

Wolverhampton City Council

**OPEN INFORMATION ITEM**

Committee / Panel

**PENSIONS**

Date

**27.02.13**

Originating Service Group(s)

**WEST MIDLANDS PENSION FUND**

Contact Officer(s)/

**GEIK DREVER**

Telephone Number(s)

**2020**

Title/Subject Matter

**STATE PENSION REFORM AND THE LGPS**

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**RECOMMENDATION**

That the contents of the report be noted.

## 1. **PURPOSE OF THE REPORT**

- 1.1 This report provides a brief summary on the recently published White Paper on State pension reform and the implications for The Local Government Pension Scheme.

## 2. **RECOMMENDATIONS**

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

## 3. **BACKGROUND**

- 3.1 On the 14 January 2013 the Department for Work and Pensions published the White Paper on its plans to reform the State pension. The current basic state pension and the state second pension (S2P) would be replaced by a single tier pension.

## 4. **MAIN PROPOSALS**

- 4.1 A single tier pension of around £144 per week in today's value, based on 35 years' of qualifying earnings. The maximum basic state pension for a single person is currently £107.45 per week and S2P is earnings related on top of the basic state pension.
- 4.2 The changes are expected to apply to new pensioners reaching state pension age after April 2017.
- 4.3 Contracted out National Insurance arrangements would cease.
- 4.4 The provision to review the state pension age on a five yearly basis to ensure that the State pension is received for a specific period of time of an adult's life.

## 5.0 **CURRENT POSITION**

- 5.1 The LGPS is a defined benefit occupational scheme and is contracted out of the state second pension currently provided by the state. The LGPS provides this element from the scheme as part of the scheme benefits.
- 5.2 The National Insurance rebate is 4.8% which is split between employers and employees at 3.4% and 1.4% respectively. Employers and employees therefore currently pay a lower rate of National Insurance contributions.

## 6.0 **FUTURE POSITION**

- 6.1 From the 2017 implementation employers and employees will no longer receive the National Insurance rebate and as a consequence employers will see an increase in their National Insurance contributions of 3.4% on relevant earnings. Not only will this increase employer costs but employees will also pay higher national insurance contributions.

6.2 The impact of the removal of NI contracted out arrangements are estimated to add 2% to LGPS employers' payroll costs.

## 7.0 **POSSIBLE IMPLICATIONS**

7.1 The new 2014 LGPS was designed around the existing contracted out arrangements and therefore any savings for employers from the 2014 Scheme may not be realised with the increase in National Insurance contributions.

7.2 Opt out rates and the uptake of the 50:50 option may also increase post 2017 when employees see a reduction in their take home pay. The five yearly review of the state pension age will also impact on the 2014 LGPS, because from 1 April 2014 in the new scheme the scheme retirement age and state pension age are linked.

## 8.0. **LEGAL IMPLICATIONS**

8.1 This report contains no direct legal implications for the Authority.

## 9.0 **FINANCIAL IMPLICATIONS**

9.1 The report contains no direct impact for the Fund, however, there will be a financial cost increase for employers and employees.

## 11.0 **ENVIRONMENTAL IMPLICATIONS**

11.1. The report contains no environmental implications.

## 12.0 **EQUAL OPPORTUNITIES IMPLICATIONS**

12.1. This report has no implications for the Authority's equal opportunities policies.