

## Croydon Council

<b>REPORT TO:</b>	<b>PENSION COMMITTEE</b> 5 March 2013
<b>AGENDA ITEM:</b>	8
<b>SUBJECT:</b>	Update on the LGPS 2014 project
<b>LEAD OFFICER:</b>	Executive Director of Corporate Resources and Customer Services
<b>CABINET MEMBER</b>	Deputy Leader (Statutory) and Cabinet Member for Housing, Finance and Asset Management
<b>WARDS:</b>	All
<b>CORPORATE PRIORITY/POLICY CONTEXT:</b> Sound Financial Management: This report outlines the design features incorporated into the LGPS 2014 proposal.	
<b>FINANCIAL SUMMARY:</b> There are no direct financial consequences for this report.	
<b>FORWARD PLAN KEY DECISION REFERENCE NO.:</b> N/A	

### For general release

1	<b>RECOMMENDATIONS</b>
1.1	The Committee are requested to note this report.

### 2. EXECUTIVE SUMMARY

- 2.1 This report asks the Committee to note the progress to date of the Local Government Pension Scheme (LGPS) 2014 project.

### 3. **DETAIL**

- 3.1 Following from the publication of the final report of the independent review of public service pension provision, Lord John Hutton's recommendations around the future design of the Local Government Pension Scheme (LGPS) have been adopted by the Department for Communities and Local Government (CLG). This Committee has previously received (Minute A05/12) a report setting out the design principles for the reform of the LGPS agreed between the Local Government Association (LGA) and the local government unions. These design principles have been confirmed by the government and fit within the overall cost envelope for the LGPS. In December 2012 a project team was set up to reach agreement on the elements of the new scheme together with the management and governance of the scheme going forward.
- 3.2 The key features of the proposed LGPS 2014 are set out here. It is the government's intention that the new scheme will commence from 1st April 2014. The design of the LGPS 2014 has been costed by the Government Actuary's Department (GAD) at 19.5% of pensionable payroll. As the average employee contribution yield is proposed to remain at 6.5% this gives a notional employer Future Service Rate (FSR) of 13%. This compares with the most recent GAD costs of 21.7% for the current scheme. The equivalent FSR for the Croydon scheme is currently 13.1%, which when added to the notional employee rate of 6.5% gives 19.6%.
- 3.3 A mechanism to manage future costs will operate within the provisions of the Public Service Pensions Bill and will be included in scheme regulations in place for the 2013 valuation. This mechanism will impose a cap and collar on future costs, modifying the scheme design should costs move outside of a tight set of parameters. There is a provision within the existing scheme for the Secretary of State to impose a limit so this is not really a change, although these back-stop powers have not been used to date. The Public Service Pensions Bill is currently going through Parliamentary committee stages. Future costs will also be managed by the link between the Scheme's Normal Pension Age and State Pension Age (SPA) for all membership in the LGPS 2014. An automatic link between SPA and longevity will be announced by the Office of Budget Responsibility later in the summer. This link between longevity and pension age will negate a significant degree of the risk (and potential future cost) currently associated with increasing longevity.
- 3.4 Benefits under the new scheme will accrue on a career average or CARE basis. Under the current scheme benefits accrue on a 1/60th accrual rate basis but going forwards this will change to a 1/49th accrual rate. The government has calculated that this will be broadly cost equivalent to the current final salary methodology because CPI (Consumer Price Index) is proposed to be the revaluation rate used to increase each year's pension for inflation. CARE pensions are calculated each year then revalued rather than being based on the final year's pensionable pay.
- 3.5 It is proposed that the new scheme will contain an option for members to pay 50% of the contributions for a 50% pension whilst retaining the full value of other

benefits of the scheme. This is intended to attract non-members on low pay to the scheme and retain members who suffer periods of financial difficulty. Although not having any immediate effect on employer rates (i.e. the employer rate is the same for all members regardless of whether they pay full or 50/50 option) it will have an effect at valuation. The current understanding of the regulations is that scheme members who opt for this choice will be automatically enrolled into the substantive scheme on the same rolling three-year cycle as staff who do not join any scheme.

