

Wolverhampton City Council**OPEN INFORMATION ITEM**

Committee / Panel	PENSIONS	Date	20 JUNE 2012
Originating Service Group(s)	WEST MIDLANDS PENSION FUND		
Contact Officer(s)/ Telephone Number(s)	NADINE PERRINS 2727		
Title/Subject Matter	<u>NEW LOCAL GOVERNMENT PENSION SCHEME 2014 PROPOSALS (CARE)</u>		

PURPOSE OF THE REPORT

This report provides a brief summary of new proposals for the Local Government Pension Scheme which are to take effect from 1 April 2014.

RECOMMENDATIONS

All members are requested to note the content of the report.



New Local Government Pension Scheme 2014 Proposals (CARE)

WEST MIDLANDS



PENSION FUND

New LGPS Proposals

1. Background

1.1 The Independent Public Service Pensions Commission, headed by Lord Hutton, made a number of recommendations about the future design of public service pension schemes in his final report of 10 March 2011. This has resulted in Government looking at the reform of the Local Government Pension Scheme (LGPS), along with other public service schemes. In December 2011, seventeen principles covering the new Scheme design, and management and governance mechanism were agreed by employers, unions and government.

2. Proposals for the LGPS 2014

2.1 A joint statement by the Local Government Association and the trade unions was issued on 31 May 2012 confirming the new proposals for the LGPS which are to take effect from 1 April 2014.

2.2 The main provisions of the LGPS 2014 are as follows:

- A career average revalued earnings (CARE) scheme using the consumer prices index (CPI) as the revaluation factor (the current Scheme is a final-salary scheme).
- The accrual rate would be 1/49th (the current Scheme is 1/60th).
- There would be no normal scheme pension age; instead each member's normal pension age (NPA) would be their state pension age (the current Scheme has a NPA of 65).
- Average member contributions to the Scheme would be 6.5% (same as the current Scheme) with the rate determined on actual pay (the current Scheme determines part-time member contribution rates on full-time equivalent pay).

2.3 While there would be no change to an average member's contributions, active members who are low-paid would pay the same or less and high earners would pay higher contributions on a progressive scale after tax relief.

- Members who have already or are considering opting out of the Scheme could instead elect to pay half contributions for half the pension benefits, while still retaining the full value of other benefits. This is known as the 50/50 option (the current Scheme has no such option).
- For current Scheme members, benefits for service prior to 1 April 2014 are protected, including the remaining 'rule of 85' protection. Protected past service continues to be based on final salary and a current normal pension age.
- Where members are outsourced, they will be able to stay in the Scheme on first and subsequent transfers (currently this is a choice for the new employer).

2.4 Career Average Pension

i) The pension is calculated using the formula below:

$$\text{Pension} = \text{Membership} \times \text{Accrual rate} \times \text{Pensionable pay.}$$

ii) With a career average scheme, the pensionable pay for each year is used to calculate a pension for that year. Each year's pension is then revalued (increased by inflation) and each year's revalued pension is added together to arrive at the total pension. Membership is measured in days and for each year of membership a member will build up a pension of 1/49th of the pensionable pay for that year. Pensionable pay will now include non-contractual overtime and any additional hours worked. The LGPS 2014 will revalue each year's pension built up in line with inflation measured by the consumer prices index (CPI).

New LGPS Proposals

2.5 Normal Retirement

The Scheme pays the benefits without an actuarial reduction or enhancement as part of normal retirement.

In the LGPS 2014, the normal pension age will match an individual's state pension age.

The state pension age has been set to increase to 66 and later to 67. The state pension age will increase to 66 for both men and women from December 2018 to October 2020. Any benefits relating to pre-April 2014 service will be able to be taken at 65, and those Scheme members that have 'rule of 85' protections will continue to receive such protections.

2.6 Member Contributions

The average member contribution to LGPS will be 6.5%. Part-time Scheme members' contribution rates will be based on actual pensionable pay, and it is proposed to move to more progressive bands after tax relief. The proposed LGPS 2014 contribution is shown below.

Actual pensionable	Headline/gross contribution	Contribution after tax relief
Up to £13,500	5.5%	4.40%
£13,501 - £21,000	5.8%	4.64%
£21,001 - £34,000	6.5%	5.20%
£34,001 - £43,000	6.8%	5.44%
£43,001 - £60,000	8.5%	5.10%
£60,001 - £85,000	9.9%	5.94%
£85,001 - £100,000	10.5%	6.30%
£100,001 - £150,000	11.4%	6.84%
More than £150,000	12.5%	6.88%

2.7 The 50/50 Option

This option allows employees eligible for membership of the LGPS to pay half their normal rate of contribution and, in return, build up half pension during that period. The pension will grow with an accrual rate of 1/98th. Scheme Members would need to elect for the 50/50 option and from the next pay period their contributions would be halved. No further election would be required until either the member wishes to rejoin the main Scheme or they are brought back into the main Scheme under the automatic enrolment provisions.

The death-in-service lump-sum would still retain its full value.

2.8 Protection

All pensions in payment or agreed before April 2014 would be fully protected. Scheme members in receipt of a pension or who have left with a deferred pension will not be affected by the changes.

Members currently contributing to the Scheme will have their pre-April 2014 pension based on their final salary at retirement and their current normal pension age.

Where a member has service in the LGPS 1997 and the LGPS 2008, as well as the LGPS 2014, the pension will be calculated separately. The 1997 and 2008 pension will be based on the final pensionable pay at the date of leaving service and added to the CARE pension from the 2014 service.

The automatic lump-sum from the 1997 service would be added to any lump-sum resulting from converting pension to provide a lump sum. This remains at the conversion option of £1 of pension providing £12 of lump-sum.

An existing member who was covered by the 'rule of 85' transitional protections retains that protection.

New LGPS Proposals

3. Communication Proposals

3.1 The initial timetable set out in the 'Principles' document proposes the following communications which will need to form part of the Fund's information and consultation with Committee, employers and Scheme members.

Dates	Milestones	Actions
1 June 2012 - September 2012	Joint communication programme for Scheme members	- Evaluate systems/procedures - Establish cost management mechanism
2 June 2102 - November 2012	Consultations with trade unions and employers regarding CARE proposals	- Costing of Scheme by GAD - Commence drafting regulations
3 Autumn 2012 - March 2013	Consultation on new Scheme regulations	- Agreement following consultation of new Scheme regulations

3.2 During this period, communications from the Fund will concentrate on the proposed new Scheme. Following the initiation of the relevant consultation period, the Fund will assess the implication for the Scheme members/non-members and will actively distribute information, as required, to ensure all parties are made aware of the proposed changes.

3.3 Planning for Implementation

- Details of regulations to be released later in the year?
- The Fund will initiate the process as per the agreed service plan.
- More detail to be made available at subsequent meetings as they are known.

4. Legal Implications

4.1 This report has legal implications as it deals with the pension rights attributable to employees.

5. Financial Implications

5.1 The report contains financial information which should be noted. Implementation of the proposed new LGPS will require additional resources which has previously been identified in the Fund's service plan.

6. Environmental Implications

6.1 The report contains no direct implications for the Authority's environmental policies.

7. Equal Opportunities Implications

7.1 This report has no implications for the Council's equal opportunities policies.