

CORPORATE JOINT CONSULTATIVE COMMITTEE – 17TH FEBRUARY 2005

**SUBJECT: PROPOSED CHANGES TO LOCAL GOVERNMENT PENSION SCHEME
2005 & 2008**

REPORT BY: DEPUTY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To outline the present position in relation to the changes being made to the Local Government Pension Scheme with effect from April 2005. Also to summarise the possible changes to the scheme to be made in 2008, currently the subject of consultation.

2. LINKS TO STRATEGY

- 2.1 Pensions are increasingly becoming an important part of the benefits package that we are able to offer. It therefore forms part of our People Management Strategy particularly in relation to recruitment and retention strategies.

3. THE REPORT

- 3.1 The Government has consulted on and now laid the Regulations before Parliament to make a number of changes to the Local Government Pension Scheme with effect from April 2005.

- 3.2 The two main changes are -

- Raising of earliest age to access pension from 50 to 55 apart from ill-health.
- Abolition of the 85 Rule

However, certain protections have been built in -

- Employees who are 50 before April 2005 will still be able to retire before age of 55.
- Employees who are 60 before April 2013 will be able to retire before the age of 65 if they qualify under the 85 Rule.

- 3.3 There has been considerable unrest over these changes and this has culminated in the Trade Unions at a national level indicating that they intend to take industrial action against the changes.

Indeed, formal notification has been received from UNISON of the holding of a ballot seeking approval for strike action. The ballot papers are being circulated on 14th February, 2005 with a closing date of 9th March, 2005. It is anticipated that the other Unions will be undertaking a similar ballot.

- 3.4 Of course, at this stage, the outcome of any ballot is unknown, but if there is a vote in favour of strike action, it will be necessary to have local discussions in order to make appropriate contingency plans.
- 3.5 Quite separate from the April 2005 changes, the Government are currently consulting on changes to the Local Government Pension Scheme which if implemented, would take effect in 2008.
- 3.6 It is important to note that this consultation is running at the same time as similar exercises in respect of public service pension schemes, for example, the NHS.
- 3.7 There are a whole range of changes proposed, however, it is important to note that the proposed changes do not change the basis of the scheme being a final salary one. The more detailed proposed changes are highlighted below -

- *Eligibility* - this seeks to extend eligibility including employees covered by out-sourcing, removing age and service restrictions.
- *Contribution Rates* - a number of options to consider, but all assume an increase in employee contributions to around 7% or 8%.
- *Retirement Age* - normal scheme retirement age to 65 except on grounds of ill health.
- *Accrual Rate* - this would increase from 1/80th to 1/64th but with no automatic lump sum, instead individuals would have the flexibility to commute up to 25% of pensions for a tax free lump sum at the rate of £12 of lump sum for every £1 foregone.
- *Pensionable Pay* - this could be limited to basic pay and other payments such as bonus, fees, overtime and allowances would be excluded.
- *Flexible Retirement* - individuals could adopt a gradual approach to retirement by reducing hours or stepping down to a less onerous job and at the same time drawing some of their accrued pension.
- *Ill health Retirement* - a two-tiered approach. Permanent ill health cases to continue to receive enhanced benefits. Those who are incapable of continuing in their role but could undertake different employment could receive un-enhanced benefits based on accrued pension.
- *Survivor Benefits* - Extension of definition of 'survivor'.
- *Death in Service Lump Sum* - increased to three times pensionable pay.
- *Compensation Arrangements* - no granting of added years but replaced with the ability to make a one off lump sum payment although calculation method not yet described.

**Inland Revenue Changes* - at the same time as the detailed changes to the LGPS are proposed, there will be changes to the Inland Revenue rules, notably the lifting of the pensionable earnings cap and the abolition of the 15% limit on contributions to an occupational pension scheme.

3.8 It can be seen that these changes are far reaching and will have a significant impact on employees. However, the consultation document is silent on the protection arrangements that may apply to existing scheme members.

3.9 It is clear that there will be a need to communicate clearly with our employees and explain what changes are to be made and how they will be affected. It is also important to get the message across that these are national changes and not ones being made by Caerphilly.

3.10 A copy of the full consultation paper is available if required, but attached for information is the consultation questionnaire.

4. FINANCIAL IMPLICATIONS

4.1 From an employer's perspective, pension contributions are a significant cost. At this stage, it is difficult to assess the financial impact of the changes. However, they are likely to be felt in the long rather than the short term.

4.2 When the final shape of the new LGPS is known, a more accurate assessment of the cost implications can be made.

5. PERSONNEL IMPLICATIONS

5.1 The benefits (including pensions) available to our employees pay an important part in our recruitment and retention strategy. It is important that we amend our policies to reflect any changes that may be made nationally.

5.2 Equally important will be our communications strategy explaining the changes as more detailed information becomes available.

6. RECOMMENDATIONS

6.1 It is recommended that -

(i) The contents of this report be noted.

(ii) Consideration be given to a joint communications strategy explaining the impact of any changes proposed for 2008.

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Background Papers:

Principles - Propositions for an affordable and Sustainable LGPS - ODPM October 2004
Employers Organisation Circular and Consultation Paper - January 2005