

Committees:		Dates:
Finance Committee	For decision	25 th March 2014
Establishment Committee	For decision	27 th March 2014
Subject: Local Government Pension Scheme (LGPS) 2014		Public
Report of: Chamberlain & Director of Corporate HR		For Decision

Summary

In March 2011, the Independent Public Service Pensions Commission, chaired by Lord Hutton, published its final report of the review of public service pensions. The report made clear that change is needed to “make public service pension schemes simpler and more transparent, fairer to those on low and moderate earnings”.

Subsequently, following discussions between the Government and the Trades Union Congress and submissions from the Local Government Association it was decided that the Local Government Pension Scheme (LGPS) should be reformed and that the effective date for such reform should be 1st April 2014. Separate discussions are in progress for the other schemes provided by the City of London (Teachers and Uniformed Police Officers Scheme); the effective date for the changes to these schemes will be 1st April 2015.

The main scheme Regulations were made 19th September 2013, with the Transitional Provisions, Savings and Amendment Regulations passed on 5th March 2014.

This report highlights the scheme changes and also sets out the discretions within the scheme that require policy decisions from the City of London as both the Employer and as the Administering Authority. The 2008 final salary scheme is replaced with a Career Average scheme, while this is a significant change to the administration and calculation of benefits, many of the discretions are retained within the new regulations and so there are relatively few points within existing policy that require amendment.

Recommendations

- Members are asked to note the report.
- Establishment Committee is asked to approve the Employer policy decisions and recommendations outlined in paragraph 26, namely:
 - i. Existing Policy is retained where regulations are unchanged.
 - ii. Employee contribution rates for existing scheme members will be set on 1st April 2014 on the basis of the prior year’s pensionable pay (under the 2014 definition).
 - iii. Employee contribution rates for new starters will be set on the basis of

estimated pensionable pay (under the 2014 definition), with the exception of variable time employees, where this will be set initially at 6.5%, the average contribution rate.

- iv. Contribution rates will be reviewed at six-monthly intervals (October and April) or in the event of a material change in contractual pay.
- v. In cases of early retirement or flexible retirement, decisions taken to waive reductions to pension benefits should be taken by the relevant Chief Officer in agreement with the Director of Corporate HR and the Chamberlain.

▪ **Finance Committee is asked to approve the Administering Authority policy decisions and recommendations outlined in paragraph 27, namely:**

- i. Existing Policy is retained where regulations are unchanged.
- ii. The pension benefits of all existing retirees that are currently abated, the individual having been re-employed in further LGPS service before 1st April 2014, will continue to be subject to abatement.
- iii. The pension benefits of retirees from 1st April 2014 will not be subject to abatement where the individual is subsequently re-employed in further LGPS service.
- iv. The City of London, as the Administering Authority, will support the decision of the Employer to extend the one year period in which new and existing scheme members may transfer pension rights from other schemes, rejecting this only in exceptional circumstances.

Main Report

Background

1. The Hutton Report principles were agreed by employers, unions and Government which have guided the development of the LGPS 2014. A single solution to both short and long term issues was agreed where, through the introduction of the new scheme from April 2014 (as opposed to 2015 for all other public sector schemes, including those provided for Teachers and Uniformed Police Officers) the need for short-term scheme solutions in the current scheme, such as higher member contributions, was negated.
2. In addition to changes to the scheme benefits, the public services pension reform includes a number of amendments to the administration, financial management and governance of public service pension schemes. Proposals on these changes have been the subject of earlier reports to both Finance and Establishment Committees, as referenced below.
3. The main scheme Regulations and Transitional Provisions, Savings and Amendment Regulations (Transitional Regulations) are now published so the impact of these can be considered in full.

Current Position

4. This report includes information on the changes to the scheme and the discretions that are available to the City Corporation as both the Employer and Administering Authority. It should be noted that, while the 2014 scheme is considerably different to the existing 2008 scheme, many of the discretions are consistent across both. The regulations can be read in full on the following web site: www.lgpsregs.org
5. The City Corporation's interpretation and proposed application of the scheme discretions is presented as recommendations in this report. These proposed amendments to existing policy are consolidated in two policy statements, LGPS 2014 Employer Policy Statement and LGPS 2014 Administering Authority Policy Statement, shown as Appendix 2 and 3 to this report.
6. The recommendations made in this report are the outcome of a working party of Corporate HR, Pensions Administration and Payroll.

