

REPORT TO: SPECIAL POLICY & RESOURCES - 17 MARCH 2003

REPORT ON: STOCKTAKE OF THE LOCAL GOVERNMENT PENSION SCHEME

REPORT BY: DIRECTOR OF FINANCE & DIRECTOR OF PERSONNEL & MANAGEMENT SERVICES

REPORT NO: 237-2003

1 PURPOSE OF REPORT

This report details the Council's response to the consultation exercise undertaken by the Local Government Pension Committee (LGPC) (summary paper attached) in relation to the Office of the Deputy Prime Minister's (ODPM) stocktake of the Local Government Pension Scheme (LGPS).

2 RECOMMENDATION

The Committee are asked to approve the answers shown in Appendix 1 as the basis of the Council's response to the consultation exercise and to remit the Director of Finance to reply to both the LGPC and the ODPM.

3 FINANCIAL IMPLICATIONS

There are no immediate financial implications but alterations to the LGPS may ultimately affect the contribution rates paid by employers.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 BACKGROUND

6.1 The ODPM issued a consultation paper on 9 September 2002 'Retirement Benefit Package Options' asking for responses by 17 April 2003. This recognised that employers needed a scheme that would help recruit, retain and motivate employees. Although the Scottish LGPS Regulations are devolved, the Scottish Executive do not intend running a separate consultation exercise.

The paper suggests it would be reasonable for the LGPS to provide benefits that are

- adequate for their policy and regulatory purpose
- comprehensive in their provision
- flexible and responsive to the needs of all members (employees and employers)
- equitable to members, employers and taxpayers in terms of the balance between provision and cost
- efficient and cost-effective in their delivery
- be fully transferable
- be secure enough to achieve the long-term statutory-based pension promise.

The LGPC will be making a response based on the consensus of employers and they have issued the questionnaire which is completed at Appendix 1. It is considered that Dundee City Council should also send its response to ensure its views are fully represented.

7 DUNDEE CITY COUNCIL RESPONSE

The Council's response is shown at Appendix 1. This response reflects the view that the basic structure of the LGPS is sound and it does represent an important part of the overall remuneration package and meets the needs of the majority of the workforce.

However, to ensure the ongoing sustainability of the LGPS, the following steps are supported to mitigate the future costs for employers.

- increase the employee's contributions for new joiners to 7% (currently 6%)
- increase the earliest age at which benefits can be taken (on grounds other than ill health) from 50 to 55.

8 CONSULTATION

The Chief Executive and the Trade Unions have been consulted on the content of this report.

DAVID K DORWARD
DIRECTOR OF FINANCE

J C PETRIE
DIRECTOR OF PERSONNEL & MANAGEMENT SERVICES

25 FEBRUARY 2003

BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

No. 130 – FEBRUARY 2003

STOCKTAKE OF THE LGPS

Purpose of this Circular

1. The purpose of this Circular is:
 - to provide authorities with a copy of the Local Government Pensions Committee's (LGPC) draft response to the Office of the Deputy Prime Minister's (ODPM) discussion paper on the retirement benefits package options for the LGPS; and
 - to gauge employers' reaction to the draft response, by **11 April 2003**.
2. The LGPC anticipates that both senior officers and elected members will recognise the importance of this matter and will fully consider the individual elements of the LGPC's draft response and the reasoning behind each point as detailed in the full draft response (see Appendix 2).
3. The draft response has been agreed by the Local Government Pensions Committee and by the Human Resources Executive of the Local Government Association.
4. It is hoped that authorities will find the draft response helpful when considering and preparing their own response to the discussion paper.

Background

5. Back in August 2001 the Office of the Deputy Prime Minister (ODPM) announced a six month stocktake of the Local Government Pension Scheme (LGPS) with a report being presented to Ministers at the end of January 2002.
6. The ODPM announced the initial findings of the stocktake on 16 May 2002 and these were to be followed by a series of more detailed discussion papers. The first discussion paper, which included a number of questions concerning the benefits package offered under the LGPS, was issued on 9 September 2002. In that paper the ODPM stated:

“While the LGPS is a reasonable pension scheme for career-serving employees able to put in 40 years service, with a degree of salary progression, and so able to retire on a maximum of half their final salary, it is not so well focussed on the pension needs of part-timers, career-break employees, low paid workers, contract workers or term-time employees. Employment trends are seen to be increasingly more fluid, changeable and fragmented between and within sectors. The LGPS was not originally designed to cope with such experiences. This discussion paper seeks to stimulate an inclusive debate and a comprehensive and objective analysis of options. The present scheme is not under challenge. No-one’s rights under the present arrangements are being changed. But the debate on how best to forge some new, flexible and attractive proposals which could be turned into a ‘new’ LGPS, particularly for the future staff of local authorities needs to begin.”

