To: **Members of the Special Sub-Group**

Councillors Hayfield, Phillips, Smith, M Stanley and Sweet

For the information of the other Members of the Council

SPECIAL SUB-GROUP

4 January 2012

The Special Sub-Group will meet in the Committee Room, The Council House, South Street, Atherstone, Warwickshire on Wednesday 4 January 2012 at 6.00pm.

AGENDA

1 **Apologies for Absence / Members away on official Council business.**

2 **Declarations of Personal or Prejudicial Interests. (Any personal interests arising from the membership of Warwickshire County Council of Councillors Hayfield and Sweet, and membership of the various Town/Parish Councils of Councillors Phillips (Kingsbury) and M Stanley (Polesworth) are deemed to be declared at this meeting).**

3 **Local Government Pension Scheme Consultation – Report of the Deputy Chief Executive**

Summary

The Government has issued a consultation paper setting out proposals to achieve short term savings of £900m within the Local Government Pension Scheme (LGPS) by 2014 -15. This report outlines the proposals and appends a draft response for consideration.

The Contact Officer for this report is Chris Brewer (719259).

PART C – EXEMPT INFORMATION (GOLD PAPERS)

4 **Exclusion of the Public and Press**

Recommendation:

That under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of exempt information as defined by Schedule 12A to the Act.

5 **Staff Travel – Report of the Deputy Chief Executive**

The Contact Officer for this report is Chris Brewer (719259).

JERRY HUTCHINSON
Chief Executive

For general enquiries please contact David Harris, Democratic Services Manager, on 01827 719222 or via e-mail – davidharris@northwarks.gov.uk**.**
For enquiries about specific reports please contact the officer named in the report.

Agenda Item No 3

Special Sub-Group

4 January 2012

Report of the
Deputy Chief Executive

Local Government Pension
Scheme Consultation

1 **Summary**

1.1 The Government has issued a consultation paper setting out proposals to achieve short term savings of £900m within the Local Government Pension Scheme (LGPS) by 2014 -15. This report outlines the proposals and appends a draft response for consideration.

Recommendation to the Sub-Group **That the draft response be agreed or amended.**

2 **Consultation**

2.1 A copy of the report has been forwarded to Councillors Morson and Smith.|

3 **Introduction**

3.1 Lord Hutton's review of public sector pensions, in addition to making recommendations for long term reform, also indentified that if the Government wished to make short term savings to meet current cost pressures, raising contributions would be the most effective way to achieve that objective.

3.2 At the spending review, the Chancellor announced that employee contributions would be increased by an average of 3.2% in unfunded public services pension schemes. The LGPS is a funded scheme and the Government accepted that separate discussions should take place to see whether alternative ways to deliver savings of £900m could be found.

3.3 The Government has now issued a consultation paper on options for achieving these savings.

4 **Member Contribution Increases**

4.1 The Government has set the following parameters in formulating its proposals:

- There should be no increase in contributions for those earning less than £15,000

- There should be no more than a 1.5% increase for those earning up to £21,000

- High earners should pay progressively more than those in lower salary bands, but no more than 6% more

5 The Proposals

5.1 2 options have been put forward to achieve the £900m saving.

5.1.1 *Option 1*:

- An increase in employee contributions from April 2012 to raise an additional £450m (an average 1.5% increase) and;

- A change in the schemes accrual rate from April 2013 from the current $^{1}/_{60}{}^{th}$ for each year in the scheme to $^{1}/_{64}{}^{th}$ in 2013-14 and $^{1}/_{65}{}^{th}$ from 2014-15 onward

5.1.2 *Option 2*:

- This involves lower increases in employee contributions, but a bigger change in the accrual rate

- An increase in employee contributions from April 2012 to raise an additional £300m (1% of paybill)

- A change in the accrual rate from April 2014 from $^{1}/_{60}{}^{th}$ for each year in the scheme to $^{1}/_{67}{}^{th}$

… 5.1.3 A detailed analysis of both options is shown at Appendix A.

6 Benefits to Employers

6.1 The consultation paper states that additional income from staff should feed through to reduced employer's contributions as part of the triennial valuation process. However, current regulations do not allow a downward revision of employer contributions between valuations. The proposal is to enable actuaries to vary rates between valuation exercises.

