COMMITTEE	**PENSIONS COMMITTEE**
DATE	**23 MARCH 2012**
PURPOSE	**Inform the Committee of the latest position**
TITLE	**CHANGES TO THE LOCAL GOVERNMENT PENSION SCHEME**
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1. INTRODUCTION

1.1 Previous reports to this Committee have given information about the Government's proposed changes to the Local Government Pension Scheme. At the meeting on 25 November 2011 the Committee agreed its response to the consultation document.

1.2 During the consultation process the Local Government Association and the relevant trades unions signed a Heads of Agreement on the principles governing the scheme design, ongoing cost management and governance of the new scheme.

1.3 The Government has made it clear that these principles set out their final position on the main elements of scheme design.

2. PARAMETERS OF NEW SCHEME DESIGN

2.1 The 17 principles which have been laid down for the new scheme are cover the new design principles as well as the management and governance mechanisms. A full list of the principles can be seen in Appendix A to this report.

2.2 The core design parameters of the agreed new scheme are as follows:

a) a single solution to both the short and long term issues by the early introduction of the new Scheme in April 2014, with regulations in place by April 2013;
b) the single solution to be built on the basis of career average earnings;
c) can include zero increases in employee contributions for all, or the vast majority of members, provided that overall financial constraints set by the Government are met;
ch) some elements of choice to encourage retention of existing membership and encourage new membership;
d) flexible retirement age built round the Scheme's normal retirement age equal to the State Pension Age or age 65, whichever is later, and applies to both active and deferred members (new service scheme only). If a

member's State Pension Age rises, then normal pension age will do so too for all post 2015 service.

2.3 The main principle relating to management and governance is that employer caps (with ceiling and floor values) are to be set by agreement between principal stakeholders.

3. MAIN CHANGES FROM THE ORIGINAL PROPOSALS

3.1 The original proposals following the Hutton Report required increases in employee contributions in April 2012. Under the new agreement this will not be the case for the Local Government Scheme.

3.2 The changes required to the scheme will all be implemented at the same time in 2014 instead of increased employee contributions in 2012 and other changes to the Scheme in 2015.

3.3 There is now the option not to increase employee contributions if savings can be found by other methods.

3.4 Choices for individuals are to be included and this would have an impact on administration of the Scheme.

3.5 However, the basic principles of a care average scheme and a later retirement age are still requirements for the new scheme.

4. TIMETABLE

4.1 The timetable for implementing all changes by 31st March 2014 is determined by the requirement to have regulations in place by 30th March 2013 in order that fund actuaries will be able to take the effect of scheme changes into account for the 2013 valuation allowing short term objectives to be met.

4.2 The timescale is a four stage approach as follows:

Stage 1 – agreement on principles and timescales **– by December 2011**
Stage 2 – agreement on 'big ticket' items (contributions, accrual rate, revaluation rate, protections, employer cap, cost management mechanism outline) **– by September 2012**
Stage 3 – agreement on remainder of scheme design **– by November 2012**
Stage 4 – agreement on mechanism to provide assurance of effective management of individual funds. **– by November 2012**

5. CONCLUSION

5.1 Members are asked to note the changes to the proposals and further reports will be presented to this Committee as the new Scheme is developed.

APPENDIX A

NEW SCHEME DESIGN PRINCIPLES

Principle 1
A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014) negating the need for scheme changes prior to April 2014.

Principle 2
That the single solution be designed around options that will be worked on the basis of career average and can include zero increases in employee contributions for all or the vast majority of members provided overall financial constraints are met (recognising that such constraints may change subject to further negotiations with Treasury on meeting the costs of protections – principle 7 - and that there will be no triple counting of recycledsavings).

Principle 3
That the new scheme incorporates some elements of choicedesigned to encourage both retention of existing membership and encourage new membership.

Principle 4
That scheme costs are based on actual experience and the base numbers are provided by Government Actuary's Department (GAD) from the model fund data, can be independently verified and are supported by the Association of Consulting Actuaries (ACA).

Principle 5
In order to encourage flexible retirement, the age at which benefits may be taken (the pension age) is to be any time between 55 and 75. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age (NPA) which is to be linked to State Pension Age (SPA) or age 65 whichever is later.

Principle 6
That access to the scheme be provided for a broad range of employees who deliver public services through the continuation of current Admitted Body Status (ABS) arrangements.

Principle 7
That the method of meeting the cost of protections (final salary and retirement age in the old scheme and the 10 year protection of pension and age into the new scheme), their value relative to other public sector schemes and their scope for recycling need to be confirmed by Treasury.

Principle 8
That scheme cost efficiencies be realised through more effective procurement and provision of both administration and investment services.

Principle 9
That the LGPS maintain its relative value in terms of benefits in relation to other public sector schemes.

Principle 10
That the scheme design be subject to robust and independent equality impact assessment to ensure it meets all legislative equality requirements in both effect and intent.

MANAGEMENT AND GOVERNANCE MECHANISM PRINCIPLES

Principle 11
That the value of the ongoing scheme and the employer contribution cap within that value be set by agreement between the principal stakeholders of the scheme.

Principle 12
That the employer contribution cap contains both ceiling and floor values (cap and collar).

Principle 13
To ensure the long term sustainability of the scheme the mechanisms of management and governance necessary to maintain employer contributions within the cap and collar be set by scheme regulation, be under the control of the principal stakeholders of the scheme and use model fund data.

Principle 14
The mechanisms shall include tools to vary liabilities and revenue (e.g. changes to the benefit structure and / or employee contribution rates). The mechanisms shall also include a default position should agreement not be reached within a preset timescale. However such a default position should not contain a predisposed and disproportionate disbenefit to either employees or employers.

Principle 15
That a clear and effective mechanism be put in place to translate the effects of cap and collar to individual employers in the LGPS. In particular the circumstances which will allow for individual employer rates to be set outside of the cap and collar.

Principle 16
That within the cap and collar individual funding levels are to be monitored and constrained within an acceptable range.

Principle 17
That the cap and collar mechanism be an intrinsic part of the agreement on the new scheme not a separate process.