

EMPLOYMENT COMMITTEE - 1 NOVEMBER 2011

**PROPOSED CHANGES TO THE
LOCAL GOVERNMENT PENSION SCHEME**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to inform the Employment Committee of the proposals put forward for negotiation at national level with representative trade unions by the Department of Communities and Local Government in relation to the Local Government Pension Scheme.
2. It is intended that the proposed amendments to the Local Government Pension Scheme's regulatory framework are effective from 1 April 2012 subject to the outcome of the consultation exercise.

Background

3. In June 2010 the Government commissioned Lord Hutton, former Work and Pensions Secretary, to chair a comprehensive review of public sector pensions. Lord Hutton concluded that reform was needed and set out in his report recommendations on how changes to public sector pension schemes could be made affordable and sustainable in the long term whilst at the same time being fair to public sector workers and to the taxpayer.
4. The Government accepted Lord Hutton's recommendations as a basis for consultation. The consultation exercise with the relevant trade unions is currently taking place and is due to end on 6 January 2012.
5. In order to achieve short term savings to meet current cost pressures effectively, Lord Hutton recommended raising employee contribution rates. His rationale for doing so was based on:
 - people now live longer and spend a greater proportion of their life in retirement than previous generations;
 - the cost of providing pensions has correspondingly increased and, in consequence, the cost on public service pensions has increased by a third in the last decade;
 - taxpayers should not be expected to bear the cost of people living longer
6. The Government believes that any increases in contribution rates should protect low earners such that there should be no increase in employee

contributions for those earning less than £15000 (full-time equivalent salary), there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning £21000 (fte) and they also believe that high earners should pay proportionally higher contributions than those in lower salary bands to reflect their higher level of pension (but no greater than 6% more).

Proposed Changes to the Local Government Pension Scheme

7. For the Local Government Pension Scheme in England and Wales the Government believes there is an opportunity to consider a range of measures that might secure their required £900 million savings package. The two options under consideration are:

Option 1

8. This proposal is designed to achieve the £900 million savings by 2014-15 through:
- (i) an increase in employees' contribution rates to 10% commencing 1 April 2012, with further increases in the following two years (to 12% from 1 April 2013 and 12.5 % from 1 April 2014) to raise an additional £450 million (1.5% of the pension pay bill), and
 - (ii) a change in the Scheme's accrual rate, currently $1/60^{\text{th}}$, to $1/64^{\text{th}}$ from 1 April 2013 with a further increase from 1 April 2014 to $1/65^{\text{th}}$ to raise an additional £450 million (1.5% of pension pay bill).

Option 2

9. This proposal differs from Option 1 by setting a lower contribution rate increase which is offset by a greater reduction in the accrual rate as follows:
- (i) an increase in employees' contribution rates from 1 April 2012 to 9.5% with further increases in the following two years (to 11.8% from 1 April 2013 and 12.5% from 1 April 2014) to raise an additional £300 million (1% of pension pay bill) and
 - (ii) a change to the scheme's accrual rate from $1/60^{\text{th}}$ to $1/67^{\text{th}}$ from 1 April 2014 to raise an additional £600 million (2% of pension pay bill).

Normal Pension Age

10. In addition, Lord Hutton has recommended that the pension age in public sector schemes should be linked to the normal State Pension Age of 66. According to the Government's Actuary's Department this would deliver savings in the region of £330 million if implemented for future service accruals.

Part-time Employees

11. Part-time employees will continue to pay contributions based on full-time equivalent earnings. Contribution rates are not pro rata to hours worked:

For example, a part-time employee working 50% of working hours and earning £14000 per annum, thereby having a full-time equivalent salary of £28000, would still pay a contribution rate based on full-time equivalent earnings of £28000 per annum.

Employers' Contribution Rates

12. The Department of Communities and Local Government document also asks for consideration to be given to a technical amendment to the Scheme rules to allow adjustments to employers' contribution rates to be made between valuations.

Trade Union Consultation

13. Consultation is taking place nationally with the recognised public service trade unions and is due to end on 6 January 2012. The majority of the County Council's recognised Trades Unions have already or intend to ballot their members for Industrial Action on Wednesday, 30 November 2011.
14. An Industrial Action working group has been formed with representatives from all departments, Human Resources, Health, Safety and Wellbeing, Communications and Business Continuity. The aims of this working group have been to identify the risk that industrial action may have on the delivery of the Council's critical services and develop processes and guidance to mitigate the impact of such action.
15. Business Continuity has worked with the Leicestershire, Leicester and Rutland Local Resilience Forum in supporting these arrangements.

Recommendations

16. In relation to the proposed changes to the Local Government Pension Scheme, the Employment Committee is requested to note the contents of this report and the impact upon employees.

Background Papers

None.

Equal Opportunities Implications

There are no equal opportunities implications.

Circulation under Local Issues Alert Procedures

None

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