- 3.6 Under the new scheme all members are proposed to have contribution rates determined by reference to their actual – rather than full time equivalent - pay which is not the case in the current scheme. This will mean that some part-time workers will pay a lower contribution rate than in the current LGPS. The average member contribution to LGPS 2014 will remain at 6.5% as now. However, it is proposed there will be changes to bands and some rates. The lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.
- 3.7 The new LGPS should start on 1st April 2014. Only membership after that point will be in the new scheme, under the new LGPS 2014 rules. Employees with membership in the current final salary scheme will retain the link to final salary for all membership built up before 1st April 2014 and the Normal Pension Age as under the current rules for membership up to that date. Previously agreed protection will continue, including the provisions for those members who were protected against the removal of the Rule of 85 in 2006. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.
- 3.8 A draft set of regulations based on these proposals was finally put out for consultation a few days before Christmas 2012. That consultation has closed. In parallel with this workstream a second project has been considering the governance arrangements to be set in place for the 2014 project. These arrangements have yet to be agreed by the government, but the twelve broad headings have been published. These are as follows:
- Both governance and cost management are to be considered in tandem.
  - A national LGPS board would be set up to include representatives of scheme employers, scheme members, the government and professional bodies. The remit of the board would be to extend best practice, increase transparency, co ordinate technical and standards issues and provide an effective liaison with the scheme regulator. A shadow board has been established and has started to work.
  - The board would also manage the future cost of the scheme and explore effective improvements in value for money in the areas of administration and investments.
  - The board would make recommendations to the Secretary of State, the regulator or professional standards bodies in order to further its remit.
  - At the local level the boards would provide for a greater degree of

segregation between funds and administering authorities and that the potential for conflicts of interest at both member and officer level is reduced.

- Membership of local boards is proposed to require a minimum recognised level of skills and knowledge and to include representation for fund employers and trade unions.
- Best practice with regard to transparency and accountability is to be extended across all funds.
- For cost management a total future service target cost for the scheme from April 2014 is to be set at 19.5%.
- The cost of the scheme shall be measured at each valuation taking into account both model and individual fund data with movements in cost driven by changes to membership data or assumptions reflected in changes to future scheme design.
- Such changes are to be considered, and actions to amend the scheme agreed by both employers and unions with recommendations made to the Secretary of State. Where the movement is 2% or more in either direction the Secretary of State shall be obliged to take action
- Although financial assumptions are excluded from the formal process it is proposed that movements in these be considered by the national board in order to ensure the future sustainability of the scheme
- Finally the project group have recommended that a working party be set up to investigate potential solutions to the issue of past service deficits.

3.9 Clearly these proposals have significant implications for existing local arrangements for the management of Pension Funds within the LGPS. Now that draft regulations have been issued software providers can begin work on the changes necessary to implement the new scheme. The Committee should note that, together with the proposals outlined above, a Pensions Bill is being considered by Parliament, the Department for Work and Pensions has published proposals for a single-tier state pension, and auto-enrolment has just been brought in for the Croydon scheme. The cumulative impact of these changes is not fully understood and it may be some time before it is fully evaluated.

#### **4. FINANCIAL CONSIDERATIONS**

- 4.1 Although the original design brief included a requirement for cost savings to accrue from this project current actuarial opinion is that the best case would be a saving of 1.5 to 2 per cent of annual scheme costs whilst the median case is that the changes will be cost neutral.

#### **5. COMMENTS OF THE SOLICITOR TO THE COUNCIL**

- 5.1 The Council Solicitor comments that there are no direct legal implications arising from this report.

**(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor and Monitoring Officer ).**

#### **6. OTHER CONSIDERATIONS**

- 6.1 There are no Human Resources, Customer Focus, Equalities, Environment and Design, Crime and Disorder, Human Rights, Freedom of Information or Data Protection considerations arising from this report.

#### **CONTACT OFFICER:**

Nigel Cook – Head of Treasury and Pensions  
Corporate Resources and Customer Services Department, ext. 62552

#### **BACKGROUND DOCUMENTS:**

None.