7 Local Government Group Proposals

7.1 The Local Government Group (LGG) has submitted a proposal to the Government which also achieves £900m of savings by 2014-15. The key elements of their proposal is:

- No increase in contribution rates for staff earning less than £15,000
- An increase of 1.5% for those earning between £15,000 and £21,000

- An increase of between 2% and 2.5% for those earning over £21,000

- Giving employees earning more than £15,000 a choice of either paying the increased contributions or having a lower accrual rate if they cannot afford to pay the higher contributions

… - Raise the nominal pension age from 65 to 66 for benefits built up after April 2014. Details of this are attached at Appendices B and C

8 **Comment**

8.1 A key concern with the Government's proposals is the level of employees opting out of the pension scheme once contribution rates are increased. A significant number of opt outs could impact on the current positive cash flow of the pension funds, which could result in the future sustainability of the funds being called into question. Option 2 of the Governments proposals would lower the risk of this happening; however, the LGG proposals would reduce the risk even further.

8.2 The contention that an increase in employees' contribution will allow a comparable saving in employer contributions may not be possible because of the low funding level of some funds (60%).

8.3 If Government reduces local authority grant in order to achieve its savings, this will clearly impact on Council's budgets.

8.4 Long term reform of LGPS is currently being considered and it may be appropriate that all changes are done at once, rather than having a two stage approach.

… 8.5 A draft response is attached at Appendix D.

9 **Report Implications**

9.1 **Environment and Sustainability Implications**

9.1.1 Any changes to the pension scheme which generate savings need to be considered in terms of sustainability both in terms of the viability of the scheme and also to assess the implications and impact on the employers and employees.

9.2 **Human Resources Implications**

9.2.1 As detailed in the report.

The Contact Officer for this report is Chris Brewer (719259).

North Warwickshire Borough Council

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Your ref :
Our ref : CJB/PJW/LGPS Pension Consultation

Date :

Dear Mr Crossley

LGPS Pension Consultation

The Borough Council has considered the proposed changes to the LGPS and has the following comments to make.

The Council finds considerable merit in the Local Government Group submission to the Secretary of State of 21 September 2011. The Council considers that a bespoke solution for LGPS as a funded scheme is possible and supports the view that around 30% of the required saving can be found from an increase in the normal pension age from 1 April 2014.

The Council supports the thrust of the letter from DCLG proposing that up to £450m of the required savings can be found from a reduction in the accrual rate, but is concerned that the combined proposals in either Option 1 or Option 2 will still run a serious risk of substantial opt out against mitigating the tariff increases. If, in addition, a share of the savings could be met from an increase in the normal pension age from 2014 for example, then the risk of opt out would be minimised if this avoided or reduced the tariff increase for employees.

The Council would prefer a “single event” proposal and solution to both short term consultation and the proposal for the long term future of LGPS.

Comments on the specific questions are as follows:

<u>Question 1</u>

Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

On the basis of the assumptions made, notably a £30bn pay bill for 2014-15, the policy and objectives are apparently met. However, it is unclear what provision is made for opt outs and what the financial impact of this would be and also that the £30bn pay bill figure will reflect the future actual position. Depending on the actual response to the proposals by employers and staff the policy and objectives may not be met in practice.

cont’d/……………….

Chief Executive: Jerry Hutchinson LLB MBA Solicitor

Question 2

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

If the level of opt outs approaches the 20% or higher figure that some stakeholders have been suggesting, this will significantly impact on the positive cash flow of funds, which might well be significant enough to impact on the equity and bond markets. It will also obviously have a direct effect on the funds themselves.

The proposals imply that the increase in employees' contributions will allow a comparable saving in employer contributions and therefore rebalance the burden of future pension costs. On a scheme by scheme basis this may not be possible because of the low funding level of some individual funds, possible now as low as 60%. The outcome of the next triennial valuation is extremely uncertain and will influence this. This is a matter on which Actuaries will need to advise both in response to this consultation and to funds individually. It may be further complicated within individual funds, where the solvency level relating to individual employers varies with some significantly lower than others. In the case of private sector employers with transferred staff, this might simply lead to a windfall bonus with no means available to the Government or Councils to claw back savings. Some funds will have a substantial percentage of staff transferred from Councils to the private sector for outsourced work.