Key Elements of the LGPS 2014

A pension scheme design based on career average and actual pay

7. The 2014 LGPS will be a career average scheme, most commonly referred to as a Career Average Revalued Earnings (CARE) scheme which retains the defined benefit nature of the scheme. The CARE scheme will have an accrual rate of 1/49th of pensionable earnings and a revaluation rate in line with a price index (currently set as the Consumer Price Index). All benefits accrued to 31st March 2014 will retain the final salary link.
8. CARE benefits will be based on a new definition of pensionable pay with the revised definition having an effect on both part-time staff, where actual pay replaces whole-time equivalent pay and staff who receive payment for non-contractual overtime or additional hours, which will be considered pensionable from 1st April 2014. Members should also note that Employer contributions will also be payable on non-contractual overtime and additional hours payments at 17.5%. Considering the value of non-contractual overtime currently paid to employees across all departments, this represents a future cost to the City Corporation of approximately £500,000.

Pension Age

9. Normal Pension Age has been aligned with the State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's State Pension Age rises, then Normal Pension Age will do so too for all post-2014 benefits only.

Employee Contributions

10. Average member contribution yield remains at 6.5%, with a tiered contribution arrangement as at present, revised contribution levels result in higher paid scheme members paying a higher rate. Revised contribution rates are shown at Appendix 1; the 2014 scheme has nine contribution bands, compared to seven in the 2008 scheme.

11. In accordance with the new definition of pensionable pay, described above, part-time staff will pay according to the tier their actual pay falls within and not the whole-time equivalent tier as it stands currently. Consequently some part-time staff will pay a lower rate of contribution. All staff will pay contributions on any payments that they receive for non-contractual overtime or additional hours.

Contribution Flexibility – 50/50 Scheme

12. A low cost optional arrangement has been introduced; allowing scheme members to receive 50% of main scheme benefits in return for a 50% reduced contribution.

Vesting Period

13. The current vesting period of three months reverts to the pre 2004 position of a vesting period of two years. A refund of contributions will be allowed where membership does not exceed two years thus eliminating the possibility of large numbers of small deferred benefits.

Early Retirement

14. The 2014 scheme introduces further early retirement options with members able to retire and access benefits from age 55, without the consent of the employer. Where this is the case, this will be on an actuarially neutral basis, that is, at no cost to the employer, with the retiree receiving reduced benefits. Benefits payable following redundancy or efficiency will be payable in full with a potential cost to the employer.

Transitional Protection

15. All accrued rights are protected. Benefits in respect of membership to 31st March 2014 will remain linked to the members' final salary when they leave the scheme or reach Normal Pension Age: note that this is their final salary on retirement/leaving the LGPS, not as at 31st March 2014.
16. Specific protection - the 'underpin' - is proposed to apply to members who were within 10 years of age 65 in April 2012, some of these members would see their Normal Pension Age increase due to movements in the State Pension Age. So for these members a calculation will be based upon retirement at 65 to ensure they will get a pension at least equal to that which they would have received in the LGPS 2008.
17. Rule of 85 protection will continue as in the current scheme for those members with protected service under the transitional protection arrangements made in 2006.

Other Scheme Benefits

18. Regulations regarding the optional lump sum commutation, ill health benefits, death benefits and survivor benefits remain unchanged, as does the discretion enabling the employer to award additional pension.

Amendments to Discretions and Policy within LGPS 2014

Employee Contributions

19. Existing members of the LGPS will transfer automatically to the new scheme. It should be noted, however, that the contribution rate for many will change from 1st April 2014 by virtue of the fact that there will be a further two bandings across the salary range and also as a result of the revised definition of pensionable pay.
20. The existing policy of the City of London as the Employer is to reassess contribution rates at the start of each financial year and to not reflect changes during the year. The transition from a final salary to a CARE scheme combined with the 2014 definition of pensionable pay requires a more responsive solution, with contributions based on actual pay and including variable, non-contractual payments. It is proposed that, in all cases where sufficient historical pay data exists, contribution rates be based on the prior year's pensionable pay with formal review at six-monthly intervals or in the event of material changes to contractual pay (e.g. change in grade or contract hours).
21. For new starters, it is proposed that rates be set in accordance with contractual pay, with the exception of variable time employees where this be set at 6.5%, the average rate. Again this will be subject to review as for all existing employees.

Early and Flexible Retirement

22. As described above, the 2014 scheme introduces further options for early retirement, albeit on a reduced basis, regulations allow the Employer to waive, in part or in full, any reduction to pension benefits. This also applies in considering requests for flexible retirement. Existing policy states that this discretion will only be applied where there is of no financial or operational disadvantage to the City Corporation, with each case considered on its merits by the relevant Chief Officer and the Director of Corporate HR. It is recommended that this be retained but in agreement with the Chamberlain.