7. The Employers’ Organisation for local government (EO) asked local authorities whether the LGPC should take the lead in assessing the issues raised in the Stocktake discussion paper. Two thirds of respondents replied in the affirmative.
8. The LGPC set up a Working Party to consider the matters raised in the discussion paper. The Working Party consisted of two representatives from the EO / LGPC, the chairman of the LGPC’s Officer Advisory Group (a Treasurer), a SOCPO representative, two Pension Managers, a Treasurer from a County Council, an LGA representative and an actuary.
9. The Working Party’s report, as updated and agreed by the LGPC and the LGA’s HR Executive, is attached at Appendix 2.

Summary of the LGPC’s proposed response

10. The LGPC welcomes the Government’s stocktake of the Local Government Pension Scheme (LGPS) and agree with the set of policy principles which the ODPM have suggested should underpin the LGPS benefit provision. Namely they should be:
 - adequate for their policy and regulatory purposes;
 - comprehensive in their provision;
 - flexible and responsive to the needs of employees and employers;
 - equitable to scheme members, employers and taxpayers in terms of the balance between provision and cost;
 - efficient and cost-effective in their delivery;
 - fully transferable; and
 - secure enough to achieve the long-term statutory-based pension promise.
11. It is timely to review the benefit package options and scheme design because it fits with the current wider national debate about the future of pension provision. The key themes in the debate - the security of the pension promise, the appropriate balance between state and private provision and the right level at which to set current contributions in order to provide an adequate pension in retirement, are all highly relevant to the LGPS review.
12. The LGPC’s approach to the review has been to assess the validity of the policy aims employers seek to achieve through the scheme and where possible, to draw upon empirical evidence in testing its fitness and purpose.
13. We believe that the basic structure of the scheme - national in character with statutory backing for the pension promise and yet funded and administered locally - is fundamentally sound and properly reflects the reality of partnership between central and local Government in the provision of public services.
14. The scheme itself, although originally designed to reflect working patterns which belong to a bygone era, still has considerable strengths. We find that despite its historical roots, the

scheme has not remained static. Over the years it has evolved and it now has built into it a considerable degree of flexibility.

15. Whilst there is scope for further modernisation of the scheme, it remains an important and highly valued element in the remuneration offer and is a very good example of a high quality occupational pension scheme. Further modernisation should build on the considerable strengths of the current scheme.
16. In the draft response at Appendix 2 we comment on the national context for the LGPS, describe its policy value, assess its suitability for contemporary lifestyle and consider whether in view of recent increases in employers' contribution costs, the scheme is financially sustainable in the longer term. Our main conclusions are that the LGPS:
- still, to a large degree, meets the needs of the majority of the workforce (although the introduction of partner's pensions into the LGPS needs to be addressed and there will be continue to be some low paid part-time employees for whom membership of the scheme, even if it were modified, will not be appropriate);
 - is best placed to deliver the security of the pension promise by remaining a final salary scheme;
 - already includes a considerable degree of flexibility;
 - is an important and highly valued element of the remuneration package, is an important recruitment and retention tool and, albeit at cost to the employer, is a useful management aid in facilitating change;
 - has a role both in delivering the Government's objective of ensuring individuals have a reasonable income in retirement and in contributing to the delivery of local authorities' social and economic well-being strategies; and
 - is sustainable in the long term provided a number of changes are made to mitigate the cost of future service in the scheme.
17. It is, of course, important that the Government ensures there is a stable long-term pensions policy within which occupational pension schemes, including the LGPS, play their part and that there is a simple and stable tax regime governing pension schemes. We are, therefore, fully supportive of the significant tax simplification proposals set out in the Government's consultation paper "Simplifying the taxation of pensions: increasing choice and flexibility for all".
18. A number of the proposals in the Government's Green Paper on pensions have implications for the future design of the LGPS and these have been taken into account in preparing the LGPC's proposed response to the ODPM's discussion paper.