If Actuaries/individual pension funds are unable to reduce employer contributions and are also adversely affected by opt outs, any relevant withdrawal of Government grant in 2013-14 (which would be necessary to achieve the public expenditure reduction identified) related to notional savings in employer contributions to funds would be effectively a double whammy. In the context of falling income due to the depressed state of the economy, severe pressure on Council Tax and an existing implication of further grant cuts, this could have a devastating effect on 2013-14 budgets and services.

Question 3

Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

Option 2 is preferred to Option 1 and because the tariffs are lower would probably lead to a lower level of opt out. The protection of the low paid (below £19,400) is welcome, but it would be beneficial to increase this level of protection to at least £43,300, broadly the level at which higher rate tax becomes payable.

While these are marginal reductions, the cash flow impact on funds may well be entirely offset by lower opt out rates among affected staff. This is particularly relevant in the context of a continuing pay freeze, which may continue, and a high level of inflation affecting household budgets. In the longer term where staff continue in the pension scheme, it is an important retention measure for example for professional staff at moderate pay levels.

However, the Council prefers the option suggested by the Local Government Group, which suggest that £300m per year could be saved by increasing the normal pension age from 65 to 66 in respect of future service from 1 April 2014. This option also allows lower increases in contributions and allows staff to opt for lower accrual rates, this should protect the fund from significant opt out in lieu of increased contributions.

Yours sincerely

Chris Brewer
Deputy Chief Executive

Annex A: Local Government Pension Scheme in England and Wales

Government's proposals to achieve the required savings of £900m by 2014-15

Design principles

1. The Government believes that 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 to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

2. These parameters, outlined below, are reflected in the tariff proposed in this paper (all references are to full time equivalent salaries):

   - 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. For the LGPS in England and Wales, ministers believe there is a case to consider a broader range of opportunities to secure appropriate levels of savings for employers within the scheme. The scheme's funded status lends itself to this approach which not only helps to protect the high proportion of low paid, part-time members of the scheme but it assists directly in the Government's objective to minimise opt-outs and contribute to the ongoing viability of the funded LGPS, itself a major policy component of the package given the national significance of LGPS pension funds by value.

Existing tariff

4. The existing levels of employee contributions as currently set out in regulation 3 of the Local Government Pension Scheme (Benefits, Contributions and Membership) regulations 2007 (the Benefits Regulations) are as follows:

£0 - £12,600	5.5%
£12,601 - £14,700	5.8%
£14,701 - £18,900	5.9%
£18,901 - £31,500	6.5%
£31,501 - £42,000	6.8%
£42,001 - £78,700	7.2%
£78,701 +	7.5%

Government proposals for the Local Government Pension Scheme

5. 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).

6. Comments are therefore invited on two possible approaches, the first of which achieves most of the savings from the proposed change in accrual rate, thus impacting less on scheme members' disposable income and the second, weighting more of the required savings towards increases in scheme members' contribution with less impact on future accrual under the current scheme.

Approach 1

7. Under this proposal, £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%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	2012/2013		
Full-time pay	Contribution rate net of tax relief[1]	Contribution rate net of tax relief	Increase in contribution rate net of tax relief	Additional cost (£ per month)
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.00%	0.56%	19
£80,000	4.32%	5.22%	0.90%	60

1:Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2013/2014		
Full-time pay	Contribution rate net of tax relief[1]	Contribution rate net of tax relief	Increase in contribution rate net of tax relief	Additional cost (£ per month)
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.40%	1.20%	25
£40,000	5.44%	6.64%	1.20%	40
£80,000	4.32%	5.52%	1.20%	80

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2014/2015		
Full-time pay	Contribution rate net of tax relief[1]	Contribution rate net of tax relief	Increase in contribution rate net of tax relief	Additional cost (£ per month)
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.64%	1.44%	30
£40,000	5.44%	6.96%	1.52%	51
£80,000	4.32%	6.00%	1.68%	112

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

8. The balance of £450m in this case would be achieved a 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

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate from 60ths to 64ths in 2013-14 and to 65ths in 2014-15:

Final pensionable pay (31.03.2015)	1 year of service		
	1/64th	1/65th	% Change
£10,000	£156.25	£153.85	-1.54%
£25,000	£390.63	£384.62	-1.54%
£40,000	£625.00	£615.38	-1.54%
£80,000	£1,250.00	£1.230.77	-1.54%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	64ths and 65ths in last two years	% Change
£10,000	£833.33	£810.10	-2.79%
£25,000	£2,083.33	£2,025.25	-2.79%
£40,000	£3,333.33	£3,240.38	-2.79%
£80,000	£6,666.67	£6,480.77	-2.79%

In the above table, the member accrues 60ths for three years, 64ths for 1 year and 65ths for one year.