Abatement of Pension on Re-employment

23. The 2008 and earlier schemes included the provision to abate pension benefits on re-employment with any LGPS employer, requiring that pension in payment be reduced or suspended if the current pension plus pay in re-employment exceeds the pay received at the time of retirement. This provision is removed from the 2014 scheme, although the discretion remains to allow the Administering Authority to distinguish between pre and post 2014 service, abating benefits in respect of earlier service while paying in full those benefits accrued since 1st April 2014.
24. The application of this discretion adds considerable complexity to the administration and calculation of pension benefits of those individuals affected and conflicts with regulations in respect of flexible retirement, where abatement does not apply. As such, it is recommended that the pension benefits of those individuals that retire after 31st March 2014 and are subsequently re-employed are not subject to abatement.

Transfers

25. Existing policy states that the City Corporation, as the Employer, will allow only in exceptional circumstances, an extension to the one year period in which new and existing scheme members may elect to transfer pension rights from other schemes. This discretion is retained, although it is proposed that the Administering Authority policy reflects this and states that the decision of the Employer will be supported, rejecting this only where material justification exists.

Recommendations

26. Establishment Committee is asked to approve the following Employer policy decisions:
 - i. Existing Policy is retained where regulations are unchanged.
 - ii. Employee contribution rates for existing scheme members will be set on 1st April 2014 on the basis of the prior year's pensionable pay (under the 2014 definition).
 - iii. Employee contribution rates for new starters will be set on the basis of estimated pensionable pay (under the 2014 definition), with the exception of variable time employees, where this will be set initially at 6.5%, the average contribution rate.
 - iv. Contribution rates will be reviewed at six-monthly intervals (October and April) or in the event of a material change in contractual pay.
 - v. In cases of early retirement or flexible retirement, decisions taken to waive reductions to pension benefits should be taken by the relevant Chief Officer in agreement with the Director of Corporate HR and the Chamberlain.
27. Finance Committee is asked to approve the following Administering Authority policy decisions:
 - i. Existing Policy is retained where regulations are unchanged.
 - ii. The pension benefits of all existing retirees that are currently abated, the individual having been re-employed in further LGPS service before 1st April 2014, will continue to be subject to abatement.
 - iii. The pension benefits of retirees from 1st April 2014 will not be subject to abatement where the individual is subsequently re-employed in further LGPS service.
 - iv. The City of London, as the Administering Authority, will support the decision of the Employer to extend the one year period in which new and existing scheme members may transfer pension rights from other schemes, rejecting this only in exceptional circumstances.

Financial Implications

28. The intention behind introducing the CARE scheme was that it should be more affordable than the final salary scheme, leading to savings on the employer contribution. The 2013 Actuarial valuation affirms that for the immediate future, the impact on the City scheme is essentially cost neutral; that may change in future years.

Equality Impact

29. The changes in employee contributions are intended to make the scheme affordable for lower paid workers. Nationally, it is still the case that there are more females than males in this category, so these changes should have a positive impact in terms of gender equality.

Conclusion

30. The key elements of the 2014 scheme are as follows:
- A career Average Revalued Earnings (CARE) scheme replaces the final salary scheme.
 - Normal Pension Age is aligned to the State Pension Age for all post-2014 benefits.
 - A new definition of Pensionable Pay, based on actual pay, including non-contractual overtime.
 - Tiered pension contributions for members as at present although revised with higher paid members paying a higher contribution although average contribution yield is expected to remain at 6.5%.
 - Early Retirement will be available from age 55 on an actuarially reduced basis.
 - A 50/50 scheme is included, allowing accrual of 50% of main benefits in return for 50% of normal contribution rate.
31. A comparison of the main differences between the 2014 and 2008 scheme benefits is shown as Appendix 1, together with and a breakdown of the employee contribution rates.
32. Many of the existing discretions have been replicated within the 2014 Local Government Pension Scheme; it is recommended that these be retained as at present within existing City of London policy. There are a small number of regulations where policy requires amendment or inclusion of additional statements, these are itemised in the recommendations above.

Appendices

- Appendix 1 – Comparison of 2014 Scheme to Current Scheme
- Appendix 2 – Employer Policy Statement
- Appendix 3 – Administering Authority Policy Statement

Background Papers:

- Report to Establishment and Finance Committees May 2011: Consultation on the report of the Independent Public Services Pensions Commission Final Report
- Report to Establishment and Finance Committees July 2012: Local Government Pension Scheme 2014 Employer Consultation
- Report to Establishment Committee 31st January 2013: The Local Government Pension Scheme 2014 – Draft Regulations on Membership, Contributions and Benefits
- Report to Establishment and Finance Committees July 2012: Local Government Pension Scheme (LGPS) 2014 Implementation

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