Local Government Pension Scheme (LGPS)

Employers' Newsletter

June 2012

Proposals for a new LGPS from April 2014

Introduction

Welcome to the **June 2012 Newsletter** for employers within the Local Government Pension Scheme (LGPS) in East Sussex.

This newsletter concentrates on the proposals of the new LGPS 2014, and provides some information on your responsibilities under the new provisions covering auto-enrolment of employees into pensions saving.

Items covered in this issue

- **Proposals for a new LGPS from April 2014**
- **Auto-enrolment 2012**

Proposals for a new LGPS from April 2014

You will no doubt have been aware that negotiations have been taking place between the Local Government Association (LGA) on behalf of employers and public sector trade unions on the introduction of reforms to the Local Government Pension Scheme (LGPS).

A bit of background –

A written ministerial statement was issued in December 2011 announcing the agreement of the Local Government Employers and the trade unions to a "single event" solution being agreed for the LGPS for implementation in 2014 to meet both the immediate cost savings targets set by Government. As well as the reforms set out in the final report of the Independent Public Service Pensions Commission chaired by Lord Hutton. Since the LGPS is unlike the other public service schemes in that it is funded, the increase in contributions applied to the other public service schemes were not imposed immediately, so long as it could be agreed that the eventual design of the new LGPS fitted within the 'cost envelope' set by Government.

After months of anticipation the Local Government Association and the unions announced on 31 May the outcome of their negotiations on the new Local Government Pension Scheme to come into force in April 2014 (LGPS 2014). The unions will now consult with their members and the LGA with employers. A favourable outcome will allow the Government to implement the proposals.

The main provisions of the LGPS 2014 are as follows:

- Career Average Revalued Earnings Scheme with an accrual rate of 1/49th and revaluation using CPI;
- Normal retirement date will be the member's State pension age;

- Average contribution rate to remain at 6.5% with contributions for the lowest paid remaining substantially unchanged but with the highest paid contributing more;
- Members who have already (or who are considering) opting-out may elect to pay half contributions for half the pension while retaining the full value of other benefits – the 50/50 option;
- Benefits accrued prior to 1 April 2014 will be protected;
- Reintroduction of a two year vesting period;
- Members who are outsourced will be able to stay in the LGPS on both first and subsequent transfers;

It has been accepted by Government that the proposals fit in their expectations of meeting cost savings to employers. It is perhaps a little too early to speculate what savings will be achieved until the detail of the new LGPS 2014 has been agreed and the new scheme has had time to settle. Once the detail of the scheme is known the Fund actuary will obviously take account of the changes when performing the next Fund valuation and build those into the assumptions going forward in setting employer contribution rates.

Although there is a general acceptance to the proposals there is still a lot to be sorted out. In terms of next steps, the unions will now ballot their members on the proposals and the LGA will no doubt consult with employers and other interested parties. As we receive further information we will keep you updated.

To ensure the successful implementation of the changes to the LGPS it is important that the County Council and you, as a LGPS employer, understand and accept responsibility for the decisions that will need to be made.

Here are the proposed changes in a little more detail.

Current	LGPS 2014 Proposal
Final Salary Pension benefits are based on the full time equivalent pensionable pay earned in the final year of membership	**Career Average Revalued Earnings (CARE)** Pension benefits accrue during the period of membership relative to the actual earnings in each year and then these are revalued to keep pace with inflation
Comment This will require more accurate allocation of pay within the payroll and recording by pension sections. Employers will have to provide pensionable pay as calculated under the 2008 Regulations for protected pension accrual (see pension protection 1 below)	

Accrual Rate of 1/60th Scheme members get a pension based on 1/60 of their final salary for each year of membership (pro rata for PT members)	**Accrual Rate of 1/49th** Scheme members will be credited with 1/49 of their pay each year which is then revalued (see above)

Comment

This is a significant improvement in the pension calculation with a pension of 1/60 on a salary of £20,000 being £333.00 whereas based on 1/49 it becomes £408.00. This may be attractive in retaining active members or preventing members from opting-out.

Pensionable pay	
Pensionable pay excludes non contractual payments such as overtime and additional hours worked over the contractual obligation	Pensionable pay will include non contractual payments such as overtime and additional hours worked over the contractual obligation.

Comment

Payroll software will have to be amended to accommodate these changes.

Employee contribution rates average 6.5% **on full time** equivalent pay

From	To	% contribution
Up to £13,500		5.5%
£13,501	£15,800	5.8%
£15,801	£20,400	5.9%
£20,401	£34,400	6.5%
£34,001	£45,500	6.8%
£45,501	£85,300	7.2%
More than £85,300		7.5%

Employee contribution rates will still average 6.5% but be based on **actual** pay

From	To	% contribution
Up to £13,500		5.5%
£13,501	£21,000	5.8%
£21,001	£34,000	6.5%
£34,001	£43,000	6.8%
£43,001	£60,000	8.5%
£60,001	£85,000	9.9%
£85,001	£100,000	10.5%
£100,001	£150,000	11.4%
More than £150,000		12.5%

Normal Retirement Age	
Normal retirement age is age 65	The Normal Retirement Age will be equal to the Scheme member's State retirement age, but subject to a minimum of age 65. If retirement is taken before the NRA then the pension will be reduced to take account of the early payment but likewise it will be increased if retirement takes place after NRA.