A member with final pensionable pay of £40,000 and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 64ths in 2013-14 and to 65ths in 2014-15, then the accrued pension at 31 March 2015 will be around 3 per cent lower at £3,240.38.

9. On this basis, the total expected savings over the Spending review period would be:

	2012/13	2013/14	2014/15
Tariff Increase	£180m	£360m	£450m
Accrual Rate	£0	£360m	£450m
Total	**£180m**	**£720m**	**£900m**

10. In line with the Government's preferred design, the overall savings achieved from the above proposed increases in employees' contribution rates have been phased in over the Spending review period on a ratio of 40:40:20.

Approach 2

11. Under this proposal, £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%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	**2012/2013**		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.44%	0.24%	5
£40,000	5.44%	5.68%	0.24%	8
£80,000	4.32%	5.22%	0.90%	60

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2013/2014**		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.24%	0.80%	27
£80,000	4.32%	5.28%	0.96%	64

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2014/2015**		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.00%	0.80%	17
£40,000	5.44%	6.56%	1.12%	37
£80,000	4.32%	5.70%	1.38%	92

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

12. 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

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate during the year 2014-15.

Final pensionable pay (31.03.2015)	One year of service		
	1/60th	1/67th	% Change
£10,000	£166.67	£149.25	-10.45%
£25,000	£416.67	£373.13	-10.45%
£40,000	£666.67	£597.01	-10.45%
£80,000	£1,333.33	£1.194.03	-10.45%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	1/67th	% Change
£10,000	£833.33	£815.92	-2.09%
£25,000	£2,083.33	£2,039.80	-2.09%
£40,000	£3,333.33	£3,263.68	-2.09%
£80,000	£6,666.67	£6,527.36	-2.09%

A member with Final Pensionable Pay of £40,000 pa and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 67ths in 2014-15, then the accrued pension at 31 March 2015 will be around 2 per cent lower at £3,263.68 pa.

13. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£95m	£220m	£300m
Accrual Rate	£0	£0m	£600m
Total	**£120m**	**£240m**	**£900m**

Annex B: Local Government Group proposals, 21 September 2011

Local Government Pension Scheme – Proposed increase in employee contributions

As you will be aware, in the public sector Spending Review statement in October 2010 the Government announced its intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). The Government intended that the increases should be introduced progressively over the period 2012-13 to 2014-15. It was subsequently confirmed that the level of increase for members of the Local Government Pension Scheme (LGPS) would be 3.2 per cent, on average.

The Local Government Group made representations to the Government that the funded nature of the LGPS meant that income equivalent to a 3.2 per cent increase could be generated in ways other than wholly via an increase in employee contributions. As a result of those representations the Secretary of State for Communities and Local Government wrote to me on 20 July 2011 asking the Group to enter into discussions with the local government trade unions. This was with a view to establishing a package of measures to secure short term savings by 2014-15, equivalent to a 3.2 per cent increase in employee pension contribution rates, with any necessary legislation to be in place by 1 April 2012. The package could include alternative ways to deliver some or all of the savings, whilst providing protections from contribution increases for the lower paid.

The LG Group has been in discussions with the trade unions since then.

The Secretary of State's letter of 20 July 2011 initially required the Group to provide him with an update on the outcome of the discussions by 9 September but a short extension to this deadline was subsequently allowed. However, despite constructive discussions with the trade unions, it has not so far been possible to reach agreement on a joint proposal to put to the Secretary of State.

I have therefore written to the Secretary of State (on 21 September 2011) setting out the Group's proposals as to how the required 3.2 per cent savings can be achieved in a way which we believe is fair to employees and affordable for the taxpayer (as an alternative to the level of increases in employee contributions that DCLG might otherwise come forward with). The proposals minimise the impact on the lower paid whilst at the same time giving choice to individuals.

The key elements of the Group's proposals are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000

- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65

A full copy of my letter to the Secretary of State is available at http://www.lge.gov.uk/lge/core/page.do?pageId=1 under 'News and features' together with some worked examples of the effect the choice mentioned in the second bullet point above would have on individuals.

