TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No 6**

MEETING: 19 DECEMBER 2011

SUBJECT: LOCAL GOVERNMENT PENSION SCHEME CONSULTATION

JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY, THE FINANCE OFFICER AND PERSONNEL ADVISOR

1 INTRODUCTION

1.1 The Government has issued a consultation document covering proposed increases to employee contribution rates and changes to scheme accrual rates appertaining to the Local Government Pension Scheme (LGPS). This report presents a response for consideration by Members.

2 BACKGROUND

2.1 As Members will recall, the coalition government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long-term and fair to both public sector workers and the taxpayer.

2.2 In his interim report, Lord Hutton recommended that if the Government wished to make short term savings, then raising contribution rates would be the most effective way to achieve that objective. This would also make for a fairer balance between what employees pay and what other taxpayers have to pay.

2.3 At the last Spending Review the Government accepted the broad principles set out in Lord Hutton's report as a basis for consultation, including a proposal to increase employee contributions by 3.2% on average by 2014-15 and on 19 July the Chief Secretary to the Treasury set out to Parliament the government's timetable for consultation on these matters.

2.4 This consultation process is due to conclude on 6th January 2012.

3 CONSULTATION

3.1 The consultation relates to a proposal contained within the last Spending Review that public service pension schemes would be required to deliver annual savings of £2.8bn by 2014-15.

3.2 In his statement of 19 July, the Chief Secretary of the Treasury set out that, for 2012-13, the savings required would be £1.2bn. In recognition of the funded nature of the LGPS, the Government accepted that separate discussions should take place to see whether alternative ways to deliver some or all of the savings could be found. The equivalent savings in the LGPS are £900m in England and Wales. The Chief Secretary's statement also made it clear that the Government remains committed to securing the full overall savings of £2.3bn in

2013-14 and £2.8bn in 2014-15, as announced at Spending Review 2010. This requires each scheme to find savings equivalent to a 3.2 percentage point increase by 2014-15.

3.3 The Government also believes that, in line with proposals contained with the Hutton report on public sector pensions, any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design:

- There should be no increase in employee contributions for those earning less than £15,000;
- There should be no more than a 1.5 percentage point increase in total by 2014- 15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis;
- High earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis

3.4 The Government proposes to achieve the required savings of £900m by 2014-15 from a combination of a proportionate increase in the rate of contribution paid by scheme members and a marginal change in the rate at which scheme benefits are accrued. The proportion of each element relative to the required £900m savings would therefore have different impacts on the extent to which scheme members bear additional costs now (increase in the contribution rate) or later, on retirement (change in the accrual rate).

3.5 The first proposal states that £450m (equivalent to 1.5 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

3.6 The balance of £450m in this case would be achieved by a stepped change in the scheme's accrual rate from the current rate of 1/60ths to 1/64ths with effect from April 2013 and to 1/65ths with effect from April 2014.

3.7 The second proposal states that £300m of the £900m required savings (equivalent to 1 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

3.8 It is proposed that the balance of £600m (equivalent to 2 per cent) would be achieved by a change in the Scheme's accrual rate from the current 1/60th to 1/67th with effect from 1 April 2014

3.9 The Government has invited views on these proposals and, in particular, asks five questions relevant to the consultation, each of which is considered below:

- *Do the proposals meet the policy and objectives to deliver the necessary savings in the LGPS?*

  The proposals do meet the objectives set out by Government. The Spending Review indicated the Government's intention for public service pension schemes to return £2.8bn to the Treasury by 2014-15. This should not, as a matter of course, result in a blanket application of employee increases across every existing public sector scheme. The LGPS was radically reviewed in 2008 when some major changes were implemented including the introduction of tiered contribution rates. Agreement was reached on those changes with the understanding that the revised Scheme would continue for some time, which given these proposals, is not the case. It is also understood that the LGPS is not in debt and does not therefore require any increases to contribution rates to sustain the scheme going forward.

