

Proposed Pension Reform

Bulletin No.1

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What has happened so far?

Lord Hutton announced, on 10th March 2011, his recommendations for the reform of public sector pensions. The first (and most immediate) phase of pension reform proposed an increase in employee contributions of 3.2% of pay. The intention was to phase this in over 3 years commencing 1 April 2012.

In July 2011, the Secretary of State for Communities and Local Government asked the Local Government Group (the employers) and the trade unions to enter into discussions to come forward with proposals to deliver short term savings equivalent to the targeted 3.2%.

On 21 September 2011, the Local Government Group wrote to the Secretary of State setting out their proposals. In developing these proposals, a key consideration has been fairness and affordability to employees. The fact that the Local Government Pension Scheme is a funded scheme (meaning it has assets to pay its pensions), gives it scope to consider a wider range of measures to deliver the required savings. The changes are recommended to take effect from April 2014 and the main elements are:

- No increase in employee contributions for scheme members whose full-time equivalent earnings are less than £15,000
- An increase of 1.5% for those earning between £15,000 and £21,000
- An increase of 2% to 2.5% for those earning over £21,000
- Recognising that some employees may not be able to afford an increase in their contributions, **an alternative choice for employees** would be to maintain contributions at existing levels and have a lower rate of build up of pension from April 2014
- Increase the normal age of retirement from 65 to 66 for benefits earned after April 2014, with benefits earned before then retaining a normal pension age of 65



What happens next?

Following consideration, the proposals are to be published by the Department of Communities and Local Government. Publication was due at the end of September but is now expected during October. A 12 week consultation exercise will then take place enabling employers, trade unions, administering authorities and others to comment.

What do we know already?

We know that the proposed changes will apply only to future membership of the Scheme. The benefits that members have built up prior to the date of any changes taking effect will be protected. The changes will not affect deferred and pensioner members of the Fund.

The Local Government Pension Scheme will still represent **good value** for providing life and pension protection that consists of:

- ✓ A guaranteed retirement pension based on your annual pay
- ✓ The option of exchanging part of your pension for a one-off tax free cash payment
- ✓ An ill-health pension from any age
- ✓ Redundancy cover from age 55
- ✓ A death in service lump sum of three times your final pay
- ✓ A widow's, widower's, civil partner's or nominated partner's pension
- ✓ Children's pensions
- ✓ The index-linking of benefits to ensure that they keep pace with inflation
- ✓ A significant level of Employer's contribution towards the build up of your pension*

What we don't yet know

Whether there will be any refinements to the proposals when they are published and how this will shape further information provided to members.

What we intend to do to keep you informed

With the uncertainty surrounding what is being proposed we appreciate the difficulties this poses to members wanting to know how any reforms will affect their personal circumstances. The next available news will emerge following the Department of Communities and Local Government's response to the proposals put forward by the Local Government Group, expected during October. Pensions Services will therefore issue further information bulletins, similar to this one, as and when more information is available.

** The level of employer's contribution may be up to 27% of your pay (or more) depending on individual employers*