

PLYMOUTH CITY COUNCIL

Subject: Proposed Changes to the Local Government Pension Scheme (LGPS) 2014

Committee: Employment Liaison Committee

Date: 23 July 2012

Cabinet Member: Councillor Peter Smith

CMT Member: Mark Grimley

Author: Mark Grimley (Assistant Director for HR and Organisational Development)

Contact: Tel: 01752 398111
Email: mark.grimley@plymouth.gov.uk

Ref:

Key Decision: No

Part: I

Purpose of the report:

This report is for noting and outlines the latest proposals for changes to the Local Government Pension Scheme (LGPS) 2014.

Corporate Plan 2012 – 2015:

N/A

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Information report

Once proposals are agreed, financial implications for the council will be considered.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

Recommendations and Reasons for recommended action:

That the report is noted and further reports be presented to this committee.

Alternative options considered and reasons for recommended action:

Changes to national scheme.

Background papers:

Sign off:

Fin		Leg		HR		Corp Prop		IT		Strat Proc	
Originating SMT Member											
Have you consulted the Cabinet Member(s) named on the report? Yes											

Proposed Changes to the Local Government Pension Scheme (LGPS) 2014

1. Introduction
2. The situation surrounding public sector pensions is well-known. Affordability and sustainability remain central considerations for Government, together with balancing the external view of public sector pensions.
3. The Local Government Association (LGA) and trade unions recently announced the outcome of their negotiations on the new LGPS proposals to take effect from 1st April 2014.
4. The proposals are in the process of being communicated to scheme members, employers and others with an interest, with Unions consulting their members and the LGA consulting the employers. Subject to the outcome of the consultations, the intention is to move directly to a statutory consultation in the Autumn to implement the proposals
5. Main Proposals
6. There are seven main features of the proposed scheme.
7. The basis of pension benefits will move from final salary to career average revalued earnings (CARE), using the Consumer Price Index (CPI) as the revaluation factor. [CPI in April 2012 was 3.0%, in March 2012 it was 3.5%, in February 2012 it was 3.4%. The April 2012 figure was lowest at any stage between April 2010 and April 2012]. The recent Office of National Statistics announcement shows a further fall in CPI for May 2012.
8. The accrual rate would be 1/49th (the current scheme is 1/60th). This is a more advantageous rate than originally expected and may go some way to compensate for the decision to use CPI as the measure to increase career average calculations as outlined above. The pension benefit calculation will be as follows :-

Earnings in year divided by 49. Value increased annually by CPI through life of employees membership of scheme.

Calculation completed at the end of each year and cumulatively built, with CPI, to produce final benefits at the time that employee retires.

The lump sum trade off will be £1 of annual pension X 12.

An example is shown at Appendix B. It is very difficult to show a worked example comparing the proposed scheme against the 2008, final salary scheme, because circumstances will be specific to each individual scheme member.

9. Member's Normal Pension Age would not be set at 65 but will relate to each individual's State Pension Age, which would be a minimum of 65.
10. The average member's employee contribution would remain at 6.5%, with the rate determined by actual pay rather than the relative full-time pay for part-time employees. Someone earning £15,000 as a 0.6FTE will pay at 5.8% as opposed to 6.5% as an equated full-time equivalent salary of £25,000. Whilst the average will remain the same, the lowest paid will pay the same or less whilst higher earners will incur a large increase in employee contribution as shown in the attached table. Appendix A provides details of the banding rates. It can be seen that for staff on salaries up to £43,000, employee contribution rates remain stable or even face reductions. However, from this salary point forwards, staff face significant increases to pension contributions. The percentage increase remains constant for both gross contributions and the amount to be paid after tax relief.

Salary	LGPS 2014		LGPS 2008		Change % Cont After Tax Relief	Change £ Cont After Tax Relief
	Gross Contribution	Cont After Tax Relief	Gross Contribution	Cont After Tax Relief		
£13,500	5.50%	4.40%	5.50%	4.40%	0.00%	£ -
£18,000	5.80%	4.64%	5.90%	4.72%	-1.69%	-£ 14.40
£22,000	6.50%	5.20%	6.50%	5.20%	0.00%	£ -
£38,000	6.80%	5.44%	6.80%	5.44%	0.00%	£ -
£47,000	8.50%	5.10%	7.20%	4.32%	18.06%	£ 366.60
£63,000	9.90%	5.94%	7.20%	4.32%	37.50%	£ 1,020.60
£75,000	9.90%	5.94%	7.20%	4.32%	37.50%	£ 1,215.00
£95,000	10.50%	6.30%	7.50%	4.50%	40.00%	£ 1,710.00
£105,000	11.40%	6.84%	7.50%	4.50%	52.00%	£ 2,457.00
£150,000	11.40%	6.84%	7.50%	4.50%	52.00%	£ 3,510.00
£175,000	12.50%	6.88%	7.50%	4.13%	66.67%	£ 4,812.50

11. Members who have or are considering opting out of the scheme could elect to pay half contributions for half pension, whilst retaining the full benefits accrued up to the point of opt out.
12. For current scheme members, benefits accrued up to 1st April will be protected, with past service based on final salary and current normal pension age applying. Appendix C provides details.
13. An "underpin" will apply to members who were within 10 years of age 65 in April 2012, which will ensure that their pension benefits will be the better of either the 2008 or 2014 scheme.
14. Pensionable pay will now include non-contractual payments, such as overtime.
15. Broad details have been published and further information will be issued in the near future.