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)
- would help the low paid to stay in the scheme and reduce opt out rates
- give employees a choice, which they can exercise in the light of their own personal circumstances
- ensure that those employees earning above the £15,000 threshold who want to keep their current pension accrual rate will have to pay more to retain that accrual rate, and
- reduce the risk of industrial action

We understand that the Secretary of State will issue a statutory consultation document towards the end of September setting out the DCLG proposals for how the 3.2 per cent savings could be met. We would hope that consultation paper will make some reference to the LG Group proposals and it is our intention to continue discussions with the trade unions.

Annex C: Costings submitted with Local Government Proposals, 21 September 2011

1 Data

1.1.1 We have used national salary data to estimate the possible savings. We have assumed a £30bn payroll split as shown below.

	Low er Band	Upper Band	Current Rate	Actual Salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,996,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	plus	7.5%	£730,231,193
Total				£30,000,000,000

1.1.2 This is the best available national data we have and is available in summary form only.

1.1.3 We note that contribution bands have changed but the overall shape of the salary distribution is assumed to remain relevant for this exercise. Any further up to date data becoming available should be used to update the calculations.

1.2 Core element 1 - increasing normal retirement age

1.2.1 Increasing the retirement age for all by one year reduces the ongoing cost of the scheme by about 1 per cent to1.5 per cent of payroll though this will vary by fund. We have assumed that GAD may value this on detailed national data on an average set of fund valuation assumptions and have assumed that 1 per cent of payroll will be saved by adopting this change. This is equivalent to £300m per year on the data shown above.

1.3 Core element 2 - accrual or contribution rate changes

1.3.1 We have therefore considered how we can raise the further £600m being required by HM Treasury.

1.3.2 There are infinite combinations of contribution increases that will provide the £600m provided there are no opt outs, the data remains as estimated above and at this stage we are considering that 60ths accrual remains.

1.3.3 We have shown three examples below. These show the impact and make no allowance for any further options being proposed.

Table 1.3	Lower Band	Upper Band	Current contribution	a) same increase	b) same uplift	c) steeper increase
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	1.9%	1.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%	1.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%	2.0%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.2%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.3%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£605m	£605m

1.3.4 We have assumed that lower paid protection level is set at £15,000 and members with salaries below this level will not be required to increase their contribution levels going forward.

1.3.5 As can be seen, all these options will provide for the required income target. However, there is a higher risk of opt out for higher contribution increases, especially at lower salary levels. We consider that steeper patterns than option c) will effect much higher levels of opt out at higher salary bands, with the possible cascade effect as members follow behaviour patterns of their senior managers or directors.

1.3.6 Option c) also meets the patterns required for other public sector schemes in that a 1.5 per cent limit it set for those with salaries up to £21,000.

1.4 Core element 3 - reduce accrual option

1.4.1 This section shows the possible savings from providing a reduced accrual option.

1.4.2 These savings assume that all members opt for the reduced accrual option.

Table 1.4	Lower Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduce accrual (68ths)	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.4%	2.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.4%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.4%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£675m	£715m

1.4.3 The accrual reduction that provides for £600m will depend upon both how the GAD value the reduced accrual change of the benefits on national detailed data.

1.4.4 It will also depend upon where the lower paid protection limit gets set and the above assumes that this is set at £15,000.

1.5 Core element 3 – the lower paid

1.5.1 The model suggested allows for lower paid members to pay reduced contributions if they choose the lower accrual route. We have used 68th accrual in the following table and assumed that a reduction in contributions of say 60/68 times the current rate would be a fair level of reduction.

Table 1.5	Lower Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduced contributions	Net effect
Band 1	£0	£12,600	5.5%	2.4%	0.6%	1.7%
Band 2	£12,601	£14,700	5.8%	2.4%	0.7%	1.7%
Band 3	£14,701	£18,900	5.9%			
Band 4a	£18,901	£21,000	6.5%			
Band 4b	£21,001	£24,000	6.5%			
Band 4c	£24,001	£31,500	6.5%			
Band 5	£31,501	£42,000	6.8%			
Band 6	£42,001	£78,700	7.2%			
Band 7	£78,700	plus	7.5%			
Total raised				£32m	£10m	£22m

1.5.2 As can be seen above the saving will depend upon how much a reduction in contributions is offered to the lower paid members and how many of the lower paid opt for reducing accrual compared to the status quo.

