Surrey Pensions News

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Changes to the Local Government Pension Scheme (LGPS)

Dear Colleague

Issue 8 of Surrey Pension News advised you that the Government had asked Lord Hutton to chair an Independent Public Service Pensions Commission to review the long-term provision of all public sector pension schemes including the LGPS. The full report and recommendations can be found on the HM Treasury website at: **www.hm-treasury.gov.uk** if you search for 'Pensions Commission'.

The Government has now accepted the Commission's recommendations for changes to public sector pension schemes and has confirmed that it intends to have the long-term changes in place by April 2015. In the meantime, the Government is also making some short-term changes to all public sector schemes between April 2012 and 2015 to achieve more immediate savings.

Why does the LGPS need to change?

The cost of providing pensions has increased significantly – partly due to benefit improvements over the years, but mainly due to the fact that people are living longer and receiving their pensions for longer. For example, a person who retires now can expect to receive their pension, on average, 10 years longer than someone who retired 30 to 40 years ago.

Although the Government's changes to the LGPS from 1 April 2008 were brought in to address the increasing cost of providing benefits, these changes unfortunately did not go far enough.

What are the proposed changes to the LGPS?

The Commission recommended that the main long-term changes that would need to be made to the scheme from April 2015 are:

- An increase to employee contributions
- A change from a final salary scheme to a career average pay scheme
- Link scheme retirement ages to the state pension age

The Government will shortly start a formal statutory consultation with employers and trade unions on the proposed long-term changes to the scheme.

What changes are taking place now?

In order to achieve short-term savings, the Government has issued a consultation document proposing two possible options for change, which are shown overleaf. It is now up to employers and unions to comment on these options and, if they wish, suggest alternative ones.

Both options propose a combination of phased employee contribution increases and a reduction to the rate the pension builds up (the accrual rate). However, in both options the Government has confirmed its commitment to protecting the lower paid by ensuring that there is no increase in contributions for employees whose whole time equivalent pay is less than £15,000 pa and no more than a 1.5% increase for those with whole time equivalent pay between £15,000 and £21,000pa.

Option 1

- A phased increase in contributions from April 2012 to 2015 (see table right)
- A change from a 1/60th accrual rate to a 1/64th accrual rate from April 2013
- A further reduction in accrual rate to a 1/65th from April 2014

Whole-time Equivalent Pay Bands	Current Rate	2012/2013	2013/2014	2014/2015
£0 to £12,900	5.5%	5.5%	5.5%	5.5%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 to £21,000	6.5%	6.7%	7.2%	7.7%
£21,001 to £32,400	6.5%	7.2%	8.0%	8.3%
£32,401 to £43,300	6.8%	7.5%	8.3%	8.7%
£43,301 to £60,000	7.2%	8.2%	8.7%	9.0%
£60,001 to £81,100	7.2%	8.7%	9.2%	10.0%
£81,101 to £100,000	7.5%	9.0%	9.8%	11.0%
£100,001 to £150,000	7.5%	9.5%	11.0%	12.0%
£150,001 +	7.5%	10.0%	12.0%	12.5%

Option 2

- A phased increase in contributions (see table right) but lower than Option 1
- A change from a 1/60th accrual rate to a 1/67th accrual rate from April 2014

Whole-time Equivalent Pay Bands	Current Rate	2012/2013	2013/2014	2014/2015
£0 to £12,900	5.5%	5.5%	5.5%	5.5%
£12,901 to £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 to £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 to £21,000	6.5%	6.5%	6.8%	6.8%
£21,001 to £32,400	6.5%	6.8%	7.2%	7.5%
£32,401 to £43,300	6.8%	7.1%	7.8%	8.2%
£43,301 to £60,000	7.2%	7.8%	8.4%	8.8%
£60,001 to £81,100	7.2%	8.7%	8.8%	9.5%
£81,101 to £100,000	7.5%	9.0%	9.8%	10.5%
£100,001 to £150,000	7.5%	9.3%	10.8%	11.5%
£150,001 +	7.5%	9.5%	11.8%	12.5%

The contribution increases under this option would be marginally lower than under Option 1 and would also give a slightly smaller pension because of the lower accrual rate.

Should members stay in the scheme?

The reforms will ensure that all public service pensions, including the LGPS, will continue to be amongst the best pension schemes in the Country. It is understandable to think that opting out of the scheme is an easy way to save money, especially when everyone's finances are stretched, but it is important to consider the benefits that will be lost. By opting out of the LGPS members will:

- lose the benefit of their employer's pensions contribution, currently on average equivalent to 15% of their pay
- lose a defined benefit indexed linked pension that is payable for life
- lose valuable life cover for dependants of a tax-free lump sum of three years' pensionable pay and dependants' pensions
- pay more tax and national insurance if you are a tax payer

What happens to pension benefits accrued so far?

The Government has confirmed that all pension benefits accrued up to the point of any reform will remain unchanged and will be protected.

Where can you find more information?

You can find more information on the proposed short-term and long-term changes to the scheme and how these changes will affect you on our website at:
www.surreycc.gov.uk/pensions

We will keep you informed of further developments when they are announced.

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