Leicestershire County Council

APPENDIX B

The LGPS Pension Team
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Dear sirs

LGPS contribution and accrual rate consultation

Given that there is likely to be a new LGPS from 1st April 2015, it is clearly preferable to make interim changes to benefits/employee contributions which will ensure that the changes made in the interim period to achieve the cost savings required by Central Government are a progression towards the new scheme, rather than one that makes changes which may be fundamentally amended in 2015.

In this respect it would seem considerably more sensible to design the new scheme and then implement interim changes, which should naturally progress towards the new scheme. If this leads to a delay in the increases in employee contribution rates of (say) six months due to negotiations about the new scheme, to 1st October 2011, so be it. It is obvious from the two options proposed that the major aim is to ensure that £900m is saved in 2014/15, given the fact that one option makes a cumulative 3-year saving of £1.8bn and the other only £1.26bn

Whilst fully accepting that the brief given to the CLG is to achieve savings of £900m within the LGPS by 2014-15, it is Leicestershire County Council's view that it is unnecessary to be overly precise in the attempt to achieve exactly this amount. There are a number of variables which impact onto how much the actual (as opposed to the estimated) savings will be, so over precision seems unnecessary.

The option of changing the accrual rate to 64ths in 2013-14 and then to 65ths in 2014-15 is an example of attempting to be overly precise, without any thought being given to the administrative issues these changes will cause. Many members already have benefits at 80ths and 60ths and there is a high probability of a different accrual rate being effective from 1st April 2015, so further complications for relatively small savings is simply not sensible. This does not mean that a change in the accrual rate (either to the new rate that will be included in the 2015 scheme, or to part way towards it, with effect from 1st April 2013) is not reasonable, but changing accrual rates annually is an unnecessary complication.

By-and-large it is Leicestershire's view that employees are better served by having access to a good pension scheme that is affordable to them, rather than an excellent one in which the required higher contribution rates will force many members to seriously consider withdrawal. We would, as a result, consider that it is more sensible to weight the savings towards a lower accrual rate rather than higher employee contributions. We would even support larger changes to accrual rates than are being proposed (possibly to 1/70th) if this allowed contribution rate increases to be lower. From a national pensions policy perspective, individuals making their own provision for retirement income by staying in the LGPS must be a key factor in the future shape of the scheme.

There are an infinite number of ways to structure employee tariff bands and contribution rates and there is unlikely to be a consensus achievable but we would comment that members in the £15,101 - £21,000 tariff bands appear to be disproportionately protected against increases, particularly relative to those in the £21,001 - £32,400 band. There are other examples of 'cliff edges' within the tariff bands and there seems to be an underlying acceptance within the proposals that maximising retention of LGPS membership should be *the* key factor which defines the structure of contributions and benefits. It is our view that there should also be consideration of equitable treatment of employees and how much they will pay towards the provision of their pension, and this does not seem to have been fully factored in. The very significant protections for the lower paid in both proposals simply push the onus of higher contributions elsewhere, and not only to high earners, and this is difficult to fully justify. This is another reason that we would support a change in accrual rates as the prime method of producing the necessary savings, both in the interim period and within a new scheme.

Leicestershire does not agree that a technical amendment should be provided which will allow actuaries to amend employer contribution rates downwards in 2012/13 and 2013/14 to reflect any lower costs to employers as a result of changes to the LGPS. It is fully accepted that most employers are under significant financial pressure and will be grateful of a reduction in their contribution rate, but the poor funding levels of almost all employers' sub-funds (which will now be materially lower than at the time of the 2010 actuarial valuations) are such that any reduction will simply push the problem further down the line, at a significantly higher long-term cost. It is hoped, and expected, that the 2013 triennial valuation will be able to take into account both the interim changes and the new 2015 scheme when setting employer contribution rates and this will provide some relief to employers.

One factor that is not considered in the consultation is the different treatment of term-time only workers in the calculation of which contribution band they fit into. It is inequitable that a term-time only employee who works 1,000 hours a year could pay a lower employee contribution rate than an employee who works the same number of hours at the same hourly pay but does not have a term-time contract – the two individuals would receive the same benefit accrual, but the term-time employee could pay less in contributions. As the LGPS Regulations will require amendment to implement any revised contribution rates, this inequitable treatment could be included in the amendment.

Of the two proposals included in the consultation, Leicestershire would prefer approach 2 with its lower contribution rate increases and correspondingly larger change in the accrual rate. We would, however, support a larger change to accrual rates (possibly to 1/70th) and a lower increase in employee contributions.

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In respect of your specific questions, our views are as follows:

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

It is assumed that the savings have been costed accurately, but we consider it unfortunate that this review could not have been considered as part-and-parcel of the long-term review of Public Sector Pensions (which will ultimately lead to a new LGPS) rather than as simply a short-term cost saving exercise. In this respect we would like to see a new LGPS scheme designed for implementation in 2015 with any interim changes being a progression towards the new scheme, whilst making the required cost savings. If this means that higher contribution rates can not be implemented from 1st April 2012, this is a price worth paying.

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

The proposed changes should consider the administrative issues as well as simple cost savings, particularly in the context of the possibility of a new LGPS from 2015. Changing accrual rates in 2013 and again in 2014, for example, seems unnecessary.

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

As stated previously in our response, minimising opt-outs should not be the only factor driving tariff bandings etc. The final outcome should be something that is considered equitable to all members. We do not consider the current proposals to be fully equitable.

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?

The lower paid are receiving significant protection from contribution increases, and the impact of this is that the increase required by employees on quite modest incomes is disproportionately high. A smoother progression – in terms of the contribution rate paid and the increase from current levels – in particular for those earning between £15,101 and £32,400 appears more equitable.

It is also suggested that the opportunity is taken to ensure that those on term-time contracts do not receive an advantage relative to those who do not have term-time contracts.

Within the consultation period, consultee's 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.

Unless there is a strong reason why normal retirement age within public sector pension schemes should be different to state pension age, a link between the two seems sensible. This should not be unilateral to the LGPS, however, and should only be instigated if other public sector schemes are also making this change. There may be good reasons why police officers and firefighters, for example, should not have the link but it is unreasonable and inequitable to differentiate between local government employees and teachers, civil servants, health workers etc.

Please feel free to contact Colin Pratt, my Investments Manager, if you would like to discuss this response further.

Yours faithfully

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