

WEST DUNBARTONSHIRE COUNCIL
Report by the Executive Director of Corporate Services
Corporate and Efficient Governance Committee : 26 March 2008

Subject: Proposed Changes to the Local Government Pension Scheme (LGPS)

1. Purpose of Report

1.1 The purpose of this report is to:

- recommend a response to the LGPS consultation process
- provide Committee with an update on the potential impact of the proposed changes to the LGPS.

2. Background

2.1 The Scottish Public Pensions Agency (SPPA) has published a suite of draft regulations intended to come into force on 1 April 2009.

2.2 The draft regulations set out the proposed benefit structure of the new scheme and details of the membership and employer contributions.

2.3 A Heads of Agreement document has been signed by representatives from COSLA, trade unions and the Scottish Government setting out the content and operation of a new LGPS for Scotland.

2.4 The SPPA has invited comments on the draft regulations. The closing date for any comments to be submitted is 27 March 2008.

3. Main Issues

LGPS Consultation

3.1 Appendix 1 to this report outlines the new LGPS provisions. The main features of the new scheme are:

- a service accrual rate of 1/60th with the option to commute up to 25% of the fund value into a lump sum,
- a minimum pension age of 55,
- lump sum death grant of 3 times final pay,
- 2 tiers of ill health retiral with a third tier outside the pension scheme,
- enhanced arrangements for flexible retirement, and
- tiered contribution rates for employees and a commitment to establish a cost sharing mechanism over the long term.

3.2 The regulations also contain certain safeguards to smooth over the transition to the new scheme:

- membership up to 31 March 2009 will calculate benefits under the existing arrangements and service thereafter will accrue at the new rates,
- transitional arrangements will preserve the Rule of 85 provisions for any member who was in the scheme on or before 1 December 2006 and will reach age 60 before 31 March 2020, and
- the minimum pension age of 50 will be preserved for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of efficiency and is aged 50 or over at that point.

3.3 Comments are now invited on the draft regulations. Proposed comments are:

- The draft regulations do not make it explicitly clear that contributions will be tiered rather than banded, and
- The regulation regarding the issue of certificates of protection for employees whose earnings are affected by ill health should be re-worded so as to achieve the policy intention.

Impact of New Scheme

3.4 The Council will require to participate in a major communication process to promote awareness of the new scheme. The scheme will remain as an opt in scheme but the LGPS will continue to act as a significant recruitment and retention benefit to current and prospective employees.

3.5 The administration of the new tiered contribution rate will require amendments to the current payroll system. This functionality has been specified as a requirement in the current procurement exercise and discussions have commenced with the existing software supplier to ensure that appropriate deductions can commence on 1 April 2009.

3.6 The scheme actuaries have estimated that the average contribution rate for employees will be 6.3%. In terms of comparison with the existing 6.0% contribution rate, employees earning £23,636 will pay the same level of contributions under the new scheme. Employees earning below this threshold will pay less and everyone above will pay more. It should be borne in mind that the tax deductible nature of pension contributions will dampen the effect on take home pay for each employee.

3.7 The SPPA estimates that the total average cost of the new scheme will remain at 19.6% of payroll i.e. an approximate ratio of 3:1 between employer and employee contributions. There is a commitment to explore cost sharing mechanisms so as to move toward a 2:1 ratio.

3.8 The 3 tier ill health scheme will also require the Council to consider a policy on its implementation. The 3rd tier, outside the pension scheme, would consist of a one-off lump sum payment by employer at their discretion. Calculated on one week's pay per year of service and limited to maximum of 30 weeks' pay, the payment could cover those whose employment is terminated on capability grounds, who are not in receipt of ill-health benefits and who have a reasonable prospect of undertaking further gainful employment before age 65.

3.9 COSLA has signed the Heads of Agreement of the new scheme with trade union representatives. It is anticipated that the trade unions will consult with their members in March regarding the draft regulations.

4. Personnel Implications

4.1 There will be a significant input from HR staff to continue to communicate awareness of the new scheme and also to monitor its implementation. There will be a need to review existing flexible retirement policies in light of the new scheme and to consider the introduction of a third tier of ill health retiral.

5. Financial implications

5.1 The existing payroll system does not cater for tiered pension contributions. Although it is estimated that the employer burden will be broadly similar under the new scheme, this will have to be monitored as the actuarial estimates will not take into account the impact of the Council's pay modernisation proposals.

6 Risk Analysis

6.1 The main risks are as follows:

- (a) the Council systems cannot administer the regulations of the scheme,
- (b) the pay structure of the Council impacts upon the employer contribution rate, and
- (c) the tiered contribution rates may act as a disincentive to career progression.