1.5.3 However, we feel it remains equitable to offer this reduced cost option, setting the possible accrual level at the same level as the higher paid to provide the lower paid with a similar choice.

1.5.4 Any savings made from the above will depend on members choice so should not be included as certain in the total costs.

1.6 Core element 3 – the higher paid

1.6.1 The model suggested that higher paid members will retain their current 60th accrual by paying more into the scheme. However we recognise that this will not be attractive and perhaps unaffordable for some.

1.6.2 In this section therefore we have shown possible reduced accrual options that would provide these members with an alternative allowing their current contribution rates to remain.

1.6.3 We have shown three cases below corresponding to the tables of proposed contribution increase tariffs within section 1.4.

Table 1.6 a	Lower Band	Upper Band	Current contribution rate	a) same increase	Reduce accrual (67ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.1%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%
Band 5	£31,501	£42,000	6.8%	2.1%	2.1%
Band 6	£42,001	£78,700	7.2%	2.1%	2.1%
Band 7	£78,700	plus	7.5%	2.1%	2.1%
Total raised				£600m	£600m

Table 1.6 b	Lower Band	Upper Band	Current contribution rate	b) same proportionate increase	Reduce accrual (68ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.9%	2.4%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%
Band 5	£31,501	£42,000	6.8%	2.2%	2.4%
Band 6	£42,001	£78,700	7.2%	2.3%	2.4%
Band 7	£78,700	plus	7.5%	2.4%	2.4%
Total raised				£605m	£675m

Table 1.6 c	Lower Band	Upper Band	Current contribution rate	c) steeper increase	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.5%	2.5%
Band 4a	£18,901	£21,000	6.5%	1.5%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.0%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.5%	2.5%
Band 5	£31,501	£42,000	6.8%	2.5%	2.5%
Band 6	£42,001	£78,700	7.2%	2.5%	2.5%
Band 7	£78,700	plus	7.5%	2.5%	2.5%
Total raised				£605m	£715m

1.6.4 Of course there is no way of telling which way members will opt and most will need some help and financial advice to make the correct decision but the above shows that we can design a scheme which meets the required target.

1.6.5 As there is a risk of members selecting the option that does not raise sufficient income the accrual rate for a steeper contribution increase pattern than 1.3 c) will mean the accrual that can be offered as an option will become very unattractive.

1.7 Stepping any changes

1.7.1 We understand that stepping any changes over the three year period may be acceptable. Administratively no changes will be very straightforward but stepping changes to the contribution patterns will be possible whereas stepping the reduction in accrual will not be feasible.

1.7.2 A possible spread of increase in step of 20 per cent/40 per cent/40 per cent will defer much of the change until the new scheme takes shape.

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

- Steeper stepping patterns for contributions than we have considered in section 1.3 which incur very high opt out risk, especially at middle to high salary bands. We have rejected this option due to opt out risk at all levels that may cascade throughout the workforce in general.

- Contribution patterns considered like those in section 1.3, which also have the appeal of being more easily phased in over a three year period.

- Contribution patterns with a suitable accrual reduction depending upon the upper contribution bands to ensure the required savings are met. As accrual reduction cannot be phased in it would need to be accepted that this change would only be practical in say year 2014.

1.8.2 Due to administration simplicity and the ability to step the costs it seem that an option like 1.3 c) may be most favourable.

1.8.3 However if options and choice for members are consider a more key factor then 1.6 b) would appear to offer a good solution as the accrual reduction is minimised.

1.8.4 Alternatively, option 1.6 c) meets the contribution increase limits applying to other public sector funds, whereby the increases at lower salary bands are restricted. It also offers flexibility and choice for members, perhaps being an advantage outweighing the simplicity of 1.3c).

Agenda Item No 4

Special Sub-Group

4 January 2012

Report of the Chief Executive

Exclusion of the Public and Press

Recommendation to the Sub-Group **That under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business, on the grounds that it involves the likely disclosure of exempt information as defined by Schedule 12A to the Act.**

Agenda Item No 5

Staff Travel - Report of the Deputy Chief Executive.

Paragraph 1 – by reason of the need to consider staff pay and conditions of service

The Contact Officer for this report is David Harris (719222).