Actions to be taken by employers

19. Appendix 1 to this Circular provides a summary of the key elements of the LGPC's proposed response to the ODPM's discussion paper. It has been designed in such a way that employers, having fully considered the evidence in the draft response at Appendix 2, can indicate their agreement, or otherwise, to the main points being made by the LGPC.
20. The LGPC would ask employers to complete and return the questionnaire at Appendix 1 by **11 April 2003** in order that we can gauge employers' reaction to the specific points being made.

Actions to be taken by Pension Fund Administering Authorities

21. In order to ensure the LGPC obtains as wide a view as possible it would be helpful if administering authorities could send a copy of this Circular to all employers participating in their Fund (other than to local authorities in England and Wales, as the Circular has already been sent direct to them). Alternatively, administering authorities could bring the importance

of the Circular to the attention of employers in their Fund and direct them to the Circular on the LGPC website at www.lg-employers.gov.uk/pensions/circulars.html

Terry Edwards
Assistant Director (Pensions)
11 February 2003

Appendix 1

Stocktake of the LGPS – Retirement Benefit Package Options Discussion Paper

Summary of the key points in the LGPC’s draft response

The purpose of this questionnaire is to gauge employers’ reaction to the key points being made in the Local Government Pensions Committee’s (LGPC) draft response to the Office of the Deputy Prime Minister’s (ODPM) discussion paper on the retirement benefits package options for the LGPS.

It would be helpful if, having considered the evidence presented in the draft response (see Appendix 2), employers could complete and return this questionnaire to the Local Government Pensions Committee, Employers’ Organisation for local government, Layden House, 76-86 Turnmill Street, London, EC1m 5LG by **11 April 2003**.

Based on the findings presented in Appendix 2 do you agree with the key points being made in the LGPC draft response to the ODPM’s discussion paper?		
	Please tick	
	Yes	No
<u>The national framework for pensions</u>		
<i>Key points:</i>		
• The LGPS, like any other occupational pension scheme, does not exist in isolation from the national pensions framework;	√	
• some of the issues raised in the Stocktake discussion paper, particularly in relation to the low paid, cannot be resolved by the LGPS within the current national pensions framework;	√	
• we support the NAPF in believing that the State should provide a reasonable level of pension benefit to all and move away from the current system that will leave many reliant on means tested benefits. This would overcome the difficult question of compulsory scheme membership since any additional pension benefits that people chose to save towards would simply sit on top of the State benefit, thereby avoiding the current situation in which people can save themselves into the so-called means tested pensions ‘poverty trap’.	√	

The role of the LGPS <i>Key points:</i>	Yes	No
<ul style="list-style-type: none"> • we believe that, from an employer perspective, the LGPS is <ul style="list-style-type: none"> ➤ an important element of the remuneration package; ➤ an important recruitment and retention tool; ➤ and, albeit at cost to the employer, is a useful management aid in facilitating change; 	<div style="text-align: center;"> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> </div>	<div style="text-align: center;"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> </div>
<ul style="list-style-type: none"> • the LGPS should remain as attractive to prospective and current employees as the other main comparator public sector pension schemes; 	<div style="text-align: center;"> <input checked="" type="checkbox"/> </div>	<div style="text-align: center;"> <input type="checkbox"/> </div>
<ul style="list-style-type: none"> • as the future size and nature of local government and its workforce is uncertain it is important that the Scheme should continue to be available to all employers with staff undertaking local government related work; 	<div style="text-align: center;"> <input checked="" type="checkbox"/> </div>	<div style="text-align: center;"> <input type="checkbox"/> </div>
<ul style="list-style-type: none"> • we believe that, from a wider perspective, the LGPS has a role to play <ul style="list-style-type: none"> ➤ in delivering the Government's objective of providing people with a reasonable retirement income; and ➤ in contributing to the delivery of authorities' social and economic well-being responsibilities / policies; 	<div style="text-align: center;"> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> </div>	<div style="text-align: center;"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> </div>
<ul style="list-style-type: none"> • any worsening of the LGPS benefit provisions could have a knock-on effect in other areas e.g. (a) an increased reliance on State (means tested) welfare benefits, on the NHS (as there is a correlation between poor income and poor health) and on those welfare services which local government provides; (b) an impact on the numbers claiming rent and rate rebates; (c) an increase in the incidence of social exclusion caused by, amongst other things, low incomes. 	<div style="text-align: center;"> <input checked="" type="checkbox"/> </div>	<div style="text-align: center;"> <input type="checkbox"/> </div>