Details of Proposed LGPS 2014 Employee Contribution Rates

LGPS 2014				LGPS 2008			
From	To	Gross Rate	Cont After Tax Relief	From	To	Gross Rate	Cont After Tax Relief
Up to £13,500		5.5%	4.40%	Up to £13,500		5.5%	4.40%
£13,501	£21,000	5.8%	4.64%	£13,501	£15,800	5.8%	4.64%
£21,001	£34,000	6.5%	5.20%	£15,801	£20,400	5.9%	4.72%
£34,001	£43,000	6.8%	5.44%	£20,401	£34,000	6.5%	5.20%
£43,001	£60,000	8.5%	5.10%	£34,001	£45,500	6.8%	5.44%
£60,001	£85,000	9.9%	5.94%	£45,501	£85,300	7.2%	4.32%
£85,001	£100,000	10.5%	6.30%	More than £85,300		7.5%	4.50%
£100,001	£150,000	11.4%	6.84%				
More than £150,000		12.5%	6.88%				

Note – higher tax rate commences at annual salary above £34,370 (£42,470 including standard personal allowance) and additional rate on salaries exceeding £150,000. Taking 2014 pension contributions into account the additional rate is reached at an annual salary of approximately £171,000.

Employees Contribution Increases

LGPS 2014				LGPS 2008		Increase %
From	To	Gross Rate	Cont After Tax Relief	Gross Rate	Cont After Tax Relief	
Up to £13,500		5.50%	4.40%	5.50%	4.40%	0.00%
£13,501	£15,800	5.80%	4.64%	5.80%	4.64%	0.00%
£15,801	£20,400	5.80%	4.64%	5.90%	4.72%	-1.69%
£20,401	£21,000	5.80%	4.64%	6.50%	5.20%	-10.77%
£21,001	£34,000	6.50%	5.20%	6.50%	5.20%	0.00%
£34,001	£43,000	6.80%	5.44%	6.80%	5.44%	0.00%
£43,001	£45,500	8.50%	6.80%	6.80%	5.44%	25.00%
£45,501	£60,000	8.50%	5.10%	7.20%	4.32%	18.06%
£60,001	£85,000	9.90%	5.94%	7.20%	4.32%	37.50%
£85,001	£85,300	10.50%	6.30%	7.20%	4.32%	45.83%
£85,301	£100,000	10.50%	6.30%	7.50%	4.50%	40.00%
£100,001	£150,000	11.40%	6.84%	7.50%	4.50%	52.00%
More than £150,000		12.50%	6.88%	7.50%	4.13%	66.67%

Calculation of Career Average Pension Benefit

Earnings in Year 1 = £15,000.

Career Average earning = £306.12 ($£15,000 / 49$)

If CPI at 3% at end of second year, this moves to £315.30

Earnings in Year 2 = £15,600, with annual increment but no pay award

Career Average earning = £318.37 ($£15,600 / 49$)

This is added to the career average calculation from year 1 and provides a cumulative value of £633.67. CPI interest is added, together with the career average earning for subsequent years as outlined below.

Date	Transaction			Total
Year 1	Deposit	$£15,000 \times 1/49$	£306.12	£306.12
Year 2	Interest	$£306.12 \times 0.03$	£9.18	£315.30
	Deposit	$£15,600 \times 1/49$	£318.37	£633.67
Year 3	Interest	$£633.67 \times 0.03$	£19.01	£652.68
	Deposit	$£16,000 \times 1/49$	£326.53	£979.21
Year 4	Interest	$£979.21 \times 0.03$	£29.38	£1,008.59
	Deposit	$£16,000 \times 1/49$	£326.53	£1,335.12

The pension benefits build up with each annual calculation adding to the value and CPI increasing the annual value.

As increments, pay awards and promotions arrive through the employee's career, the annual calculation will increase and the CPI measure will hold the value of earlier calculations.

The effect will be that late significant promotions will not appreciably increase employee pension benefits.

At the time that the employee retires, a total calculation will be produced. The employee will have the option of taking the value as a single annual pension or converting part of the figure as a lump sum, using a conversion rate of 12:1.

Therefore, if an employee's calculation arrives at a pension value of £42,500 and they elect to use £12,000 to convert to a lump sum, the annual pension received will reduce to £30,500, and they will receive a lump sum of £144,000.

Calculation for Previous Service

Person A retires in 2017 with 16 years service.

7 years service was under the 1997 scheme.

6 years service was under the 2008 scheme.

3 years service was under the 2014 scheme.

Final pensionable pay was £15,320 and Career Average Earnings “pot” totalled £933.67.

Pension benefits calculation is as follows

1997 Calculation

Pension Sum	$£15,320 / 80 \times 7 =$	£1,340.50
Lump Sum	$£15,320 / 80 \times 7 \times 3 =$	£4,021.50

2008 Calculation

Pension Sum	$£15,320 / 60 \times 6 =$	£1,532.00
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2014 Calculation

Career Average Pension	£933.67
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Total Annual Pension	£3,806.17
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Total Lump Sum	£4,021.50
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An element of the annual pension sum could be converted by a factor of 12:1, to increase the lump sum value.