COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**15 November 2012**	**Unrestricted**		

REPORT OF:	TITLE:
Corporate Director of Resources ORIGINATING OFFICER(S): **Oladapo Shonola –** **Chief Financial Strategy Officer**	**New (2014)Local Government Pensions Scheme** Ward(s) affected: N/A

Lead Member	**Cllr Alibor Choudhury - Resources**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report provides information to Members of the Committee on the proposed changes to the Local Government Pensions Scheme (LPGS). Legislation in the form of the Public Service Pensions Bill 2012-13 is currently going through Parliament and is expected to take effect from 1 April 2014.

1.2 The Bill sets out the detail of new arrangements for the governance of public sector pension schemes. It covers all areas of public service, including local government and the LGPS.

1.3 Members may recall that following the publication of the final report in March 2011 of the Hutton Commission,officers presented a report to Committee in November 2011 setting out the mainrecommendations coming out of the Commission's review of public sector pensions. The bulk of the proposals in the proposedscheme are drawn from recommendations set out in the final report of Lord Hutton's Commission.

1.4 The expectation is that the proposed scheme will have minimal impact on the London Borough of Tower Hamlets Pension Fund unless active members start to leave the scheme. This could lead to the Fund beingcashflow negative (i.e. annual payments out of the Fund exceed income coming in).

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2. DECISIONS REQUIRED

2.1 Members are recommended to note the content of this report.

3. REASONS FOR DECISIONS

3.1 The Council is the administering body for the London Borough of Tower Hamlets Pension Fund, which is a Local Government Pension Scheme. The proposed changes to the LGPS as outlined in the Public Service Pensions Bill will significantly alter the way that the Scheme is administered.

3.2 To the extent that the new scheme will impact the Pension Fund's current assets, liabilities and governance arrangements, it is expected that the new scheme will also have far reaching implications for current and future council employees as it significantly alters a key incentive (retirement benefit based on final salary) for staff and Members.Therefore, it is necessary that Members are kept up to date on progress with this legislation.

4. ALTERNATIVE OPTIONS

4.1 This report is presented to Members to enable them understand the main features of the new LGPS scheme that is proposed to take effect from 1 April 2014. There is no requirement, statutory or otherwise to provide this update to Members, but it is deemed good practice to keep Members updated with such activities that may affect the Pension Fund. This report also complements the training provided to Members, so that they are equipped with knowledge that will aid good decision making in relation to their roles as trustees of the LBTH Pension Fund.

5. BACKGROUND

5.1 The Coalition Government commissioned Lord Hutton to undertake an independent review of public sector pension provision in June 2010. The review was to be a root and branch look at the basic structure of public service pensions and to make recommendations to the government on how pension arrangements can be placed on a sustainable and affordable path in the long term. A guiding principle of the review was that the recommendations should be balanced in way that is fair to public sector workers, but also less onerous on the public purse.

5.2 Lord Hutton published his final report and recommendations in March 2011. This Committee had been presented with a report setting out the main ideas and recommendations that came out of Lord Hutton's review.

5.3 The Government indicated in the immediate aftermath of the publication of Lord Hutton's report that they were supportive of most of the ideas put forward by the Commission. In November 2011, the Government published its proposals for the reform of public service pension. The document titled *Public Service Pensions: good pensions that last'* set out how the Government propose to achieve the goals that had been identified by Lord Hutton has drivers for reform alongside the Government's objectives of reducing the cost of public service pensions to the taxpayer.

5.4 The Government set out the terms of what it deemed to be the ideal (reference) scheme' for its aims. This is essentially a target package of benefits which was used by the Government to enter into initial negotiations with trade unions. It is noteworthy that LGPS has been treated differently to other public sector pension schemes due to the fact that it is a funded scheme. The most notable exemption for the LGPS is that overall employee contributions will not have to rise immediately. Other public sector pension schemes were not treated in this way as they are mostly unfunded. Although, the benefit package that made it into the Bill is more generous to scheme members than the original reference package, it is within the cost benchmark that had been predetermined by Government.

5.5 In coming up with its final proposals on public sector pension reform, the Government engaged and carried along the main stakeholders in public sector pensions. These included the LGA representing LGPS employers and the main trade unions. A series of negotiations took place between the government and the major stakeholders to agree the proposed scheme that is set to commence on 1 April 2014.

6. THE NEW LGPS SCHEME (2014)

6.1 The work of Lord Hutton was driven by three factors which were deemed essential to achieving comprehensive and viable reform of public sector pensions. These were identified as:

- Longevity – Current provision as funded by taxpayers is no longer affordable given that people are living longer and therefore spending longer in retirement;
- Flexibility –Pensions provision should be able to adapt to the modern labour force lives and works; and
- Fairness – the final salary scheme favours the highest paid staff at perhaps the expense of workers at the lower end.

6.2 The Public Service Pensions Bill has been designed to address these issues in a way that is agreeable to all the major stakeholders.

