

PENSIONS COMMITTEE - 5 APRIL 2007

LOCAL GOVERNMENT PENSION SCHEME - REGULATIONS UPDATE

SUMMARY

This report provides an update on proposed changes to the terms of the Local Government Pension Scheme and administration regulations.

REPORTED FOR INFORMATION

1. Introduction

A report to this Committee's meeting in September 2006 gave details of the Government's consultation document setting out various proposals for creating a new-look Local Government Pension Scheme (LGPS) from April 2008. The Committee agreed its response to the four main options and other details within that consultation at the meeting.

In November 2006, the Minister for Local Government and Social Cohesion Phil Woolas MP announced a series of proposals to be introduced from April 2008 designed to change the look of the Local Government Pension Scheme (LGPS). These proposals are outlined below.

Two sets of Draft Regulations have subsequently been issued comprising:-

- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, which was issued in December 2006 and sets out the framework of the new scheme.
- The Local Government Pension Scheme (Administration) Regulations 2007, which were issued February 2007 to cover the parts of the current 1997 regulations not covered by the draft 'Benefit' regulations above and to include governance issues addressed in the Local Government Pension Scheme (Amendment) (No.2) Regulations 2007. These proposals are also discussed below.

The last part of the jigsaw, transitional regulations dealing with how pre and post April 2008 benefit structures interact, are still to be issued. It was anticipated that all the actual regulations would be in place in April 2007 (at present this is looking unlikely) with the new scheme operative from April 2008.

2. The New Look Scheme

The main elements of the proposed New-Look Local Government Pension Scheme:

- Everyone moves to new final salary pension benefits based on 1/60th of salary for each year of pensionable service from 1 April 2008 (service to 31 March 2008 still calculated as 1/80th pension plus 3/80ths lump sum).

- Contributions are payable on the same definition of pay as now.
- Employees are to pay 5.5% on the first £12,000 of whole time equivalent pay, 7.5% on pay above £12,000.
- Up to 25% of the capital value of benefits can be taken as a lump sum by commutation using the 12:1 commutation rate i.e. for every £1 of pension given up the member gets a £12 lump sum.
- Benefits are calculated on final pay being the better of the last year's pay or the average of any 3 consecutive years in the last 10 (ending on a previous anniversary of the date of leaving) as revalued in line with the RPI.
- Normal retirement age is 65, but there is a right to take pension benefits from age 60 or, with employer consent, from age 55.
- Flexible retirement option with employer consent is permitted from age 55.
- Redundancy benefits may be paid from age 55 (or from age 50 for existing members leaving before 31 March 2010) and the employer may apply an actuarial reduction (*although it is understood that this may be redrafted to provide that benefits are automatically payable in full, as now*)
- A 3 tier ill health benefits system, with no review
 - If a member is unable to perform local government duties but is able to undertake gainful employment within a reasonable period, then accrued pension can be given,
 - If a member is unable to perform local government duties or to undertake gainful employment within a reasonable period but is likely to be able to do so before 65, then a pension based on accrued service + 25% of shortfall to age 65 can be given, and
 - If a member is unable to perform local government duties and has no reasonable prospect of undertaking gainful employment before age 65, then a pension based on accrued service + 50% of shortfall to age 65 can be given.
- 3 times pay for death in service (instead of twice).
- Spouse's, civil partner's and co-habiting partner's pensions are to be based on a 1/160th accrual rate; survivor benefits payable to children are at a maximum 1/160th accrual rate.
- Members can pay AVCs or buy extra scheme pension in steps of £250 up to a maximum of £5,000.
- Employers can augment membership and / or grant extra pension in multiples of £250.
- A cost sharing mechanism is to be established by 31 March 2009 (looking at commutation take up, longevity, actuarial reduction factors, etc).

This is largely option B from the consultation, and according to the Government the total cost of providing LGPS benefits from 1 April 2008 under the new structure will be 20.5 per cent for existing members and 18.5 per cent for new entrants, with employees contributing on average 6.3 per cent.

3. Administration Regulations

Draft regulations were issued in January 2007 proposing that administering authorities produce additional documentation for their schemes.

Governance Compliance Statement

This statement would build on the existing Governance Policy Statement by requiring administering authorities to publish additional information on their policies and also to

measure these policies against a set of best practice principles. The first such Governance Compliance Statement must be published by 1 October 2007. However no date has yet been indicated for the publication of the best practice principles. Officers will, therefore, produce a draft statement for Members' consideration at the June or September meetings as appropriate.

Pension Fund Annual Report

Administering authorities will have to publish annual reports, including content prescribed by these regulations, for financial years starting on or after April 2007. The first such report will, therefore, be required by 1 October 2008.

The report will be of considerable size, as not only would it have to include a report on the management and financial performance of the Fund during the year, explain the investment policy, a statement on the level of the funding of the Fund, and the accounts, but also the current versions of:-

- the governance compliance statement
- the funding strategy statement
- the statement of investment principles, and
- the communications policy statement.

In preparing the report authorities will have to have regard to guidance to be issued by the Department for Communities and Local Government.

Local Pension Administration Strategy Documents

Administering authorities will be given the discretion to prepare a Pension Administration Strategy covering:-

- procedures for communicating with employing bodies
- levels of performance expected in administering the LGPS both by the administering authority and employing bodies
- procedures for remedying unsatisfactory performance
- the inclusion of performance information in the annual report.

The administering authority must consult the strategy with employing bodies, and where it decides to prepare one it must publish the first document by 31 December 2007.

Work currently being carried out by the London Centre of Excellence to establish a common framework of performance measures and administering authority responsibilities across London will provide a sound basis for Bexley in preparing its administration strategy.

4. Equal Opportunities/Access Issues

The regulations will apply to employees regardless of race, gender, age, disability, or level in the organisation.

5. Summary of Financial Implications

The costs of the new look scheme from April 2008 should be taken into account by the Council's actuary in the next valuation as at 31 March 2007, so that its impact on

Bexley's scheme contributions can be determined for 2008/09 and subsequent years. All costs of administration of the LGPS are met by the Pension Fund.

Local Government Act 1972 – section 100d

List of background documents

DCLG consultation paper "WHERE NEXT? - OPTIONS FOR A NEW-LOOK LOCAL GOVERNMENT PENSION SCHEME" – June 2006

DCLG website www.communities.gov.uk

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