

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO PERSONNEL COMMITTEE

Agenda Item No.

meeting date: WEDNESDAY, 12 SEPTEMBER 2012
title: LOCAL GOVERNMENT PENSION SCHEME (LGPS) UPDATE
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To update members on the latest proposals for the Local Government Pension Scheme (LGPS).

1.2 Relevance to the Council's ambitions and priorities:

- Council's Ambitions: the Local Government Pension Scheme is a key element of the terms and conditions of employment for Local Government staff and the financial implications of the scheme contribute to the Council's overarching ambition to be a well-managed Council.
- Community objectives – see above.
- Corporate Priorities – see above.
- Other Considerations – see above.

2 BACKGROUND

2.1 The last review of Local Government pensions was completed in 2008.

2.2 On 31st May 2012 the Local Government Association (LGA) and local government unions, with the support of government, announced that agreement had been reached on proposals for a revised Local Government Pension Scheme (LGPS) to be implemented from 1st April 2014.

2.3 The proposals were agreed as a result of a process of reform that started with the publication of the report of the Independent Public Service Pensions Commission (chaired by Lord Hutton) in March of 2011. The report set out a number of recommendations that the government accepted as the basis for reform.

2.4 The major driver for reform outlined in the report was the increasing burden being placed on pension schemes from improved longevity. In the foreward to the report Lord Hutton stated;

'As I set out in my interim report rising life expectancy has led to a substantial increase in the proportion of adult life that a public service worker can expect to spend in retirement. To adjust to this change I am recommending that Normal Pension Age is linked to State Pension Age and tracks planned increases [to the State Pension Age]...

This link to State Pension Age will address rising longevity, the main risk to the sustainability of public service pensions.'

The proposals contain such a link between the LGPS pension age and State Pension Age and the LGA believes that they achieves long term sustainability.

2.5 The proposals have been circulated for consultation with Local Government Employers and Unions during June/July.

3 ISSUES

3.1 LGPS key facts:

- The LGPS is a funded scheme like private service defined benefit schemes and unlike the other public sector pension schemes.
- The LGPS is collectively the biggest pension fund in the UK and fourth largest in the world making it a major shareholder in business and the UK economy. Together the 89 LGPS funds in England and Wales hold some £145 billion in investments and assets, enough to pay benefits for over 20 years. More than four million people are members of the LGPS in England and Wales with some 1.6 million contributing members being affected by these changes.
- The LGPS has a positive cash flow, with income from investments and contributions exceeding expenditure on benefits by almost £4 billion in 2010-11.
- Members contribute an average of 6.5% of pay to the scheme with higher earners paying proportionately more currently up to 7.5%.
- The average employer contribution rate for current service is 13.9%. In the private sector the comparable employer contribution average is 17%.
- More than 5,000 employers participate in the LGPS, many of which are private sector companies and charities providing local public services. One in four members of the LGPS is employed outside of the public sector.
- 75% of local government employees participate in the LGPS, significantly higher than the average 34% participation rate in private sector schemes but well below the public sector average of 85%. In some local authorities half of the workforce already opts out of the LGPS.
- The average pension in payment from the LGPS is around £4,200 a year, for women the average is £2,800. The average UK occupational pension in payment is £8,740 a year.

3.2 A summary of the new Scheme proposals and more detailed Employers Overview are attached at Appendix 1 and 2 respectively.

3.3 Staff have been made aware of the proposed changes at Staff Briefings in July and in the monthly staff newsletter – Backchat. In addition, Linda Jones our branch UNISON representative has delivered a presentation on the scheme to all staff (both Unison

members and non-members) who wished to attend. The Union's believe that the proposals are acceptable and following the results of an informal consultation process in branches and at regional meetings the Unions are recommending to their members to vote YES in the ballot which will open during August.

3.4 If the proposals are accepted by members and employers, the government will base its formal consultation on them in September. The Union's have also made members aware if they are not accepted then the government may consult on alternative proposals – which would almost certainly be worse.

3.5 On another related matter, we have also been notified by the LGPS that Workplace pension law is changing and the aim of the changes is to encourage more people to save for their retirement. The first impact of the changes is that we must not encourage our employees (including potential new employees) to either not join the scheme or opt out. The law prohibiting this was effective from 1 July 2012 for all employers.

4 RISK ASSESSMENT

4.1 The approval of this report may have the following implications:

- Resources – the financial pension requirements of the council both currently and in the future, need to be fully recognised and prepared for in our budget setting process.
- Technical, Environmental and Legal – failure to comply with the auto enrolment arrangements would be a breach of legislation.
- Political – No implications identified.
- Reputation – No implications identified.
- Equality & Diversity – No implications identified.

5 CONCLUSION

5.1 The proposed changes to the Local Government Pension Scheme offer a realistic and affordable solution to the long-term sustainability of pension provision for our employees.

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HEAD OF HR

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BACKGROUND PAPERS

None

For further information please ask for Michelle Smith, extension 4402.