



Committee and date
Pensions Committee

22 February 2012

10.00am

Item

12

Public

PUBLIC SECTOR PENSION REFORM

Responsible Officer Debbie Sharp

Email: debbie.sharp@shropshire.gov.uk Tel: (01743) 252192

1. Summary

This report updates Members on the Government's acceptance of the LGPS "Heads of Agreement" reached by the Local Government Association and the unions on how to take forward the future reform of the LGPS.

2. Recommendation

That Committee note the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision making process. Engagement with Government consultations ensures Shropshire views can be taken into account in shaping future regulations.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 There are no direct environmental, equalities or climate change consequences of this report.

4. Financial Implications

- 4.1 There are no immediate financial implications arising from this report as this is an outline to the agreement, however, as new regulations become known there may be financial implications which will be reported in subsequent reports to members.

5. Background to The LGPS Heads of Agreement

5.1 In December, the Chief Secretary to the Treasury updated the House of Commons on progress made in the negotiations with the Trade Unions in respect of the reform of the public sector pension schemes.

5.2 The update was accompanied by a written ministerial statement from the Secretary of State for Communities and Local Government on the LGPS. The written ministerial statement reported that the Local Government Association and the local government trades unions have jointly signed a Heads of Agreement on the principles which will govern scheme design, ongoing cost management and governance of the new Scheme to be introduced by 2014. There will be further negotiations on the agreed principles in the New Year.

5.2 The agreement consisted of:

A set of principles covering:

- The design of a new LGPS
- The future management of the costs of the scheme and
- Governance of the Local Government Pension Scheme

A timetable for implementing the new scheme by April 2014

A project outline for managing the process of agreeing the 'big ticket' elements of the new scheme by April 2012.

6. New Design Principles

6.1 The following is a summary of the principals of the agreement:

- A single solution to both short and long term issues by the early introduction of a new scheme
- Single solution designed around a career average accrual rate.
- No increases in employee contributions for the vast majority of members provided overall financial constraints are met
- The new scheme should incorporate some elements of choice designed to encourage both retention of existing membership and encourage new membership.
- In order to encourage flexible retirement, the age at which benefits may be taken is to be between 55 and 75
- Normal Pension Age (NPA) is to be linked to State Pension Age (SPA) or age 65 whichever is later for all new scheme service
- Access to the scheme be provided for a broad range of employees who deliver public services through the continuation of current Admitted Body Status arrangements
- Scheme cost efficiencies to be realised through more effective procurement and provision of both administration and investment services

- The LGPS will maintain its relative value in terms of benefits in relation to other public sector schemes

7. Management and Governance Mechanism Principles

- 7.1 The value of the ongoing scheme and the employer contribution cap within that value will be set by agreement between principal stakeholders of the scheme.
- 7.2 Employer contribution rate to be within set limits (cap and collar).

8. Local Government Pension Scheme 'SINGLE STEP' Solution

- 8.1 A significant principle currently under discussion by union officials and the Local Government Association is meeting both short and long term pension reforms within one single step.
- 8.2 The principle under discussion is:

A single solution to both short and long term issues by the early introduction of the new scheme (regulations by April 2013 and implementation from April 2014).

9. The 'Big Ticket' Items to be agreed by April 2012

- Confirmation of the basis of the scheme design (e.g CARE scheme)
- The accrual rate of the scheme
- The revaluation rate (being the rate by which, during employment, each year's worth of pension is subsequently increased after it has been built up)
- The methodology for reducing or increasing benefits if they are drawn before or after Normal Pension Age.
- The amount and timing of any employee contribution increase
- Any transitional protections for older members.
- Parameters for the maximum and minimum employer contribution to the new scheme
- The mechanism for varying elements of the scheme design in the future to ensure costs are maintained
- Recommendations on best practice governance and procurement of services by pension funds

10. The next steps

- 10.1 A project team consisting of unions, the Local Government Association and the Department for Communities and Local Government will meet weekly to work up costed options and make recommendations to a project board which will meet fortnightly.
- 10.2 The aim is to reach an agreement which each party can put forward to their respective memberships in good time for final proposals to be accepted by the

Government in April so that drafting of the new scheme regulations can commence.

- 10.3 The next stages of the process would then commence to agree the finer points of the new scheme design in time for a statutory consultation process to commence in the early autumn.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Pensions Committee, 23 November 2011, Pensions Administration Monitoring,

Cabinet Member (Portfolio Holder)

NA

Local Member

NA

Appendices