6.3 The main features of the Bill are summarised below and a comparison of features of the old and proposed scheme is included at 6.4:

- A Career Average Re-valued Earnings (CARE) scheme or Defined Contributions scheme to be introduced;
- The accrual rate has been reduced to 1/49th;
- The abolition of Normal Pension Age (NPA) which is currently 65 years, so that retirement is now linked to the State Pension Age (SPA)
- Inflation on accrued benefits is to be linked to CPI to control costs;
- Average member contribution to the scheme remains at 6.5% (contribution rates have been altered for different bands, so that scheme members at the top earners will now pay more into the scheme. Table at 6.5 outlines a comparison of contribution rates between old and proposed scheme by salary band;
- Introduction of what is termed the 50:50 option. New or existing scheme members will be able to pay half contributions for half pension benefits;
- Accrued benefits prior to 1 April 2014 will be protected under the old scheme rules (this include the Rule 85 protection that was in place prior to the current scheme);
- Further protection for scheme members that is outsourced. Members are now able to remain in the scheme on the initial and any subsequent transfers as a right;

- Increase governance requirements around skills and knowledge for Pensions Committee members, acting on advice from a 'skilled person' and ensuring that the Fund complies with the requirements of the Pensions Regulator; and
- Vesting period changed to 2 years from 3 months.

6.4 A table is provided below that compares the current scheme with the new scheme.

	Current Scheme (2008)	**Proposed (New) Scheme (2014)**
Benefit Type	Final Salary Scheme	Career Average Revalued Earnings (CARE)
Accrual Rate	1/60th	1/49th
Pension Increases	Consumer's Price Inflation (CPI)	CPI
Retirement Age	(NPA) 65	SPA
Protections	Retirement age protections for members retiring before 2020	Retirement age protections for members retiring before 2020 and a no worse off guarantee if retiring before 2020.
Average Contribution Rate	6.5%	6.5%
Alternative Benefits	N/A	50:50 Option
Accrued rights	N/A	Protected
Vesting Period	3 months	2 years

6.5 The table below presents the proposed contribution rates for the new scheme.

New Scheme		**Old Scheme (as at 1 April 2012)**	
Actual Pensionable Pay	**Gross Contributions**	**Actual Pension Pay**	**Gross Contributions**
Up to 13,500	5.50%	Up to £13,500	5.50%
£13,501 - £21,000	5.80%	£13,501 - £15,800	5.80%
£21,001 - £34,000	6.50%	£15,801 - £20,400	5.90%
£34,001 - £43,000	6.80%	£20,401 - £34,000	6.50%
£43,001 - £60,000	8.50%	£34,001 - £45,500	6.80%
£60,001 - £85,000	9.90%	£45,501 - £85,300	7.20%
£85,001 - £100,000	10.50%	Over £85,300	7.50%
£100,000 - £150,00	11.40%		
£150,000+	12.50%		

6.6 It is worth noting that the highest contribution rate in the current scheme is 7.50% compared to 12.5% (gross) in the new scheme. Contribution for scheme members earning under £43k will reduce or remain the same, but contribution rates for those earning over 43k could rise by up to 70% for the highest earners in the scheme – a consequence of government guarantee that protects lower income earners from increases in contribution.

7. IMPLICATIONS OF MEMBERS

7.1 The general consensus is that the majority of members will benefit from these changes, especially those who are at the lower end of income scale. Some of the implications of the proposed scheme on members are that:

- CARE will tend to favour staff that have lower earnings growth, whilst staff that experience strong earnings growth over their careers will likely receive less benefit. Therefore higher income earners will pay more into the scheme and get less out;
- CARE will result in staff with short service periods receiving more in benefits under new scheme compared to the old;
- Although normal pension age will be aligned with state pension age, the option to retire has been maintained in the proposed scheme so that members with lower life expectancy can benefit earlier from their pensions; and
- It will take longer for members longer to earn deferred benefit on their contributions. This may discourage short term workers from joining the scheme.

8. EFFECT ON EMPLOYER CONTRIBUTION RATES

8.1 There are implications for the employer contribution rates once the Bill is passed into law. It is not entirely clear at the moment how all of these changes put together will impact employer contributions. However, the impact of some of the proposed changes to the schemewill be as follows:

- CARE will reduce employer contribution rates;
- Changing accrual rate from 1/60th to 1/49th will significantly increase employer contributions;
- In-year contribution rates are expected to slightly increase; and
- Impact of 50:50 option will reduce employer contributions.

8.2 Of course there are other factors that will impact on employer costs beyond what is listed above, which include age, service, pay profile for LBTH workforce. These impact of these will become clearer at the next valuation when the Fund's actuaries are able to undertake a comprehensive evaluation of the Fund's liabilities.

9. COMMENTS OF THE CHIEF FINANCIAL OFFICER

9.1. The comments of the Corporate Director Resources have been incorporated into the report.

10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

10.1 This is a noting report and there are no specific legal consequences as a result of it

11. ONE TOWER HAMLETS CONSIDERATIONS

11.1 The Pension Fund Accounts demonstrate financial stewardship ofthe fund's assets. A financially viable andstable pension fund is a valuable recruitment and retention incentive for the Council.

12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

12.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

13. RISK MANAGEMENT IMPLICATIONS

13.1 The LBTH Pension Fund has seen a decrease in income over the last two financial years due to reduction in number of scheme members. There is a risk that some of the changes proposed for the new scheme could lead to further reduction in fund members and consequently income. There are further risks around ensuring adequate governance arrangement are put in place in line with requirement of proposed scheme.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

14.1 There are no any Crime and Disorder Reduction implications arising from this report.

15. EFFICIENCY STATEMENT

15.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***