The Leaders of:

County Councils (England)
District Councils (England)
Metropolitan Borough Councils (England)
Unitary Councils (England)
County and County Borough Councils in Wales
London Borough Councils
South Yorkshire Pension Authority
Tameside Metropolitan Borough Council
Wirral Metropolitan Borough Council
Bradford Metropolitan City Council
South Tyneside Metropolitan Borough Council
Wolverhampton Metropolitan Borough Council
London Pension Fund Authority
Environment Agency

Regional Employers Directors
Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA
Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
National Probation Service for England and Wales

Association of Colleges
Universities and Colleges Employers Association
Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
Society of Welsh Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers

LGPC
London Councils

Audit Commission

ALACE
PPMA
SOLACE
CIPFA
ALAMA

Barnett Waddingham
Aon/Hewitt
Mercer
Hymans Robertson

27th June 2012

Dear Colleagues

Local Government Pension Scheme 2014 employer consultation

On 31st May the LGA and local government unions, with the support of government, announced that agreement had been reached on proposals for a revised Local Government Pension Scheme (LGPS) to be implemented from 1st April 2014. We write now to seek your support for these proposals which we believe provide a solid base for an affordable, fair and sustainable scheme.

As government has confirmed that a favourable outcome of this consultation (together with those being undertaken by the local government unions) will enable them to move directly to a statutory consultation in the autumn we would urge you to respond to this consultation.

In order to ensure that all scheme employers have the opportunity to be part of this consultation we would ask that regional employer organisations and LGPS administering authorities confirm that this letter has been forwarded to all employers within their organisation or fund.

It should be stated at this point that the process of reform was only ever designed to address the future cost of the LGPS. There was no remit to consider or recommend any action to be taken in respect of past service costs and deficits.

The process undertaken to reach agreement and more information on the proposals including

a) an employer focused Overview document (also attached with this letter) and
b) an FAQ document which will be updated throughout the consultation

can be found at www.lgps.org.uk.

The proposals were agreed as a result of a process of reform that commenced with the publication of the report of the Independent Public Service Pensions Commission (chaired by Lord Hutton) in March of 2011. The report set out a number of recommendations that the government accepted as the basis for reform.

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The major driver for reform outlined in the report was the increasing burden being placed on pension schemes from improved longevity. In the foreward to the report Lord Hutton stated;

'As I set out in my interim report rising life expectancy has led to a substantial increase in the proportion of adult life that a public service worker can expect to spend in retirement. To adjust to this change I am recommending that Normal Pension Age is linked to State Pension Age and tracks planned increases [to the State Pension Age]….

This link to State Pension Age will address rising longevity, the main risk to the sustainability of public service pensions.'

These proposals contain such a link between the LGPS pension age and State Pension Age and we, like Lord Hutton, consider that achieves the long term sustainability sought by this process,

Lord Hutton's report set out a number of other recommendations on benefit design. The first of these being a move from final salary to career average revalued earnings (CARE) for all service in the new scheme while maintaining the final salary link for existing service. The purpose of this change was not cost, rather (according to Lord Hutton's forward);

'I believe this is the fairest way of spreading the effect of change across the generations, and represents the quickest way of ending the in-built bias against those public service employees whose pay stays low over their career, inherent in final salary schemes.'

These proposals contain such a move to CARE for all service from 2014. The accrual rate proposed of $1/49^{th}$ with a revaluation rate of the Consumer Price Index (CPI) has been costed by the Government Actuary's Department (GAD) as being broadly the same as the current $1/60^{ths}$ final salary accrual rate. The www.lgps.org.uk site contains a set of worked examples that show how the benefits from the new scheme compare with those of the current scheme.

Lord Hutton did include a recommendation to increase employee contributions to public sector schemes. Although this will be implemented for the unfunded schemes we have not proposed any increase in the overall yield from employee contributions which will remain at 6.5% of pensionable payroll. However we have proposed a shift to rates that are more progressive net of tax relief and moving to rates for part time employees based on actual rather than full time equivalent pay. Both of these changes have resulted in increases for higher rate tax payers but 95% of employees will not face higher contribution rates.

In reaching the proposal on contribution rates we were mindful of the impact that significant levels of optants out, amongst a workforce that have not had a pay rise in three years and are in the main low paid, could have on fund cash flows and resultant maturity profiles. More information on this option can be found in the employer overview document attached.

Finally we have proposed a 50/50 option that is designed to provide an alternative to opting out for mainly younger and lower paid staff (particularly once automatic enrolment is in place) and if successful should address the increasing maturity of the scheme membership.

Taken together the changes we are proposing have been costed by GAD at a future service total of 19.5% (6.5% employee and 13% employer) compared with 21.7% for the current scheme with the majority of the reduction coming from the move to State Pension Age.

Future scheme costs will be controlled via a cost management mechanism which will be introduced alongside the scheme design changes. The mechanism will contain triggers and responses designed to ensure that future scheme costs do not breach defined ‘cap and collar’ limits. Details of the mechanism will follow the publication of the Public Service Pensions Bill in the autumn.

The form attached with this letter asks that you indicate your general support (or not) for these proposals. We are aware that not all employers will like all the proposals and that, in different circumstances, different choices may have been possible. However we consider these proposals to be the best possible outcome of a process of negotiation that had the further aim of reaching agreement with unions in order to avoid a drawn out period of industrial unrest and uncertainty amongst scheme members. In such circumstances we would hope you agree that achieving the central objective of the link to State Pension Age is worthy of your support.

Should the outcome of the consultation be positive, government will move forward with a statutory consultation in the autumn. If not, the government will have to take its own view on the next steps. However in that case any introduction of a new scheme by 2014 would be far from certain.

Yours sincerely

Mayor Sir Steve Bullock: Chair LGA Workforce Board (Labour)

Cllr Steve Comer: LGA Pensions lead team (Liberal Democrat)

Cllr Roger Phillips: LGA Pensions lead team (Conservative)