- *Are there any consequences or aspects of the proposals that have not been fully addressed?*

  It is clear that the proposed contribution tiers could have a negative impact on the opt-out rates in the LGPS. The intention to raise employee contributions to 7.7% at the lower level (circa £21,000 salary) and 9% at the higher level (circa £43,000 salary) by 2014/15 is likely to result in a greater number of employees opting out of the scheme. It is understood that Government have assumed an opt-out rate of 1% if these proposals are introduced. It is considered that this is an under estimate and that the opt-out rate is likely to be significantly higher. It is therefore essential that Government carefully re-consider the impact of opt-out and review the assumed 1% opt-out rate. It would also be beneficial to understand whether there is any financially modelled 'tipping-point', where the level of opt-out has an impact on the future viability and sustainability of the scheme.

- *Is there a tariff or alternative measures which consultees think will help to further minimise any opt outs from scheme?*
- A standard 3.2% increase across all local government pension schemes is an overly simplified proposal to what is an extremely complicated question. There must be some recognition of the high contribution rates already in place and this must be reflected in revised proposals. Government should be mindful of the advice given by Lord Hutton, that his proposals should be considered as a package and that Government should not 'cherry pick' those parts of his review that best suites individual agendas. Local Government employees have already had two years of pay freezes followed by the recent announcement from the Chancellor that future year pay rises are to be limited to 1%, all of which has resulted in a reduction in take home pay. Any proposal to increase employee pension contributions will result in a further significant loss in disposable income for employees. The 'Hutton Review' when cautioning Government about the timing of any changes to public sector pension schemes, further advised that the implementation period could be extended to take account of macro environmental impacts. Government should consider these issues and only increase employee contribution rates balanced against any commensurate increase in employee earnings.
- *Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate affect? What remedies would you suggest?*

  Age - on the basis that younger employees are the most affected over the longest period of time, due to the increase in contribution required and the retirement age proposals.

  Gender - as more women work part-time than their male counterparts and therefore would be affected by section 4.9 however, the proposal for the calculation seems reasonable and therefore disproportionate impact would be anticipated to be relatively low.

- *Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.*

  The reasons stated in the Hutton review for this link are clear and unambiguous. However, this should not be seen in isolation as the proposals overall mean public sector workers pay more, get less and work longer to receive their pensions and therefore this link could not be supported.

3.10 CONCLUSION

3.10.1 The Chief Fire Officer is of the opinion that the various proposed changes to the pension schemes are both complex and highly sensitive with the potential to impact detrimentally on industrial relations.

3.10.2 The Chief Fire Officer considers that the proposals are contentious because the LGPS is currently well funded and is actually offsetting the cash deficit in other schemes over the next few years based on the current level of membership being maintained.

3.10.3 The LGPS is funded and contributions are based on assumptions of how much the benefits cost as they accrue; they have not been based on whether the scheme is cash rich or cash poor at any given moment in time. As a result the proposed changes do not appear to be based on any rational assessment of the cost of the scheme. The Chief Fire Officer considers this inherently unfair.

3.10.4 LGPS members now face increased contributions coupled with reduced benefits and the proposal to work longer which, for the majority, will provide reduced income in retirement.

4 RISK MANAGEMENT

4.1 A risk assessment has been undertaken to ensure that the risk to the Authority has been minimised as far as practicable. The assessment has considered an appropriate balance between risk and control; the realisation of efficiencies; the most appropriate use of limited resources; and a comprehensive evaluation of the benefits. The risk to the authority has been assessed as high utilising the standard risk matrix based on control measures being in place. The complete risk assessment is available on request from the Chief Fire Officer.

5 FINANCIAL IMPLICATIONS

5.1 All financial implications are included within the body of this report however Members should note that the proposals do not include any increase in contributions for this Authority.

6 EQUALITY AND FAIRNESS IMPLICATIONS

6.1 There are equality and fairness implications by virtue of the disproportionate effect of the contribution rate increases.

7 HEALTH AND SAFETY IMPLICATIONS

7.1 There are no health and safety implications in respect of this report.

8 RECOMMENDATIONS

8.1 The Authority is recommended to:

a) Consider the content of this report;

b) Approve that the Chief Fire Officer submits a response to the consultation in line with the comments contained in this report, subject to any changes that Members may wish to make

c) Receive further reports as appropriate.

BACKGROUND PAPERS

The undermentioned Background Papers refer to the subject matter of the above report:

- Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 (SI 2007/1166) (as amended)
  Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended)
  Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012 in England and Wales – dated 7th October 2011.