Does the LGPS meet the needs of the workforce? <i>Key points:</i>	Yes	No
<ul style="list-style-type: none"> the LGPS does, for the most part, meet the needs of much of the workforce; 	√	
<ul style="list-style-type: none"> more could be done to explain the LGPS to the workforce thereby increasing understanding of the Scheme and the take up rate amongst employees¹; 	√	
<ul style="list-style-type: none"> the issue of non-provision of a partner's pension needs to be addressed; 	√	
<ul style="list-style-type: none"> existing flexibilities in the Scheme have not been greatly used and offering further flexibilities would increase the complexity of the Scheme. We do, however: <ul style="list-style-type: none"> ➤ support the Government's proposals to permit partial retirement, and ➤ would be happy to explore with the ODPM areas where it can be shown that additional flexibilities would be beneficial; 		
	√	
	√	
<ul style="list-style-type: none"> although the Stocktake paper asserts that the LGPS is not well designed to meet the needs of part-timers, etc we believe no other type of pension arrangement meets their needs any better than a final salary scheme; 	√	
<ul style="list-style-type: none"> whilst the Government retains its current policy of providing means tested State benefits it is not possible for, nor is it the role of, the LGPS to resolve the issue of pension provision for the low paid, (e.g. by redesigning the scheme to attract the low paid). Many, by joining, could simply be saving for benefits that the State would otherwise provide; 	√	
<ul style="list-style-type: none"> there should be no compulsion to join the LGPS (nor a discretion for LGPS employers to make membership of the LGPS compulsory) whilst the means tested 'poverty trap' remains. 	√	

¹ The LGPC has already agreed a course of action to further 'promote' the LGPS.

Costs and sustainability of the LGPS <i>Key points:</i>	Yes	No
<p>For a number of reasons, employers' contribution rates and the cost of the LGPS have been rising and the 2004 valuations will, in all likelihood, result in further increases. It is important to recognise, however, that there are two elements to an employer's contribution rate. Firstly, there is the cost of providing benefits in respect of service already accrued (past service) and secondly there is the cost of future service. The element of the employer's contribution rate in respect of past service is inescapable. Even if the Scheme were amended in respect of future service, the past service cost would still have to be met. The current average cost of future service in the LGPS (net of employee contributions) based on the 2001 valuations was typically of the order of 11% to 12% and is projected to increase by around 2% of pensionable payroll. Therefore, in order to mitigate the increase in cost for future service the LGPC believes that the following actions should be taken to ensure the ongoing sustainability of the Scheme:</p>		
<ul style="list-style-type: none"> ➤ in recognition of the increase in longevity since the 6% rate was set in 1939, increase the employee's contribution rate for new joiners to 7% (inclusive of partner's pensions) 	√	
<ul style="list-style-type: none"> ➤ remove, as soon as possible, the '85 year rule' for new members and in respect of future service for existing members (as proposed in the Government's Green Paper on pensions) thereby ensuring the Scheme has a Normal Retirement Age of 65². This would act to reduce the typical future service contribution rate for schemes by up to 1.5% of pensionable payroll 	√	
<ul style="list-style-type: none"> ➤ increase the earliest age at which benefits can be taken (on grounds other than ill health) from 50 to 55 as proposed in the Green Paper 		
<ul style="list-style-type: none"> ➤ remove the right to automatic unreduced benefits at age 50 (or 55) upon redundancy / efficiency retirement (subject to consideration being given to the protection of accrued rights of existing members). Instead, such benefits could be paid with a full actuarial reduction, which could be waived in full or in part if the employer chose to do so (possibly in accordance with guidelines concerning the exercise of the discretion). In conjunction with such a change, employers should be provided with greater flexibility to improve upon the current 66 weeks compensation provisions. 	√	

² Age 70 for coroners, Justices' Clerks and eligible councillors.

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Signed Date

Designation (in capital letters).....

For and on behalf of (name of employer in capital letters).....

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Please return the completed questionnaire by **11 April 2003** to:

LGPC
Employers' Organisation for local government
Layden House
76 – 86 Turnmill Street
London
EC1M 5LG