Comment

Employers will need to keep check on changes to the State retirement age as it applies to their employees when costing for ill health retirement as the enhancement period will be relative to the Normal Retirement Age

Early retirement provisions for redundancy and ill health will remain unchanged

Entitlement to pension (the vesting period)	
Under the current arrangements, a scheme member will be entitled to benefits from the Scheme once they have completed only 3 months membership (or they have transferred in membership).	From April 2014, it is proposed that any member with less than two years membership will receive a refund of contributions rather than having a small deferred pension (unless they have transferred in membership).

Comment

A change that will reduce the number of small deferred pensions that are being held on pension systems all over the country. Employers will however have to take caution and ensure correct information is held on records to determine the difference in these cases and those opting out of auto enrolment as well as of course having to auto enrol upon the next staging date if the individual is an eligible jobholder.

Pension protection 1	
Under the Heads of Agreement the Government confirmed there should be protection of pension benefits built up before April 2014	The proposals confirm that such a protection will be contained in the new Scheme

Comment

This means that some members will have pension benefits calculated on 3 types of LGPS.

- the 1997 Scheme with pension accrual of 1/80 and an automatic lump sum on final pay, as at the date of leaving
- the 2008 scheme with 1/60 pension accrual on final pay, as at the date of leaving
- and now the 2014 Scheme with 1/49 pension accrual an career average pay

Pension protection 2 Under the Heads of Agreement the Government promised to agree to protect those current Scheme members who were within 10 years of retirement	This is to be achieved with specific 'underpin' protection. For those affected a calculation will be performed at age 65 to ensure they will get a pension at least equal to that which they would have received in the LGPS 2008 Scheme.
Comment Whilst this may be good news for those affected it is not so good news for pension administrators and payroll. Effectively it will mean maintaining a 'notional' final pay figure that can be sourced each year for the production of benefit statements and be referred to for the purposes of calculating the final year's pay provisions in the 2008 Scheme.	

The 50/50 option With pressures put upon individuals' finances, there is a tendency to forsake pension provision and opt out of the scheme	Employees will be able to elect to contribute less and receive less pension benefit. They will however retain full value of other benefits such as death in service lump sum.
Comment This is designed to prevent individuals opting out and not having any pension saving at all. It is only designed to be a short term alternative. Those that do elect for this alternative will be subject, if they qualify, to be auto enrolled back into the main scheme when those provisions apply and every subsequent three years.	

Whilst these are only proposals at this stage and the technical aspects are still to be ironed out they will form the basis of the new LGPS to apply from April 2014. You will no doubt appreciate it is probably too early to start to look to implementing changes but here are some of the things that will need to be done.

Training

With such a major change being proposed it is important to ensure that these are communicated to everyone involved and they are trained.

Procedure Notes

It is important that any procedure notes currently in place are updated as any new systems or working practices are changed or developed.

Template letters, forms etc

All template letters or memos will need to be reviewed, as do any forms currently in place for the existing LGPS.

Workflow / performance management

If workflow systems are in place (either paper based or automated) these will need to be reviewed to see that the procedures in place suit the new LGPS.

LGPS information

As well as the obvious sources of LGPS information, such as booklets and websites, all template recruitment correspondence or enclosures issued by you will have to conform to the new arrangements.

Auto-enrolment 2012

Starting on 1 October 2012, UK employers will be required to automatically enrol staff into pensions schemes (either arrangements of their own or the national employment saving trusts, or NEST) this will effect all LGPS employers regardless of their size.

In the main the affected employees will be those who –

- are not already in a work place pension
- are at least 22 years old, but have not attained state pension age
- earn more than the minimum earnings threshold (currently £7,475 per annum

Staging

Auto-enrolment is to be introduced in stages over the next 4 years based on the size of the employers' PAYE arrangements on April 2012.

Employer Size	Staging date
120,000	October 2012
20,000 to 29,999	by February 2013
1,250 to 1,999	by September 2013
250 to 349	by February 2014
Less than 50	Between March 2014 and February 2016

A full list of employer staging dates can be found at:

http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx

Qualifying Schemes

LGPS is a qualifying scheme under the standard set and should be used by the scheduled bodied participating in the East Sussex Fund this includes the Districts and Boroughs, Colleges and Academies for non-teaching employees. The Admitted Bodies may use the LGPS, but those operating under a closed arrangement will have to use an alternative.

What Employers' need to do

It is the Employers' responsibility to comply with the legislation governing auto-enrolment

- Employers' need to identify the staging date applicable to them
- Need to appreciate cost of implementing auto-enrolment. I.e. software changes to report when eligible job holders have to be auto enroled and associated changes to processes and documentation.
- Engage payroll and Personnel colleagues.
- Need to appreciate possible costs of increased employer contributions if current optants out or new recruits remain in the LGPS.
- Review processes, forms and guides
- Review and update contracts of employment

More detailed information on auto-enrolment is available on;

http://www.thepensionsregulator.gov.uk/automatic-enrolment.aspx

Deadlines are fast approaching so employers should start preparing for auto enrolment now if they haven't already done so.

Contact details

If you have any further questions you should contact:

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