

PensionChanges

LGPS Issues – No.2

December 2007

INTRODUCTION

As promised in the first Newsletter sent out on 2 November a second edition for administrators to read and pass on or use as they sit fit has now been prepared. There has been limited but very positive feedback, and we will continue with this process of keeping everyone in the loop in terms of what is happening in a broader sense and trying to answer contentious and ongoing issues.

REGULAR UPDATES

This issue will cover ill-health retirements; what is happening on cost sharing and the Policy Review Group; the latest position on admitted body status; and further advice, which a number of authorities have already seen, on applying the new contribution bands. We have also organised and will host a special meeting of the Technical Group on 18 December to provide further updates on a number of policy intentions and will clarify outstanding issues. Going forward CLG is setting up some workshops/seminars about the new scheme to take place before 1 April to deal with queries and items of concern. The intention is that these events will be open to all and not necessarily in London. Further details will be issued as soon as possible.

ILL-HEALTH RETIREMENTS

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (*the benefit regulations*) introduced with effect from 1 April 2008 two new tiered ill health retirement provisions. A consultation letter was issued on 21 November concerning proposals for a third and final tier of ill health benefit to be included in the *benefit regulations* for the new Scheme. Comments are sought by 12 January 2008. A draft statutory instrument will be circulated to key stakeholders as soon as it becomes available. If there are any points, either about the letter, guidance material or arrangements for the onward monitoring of the ill-health arrangements where administrators feel they need further clarification they should contact, in the first instance, Lynda Jones (Lynda.jones@communities.gsi.gov.uk)

BENEFITS, MEMBERSHIP AND CONTRIBUTIONS

Following the issue of the first Newsletter some further questions have been posed on the operation of the contribution bands, concentrating more on how they will be applied after the first attribution. The following worked example provide answers to most of the issues which have been raised, and are included here to supplement earlier more random use of this information.

Worked Examples of Payband Attribution

Authority A has a senior director on a salary of **£72,000** where historically good performance has meant a **further 3 incremental point performance bonus**. The employer therefore reasonably attributes the member to the **7.5%** payband

Employing authority B employs Miss F on a part time contract for 20 hours a week. The whole time equivalent is **£17,000** and historically effective performers in this grade receive a **10% performance payment**. The employer reasonably attributes this person to the **6.5%** payband.

Employing authority C has been employing Mr J on a **basic salary of £15,000, but contractual additions take their pensionable salary to £28,000**. The authority decides to reasonably attribute this person to the **6.5%** payband.

Authority D attributes Mrs C, who starts on 3 April, earning **£16,500 to the 5.9%** payband. **In October the post is re-graded to £19,000** per year, but the employer's payroll system is unable to handle a mid-year review. So the **employer decides to delay the new attribution to the next financial year** and advise Mrs C accordingly.

Employing authority E employs Mrs S on a part time basis for 20 hours a week. The whole time equivalent is **£17,000 and historically no bonus payments or additions** are paid. The employer reasonably attributes this person to **the 5.9%** payband.

In the case of authority C not making this decision will cause the following. If pensionable/final pay is £28,000 accruing cost using benchmark basis is £5432. If lower band attribution was applied only £1652 would be recovered from Mr J; whereas the higher band would result in £1820 being recovered. This in turn would result in authority C not generating an average yield of 6.3% from members.

For authority D taking this decision is justified because total pay in the year would leave member in 5.9% payband. Actual pay for 12 months is £17,750 which would be in the 5.9% payband. But from the following April it is clear Mrs C will have earning in the 6.5% payband.

ADMITTED BODY STATUS

Since October 2007 contracting authorities have been required to comply with the requirements of Directions made under s 101 of the Local Government Act 2003 as regards the pension provision for their transferring staff, which require pension rights to be the same as, broadly comparable to, or better than, the LGPS. For pension

managers or those involved in procurement who want to see an electronic copy of the direction order, a copy can be accessed at the following location: [www.communities.gov.uk/publications/localgovernment/authorities-staff-transfers]

Alternatively, contractors can provide employees with pension rights by entering into an admission agreement with the contracting (local) authority using Admitted Body Status (ABS) provisions. The existing ABS provisions in the LGPS in England and Wales were introduced in 1999 to allow contractors who take on local authority contracts as part of Best Value to participate in the LGPS if they wish, rather than to provide transferring staff with access to a broadly comparable pension scheme. ABS allows the outsourced local authority staff to continue to accumulate benefits in the LGPS while their employment is transferred between contractors.

All stakeholders agree that ABS is an attractive and useful means for dealing with pensions in the contracting out process and that there is nothing in the fundamental concept which needs to be changed. However, over the last year Communities and Local Government has been working closely with key stakeholders to consider whether ABS provisions can better meet the needs of local authorities, contractors, employees and taxpayers.

Communities and Local Government are currently finalising an informal consultation document and currently aim to make it available for national stakeholders during December. Request your copy of the informal consultation document by emailing Darren Kristiansen at Darren.kristiansen@communities.gsi.gov.uk

The latest information about ABS provisions is available at www.communities.gov.uk/localgovernment/personnelandworkforce/localgovernmentpensions/abs/

POLICY REVIEW GROUP (PRG)

The Policy Review Group (PRG) was established in April this year, with the agreement of Ministers. The purpose of the Group is to be a forum designed to concentrate on big issues – such as reviewing the Scheme’s future and seeks common ground on areas such as cost-sharing rather than discussing detailed regulatory issues which are dealt with separately by various CLG-led Working Groups. The Terms of Reference for the Group (along with the minutes of the meetings) can be viewed on our website at www.xoq83.dial.pipex.com on the Policy Review Group or What’s New Page.

The Group’s role is to assist CLG in the formulation of policy and Scheme changes and with advice to Ministers. So far, the Policy Review Group has met 4 times this year. The next meeting is due to take place early in 2008.

COST SHARING

The LGPS has (as set out in the LGPS (Membership, Contributions and Benefits) regulations 2007) a Statutory requirement to have a cost-sharing arrangement in place no later than 31 March 2009. Put simply, cost sharing means sharing cost risks between employers and scheme members – thereby promoting a partnership of joint action to control those risks. It will also raise awareness of the value of pension benefits across the membership.

Much of the work for this is being taken forward at the Policy Review Group, where GAD and the Association of Consulting Actuaries have provided a helpful, initial steer to Group members in setting out what is involved – including having a “notional fund” as well as offering guidance on an implementation timetable. Inevitably, there is still a lot of work to do – but it is hoped that an informal consultation on how cost-sharing can be achieved within the LGPS, will start this month, coupled with a formal consultation going ahead next year. The LGPS is not alone in having to set up a cost-sharing mechanism. All the other public service pension schemes are also required to implement such amendments as a direct means of ensuring long term stability and sustainability.

LGFPS
December 2007