7. Conclusions

7.1 The new scheme will come into effect on 1 April 2009. There are certain transitional protection arrangements for existing scheme members to preserve benefits accrued before that date and also to preserve some retirement provisions. The new average employee contribution rate will increase to 6.3%. The scheme proposes the introduction of a discretionary 3rd tier ill health retiral scheme.

8. Recommendations

8.1 It is recommended that Committee agrees to:

- (a) submit comments as in paragraph 3.3 to the Scottish Public Pensions agency in response to their consultation process,**
- (b) review existing ill health retiral procedure so as to consider the introduction of a discretionary scheme outwith the pension scheme, and**
- (c) monitor the impact of the new scheme so as to identify any additional cost burdens to the Council.**

Joyce White
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Date: March 2008

Wards Affected: All wards affected.

Appendices: New LGPS provisions

Background Papers: Heads of Agreement

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Features of the new LGPS (Scotland)

Feature	New LGPS(Scotland) provisions
Type of scheme	<p>Defined benefit final salary scheme, with a normal retirement age of 65.</p> <p>Rule of 85 transitional protection to 2020 retained.</p>
Accrual rates	1/60th with option to commute up to 25% of fund value into lump sum.
Death in service arrangements	<p>A lump sum death grant of 3 times final pay.</p> <p>Increases in partner's lump sum to be provided where active, deferred or pensioner member dies. Short term spouses' benefits removed.</p>
Ill health benefits	<p>Two entry point ill health provisions where scheme members who are permanently incapable of carrying out efficiently the duties of their job:</p> <ul style="list-style-type: none"> (i) have no reasonable prospect of undertaking gainful employment before scheme normal retirement age of 65; or (ii) have a reasonable prospect of undertaking other gainful employment before age 65. <p>Transitional protection for existing scheme members whose service enhancement would be less than under current arrangements (to be reviewed after three years).</p> <p>Third tier, outside the pension scheme, consisting of one-off lump sum payment by employer at their discretion. Calculated on one week's pay per year of service and limited to maximum of 30 weeks' pay. Covers those whose employment is terminated on capability grounds, who are not in receipt of ill-health benefits and who have a reasonable prospect of undertaking further gainful employment before age 65.</p> <p>Implementation of certificate of protection to cover circumstance where member is required to take lower salary due to ill health.</p>
Partner pensions	Dependants' benefits payable in respect of widows, widowers, civil partners, plus unmarried partners who cohabit, at rate of 1/160 th

Feature	New LGPS(Scotland) provisions												
Flexible arrangements in the run-up to retirement	<p>Current provisions for flexible retirement to be retained as feature of the new Scottish LGPS.</p> <p>Increased flexibility through being able to draw all or part of occupational pension benefits without having to retire completely.</p> <p>In case of flexible retirement, employer consent required to reduce hours or lower grade, but employer consent to access benefits only required in respect of those under age 60.</p> <p>A provision to buy additional pension benefit.</p>												
Minimum Pension Age	<p>All new scheme members to have Minimum Pension Age of 55 years.</p> <p>All current scheme members will have Minimum Pension Age of 55 from 6/4/2010, except for any member who was in the scheme on or before 5 April 2006 whose employment is terminated on grounds of redundancy or efficiency and is aged 50 or over at that point. Such members will have a protected pension age of 50.</p>												
Working beyond 65	<p>The ability to accrue service in the LGPS beyond age 65 up to age 75. Cost-neutral uplift factors for benefits accrued up to beyond age 65.</p>												
Contribution rates for scheme members	<p>Introduction of a five-tier employee contribution rate structure, delivering an average employee contribution rate of 6.3%. Tiers operate on a banding system, as follows:</p> <table border="1" data-bbox="488 1279 1385 1547"> <thead> <tr> <th>Pensionable pay</th><th>Rate (%)</th></tr> </thead> <tbody> <tr> <td>On earnings up to and including £18,000</td><td>5.5%</td></tr> <tr> <td>On earnings above £18,000 and up to £22,000</td><td>7.25%</td></tr> <tr> <td>On earnings above £22,000 and up to £30,000</td><td>8.5%</td></tr> <tr> <td>On earnings above £30,000 and up to £40,000</td><td>9.5%</td></tr> <tr> <td>On earnings above £40,000</td><td>12%</td></tr> </tbody> </table>	Pensionable pay	Rate (%)	On earnings up to and including £18,000	5.5%	On earnings above £18,000 and up to £22,000	7.25%	On earnings above £22,000 and up to £30,000	8.5%	On earnings above £30,000 and up to £40,000	9.5%	On earnings above £40,000	12%
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Contribution rates for employers	<p>Overall average new scheme costs estimated at 19.6% of payroll, with employee contributions at an average of 6.3%</p> <p>Employer contributions to make up the difference.</p> <p>Commitment to establishing cost sharing mechanism to ensure sustainability of the scheme over the long term.</p>												