of equivalent value.

A degree of flexibility within the scheme is essential to aid organisational change and any alternative to the existing arrangements will need careful consideration. Revoking the existing Compensation Regulations, whilst employees are also seeing significant changes to the LGPS, may be

inappropriate. A one-off payment may be a useful tool, but more work needs to be done to consider the wider implications.

Defined Contribution Top-Up Scheme

Consideration could be given to the option of the Scheme providing a defined contribution top-up arrangement. This would negate the need for the Scheme to maintain the current Additional Voluntary Contribution or added years provisions. Scheme members could pay additional contributions into the top-up arrangement on their basic pay and on any pay received in excess of basic pay (and potentially could transfer the value of pension rights in other Schemes into the top-up arrangement). The Green Paper also asks whether such an arrangement should be offered to employees as an alternative to the defined benefit scheme, with an appropriate level of employer contribution, in order to provide further flexibility and choice to employees.

Support would be given to any facility for employees to increase or improve their benefits as long as this is at no cost or risk to the scheme.

Transitional Arrangements

To ensure a simplified, single framework for the future, the Green Paper says that any new look Scheme could provide that every person who is contributing to the current LGPS on the date the new scheme commences would be automatically transferred to the new arrangement and be awarded a period of membership in the new scheme which is of equal value.

Deferred and pensioner members, at the date the new scheme commences, would be entitled to retain benefits in the current LGPS.

Whilst there is support for the principle of everyone being on the same scheme, there are concerns over how this can be achieved (Eg. with protection arrangements for those wishing to be considered for 'Rule of 85' retirements). There are also concerns about the scheme being perceived as being 'down-graded' by employees, and the repercussions of this on morale, employee relations, organisational change, etc.

Inland Revenue Changes

The Finance Act 2004 establishes a new tax regime for all pension schemes and comes into effect on 6 April 2006.

The current LGPS will need to be amended to take account of the changed tax regime and the new contribution and benefit limits contained in the new regime. The Green Paper poses a number of questions about how, and to what extent, the current LGPS should be amended (and the new LGPS worded) to reflect the new tax regime which:

- a) removes the current pensionable earnings cap of £102,000 and introduces a lifetime allowance of £1.5 million, the latter being the amount an individual may accrue in pension rights (from all sources) without being subject to a tax

surcharge on the excess. The Green Paper questions how the LGPS should be amended to cater for high earners who joined the LGPS on or after 1 June 1989 and whose pensionable earnings are currently capped at £102,000. Should the LGPS retain a cap on pensionable pay for such members? If it does not, such members would make a windfall gain in the value of their pension rights. For example, a member who is currently subject to the £102,000 cap, but earns £153,000, would (upon the removal of the cap) suddenly have a 50% higher pensionable pay figure upon which benefits could be based, despite not having paid contributions on the £51,000 excess above the earnings cap in previous years

- b) introduces an annual allowance of £215,000 for the amount that an individual's pension benefits may increase by in a year without being subject to a tax charge. For a defined contribution scheme this may be as simple as a £215,000 limit on the amount contributed for the year. For the LGPS it is likely that a complicated actuarial calculation would need to be done to ascertain how much overall future benefits have increased by.

The retention of an earnings cap is supported in order to limit costs to the Scheme. This, however, would not stop those members affected taking out additional pensions provision elsewhere if they so wished.

It is unlikely that regular annual contributions to the LGPS would result in any increase approaching this allowance limit if the earnings cap was retained.

- c) allows up to 25% of the member's pension to be taken as a tax free lump sum (which exceeds the proportion currently allowed under the LGPS)
- d) permits employees to pay up to 100% of their salary into a pension scheme (with tax relief) rather than the current contribution limit of 15% into an occupational pension scheme
- e) does not limit the period of membership that can count for benefit purposes. For example, a new joiner today (in 2004) aged 16 could, under the current Scheme, only accrue a maximum of 40 years membership in the Scheme. Under the new tax regime that employee could, for example, count 49 years membership at age 65, or 51 years at age 67, etc.

There is general support for increased flexibility in these matters but with due caution over any consequent increase in administration.

Other Matters

The Green Paper proposes that a new LGPS would, like the current Scheme, contain provisions related to the proper governance of the LGPS Funds. It also discusses:

- a) the need for high quality scheme administration and information / data flows, and questions whether there are any regulatory approaches that can be adopted to improve these, and

- b) considers the options for simpler, clearer, regulation possibly linked to a greater use of codes of practice

and comments on best practice issues such as joint working, e-government and the importance of good communication strategies.

Clear guidance on these matters would be useful, without the need for them to be over prescriptive. Governance should be tailored to suit local circumstances taking into account benchmarking and other forms of best value. The introduction of financial penalties on employers for failure to provide information would be supported.

The Next Steps

- 5. In response to the Green Paper, the Employers Organisation / LGPC has convened a Working Party of interested parties (including representatives from the LGA, the Association of Consulting Actuaries, Society of Chief Personnel Officers, the Society of County Treasurers, the Society of London Treasurers, Pension Managers, and the EO / LGPC) to consider the matters raised in the Green Paper and arrive at initial conclusions / views. It is intended that the Working Party's report will be presented towards the end of 2004 to the LGPC, to the LGA HR Panel / Board of the Employers' Organisation for Local Government, and to the LGA Executive in order to seek a consensus central view. This will be communicated to local authorities at the beginning of 2005 via an LGPC Circular (this has now been received and is mentioned in the report on the agenda). Authorities' opinions / views on the content of the Circular will be reported back to the aforementioned bodies in time for a formal response to the Green Paper to be drawn up and sent to the ODPM by the consultation deadline of 31 March 2005.
- 6. The EO / LGPC will also maintain links with the national union representatives during the period of the consultation.
- 7. The ODPM are also setting up a Development Group to discuss the Green Paper proposals. The following interested parties have been invited to participate:
 - a) the LGA
 - b) the EO / LGPC
 - c) the TUC
 - d) SOCPO
 - e) the Association of Consulting Actuaries
 - f) Local Authority Treasurers, England and Wales
 - g) Pension Practitioners, England and Wales