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QUESTIONS AND ANSWERS RELATING TO PENSION REFORM – JANUARY 2012

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We understand that LGPS Scheme members will have questions about the information being communicated by Pension Services along the journey taken by the proposed pension reform. We have therefore started a list of questions and answers using the new LGPS 2014 project as a starting point (*see Pension Reform Bulletin No.5 – available on the Pension Services website*). We will add further questions and answers to the list as the journey progresses.

**Questions (please click on link)**

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## Answers

### Q. Will there still be contribution increases for scheme members in 2012?

A. Hopefully not. Although the Government's consultation on proposals to increase employee contributions closed on 6 January 2012, the Government has agreed to hold back on taking any action whilst talks between the local government employers and the unions are continuing. If agreement is not reached it may be necessary to increase contributions for some scheme members later this year.

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### Q. When will the new scheme come into effect?

A. It is proposed that the new scheme will be implemented from April 2014, but the regulations governing the scheme will need to be in place by March 2013.

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### Q. Why will the regulations governing the new scheme need to be in place by 2013?

A. Having the regulations in place by 2013 will enable pension fund actuaries to take the new scheme into account as part of the 2013 scheme valuation. This will enable adjustments to be made to employer contributions in 2014.

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### Q. Will scheme member contributions in the new scheme be more than they are now?

A. Possibly, although various options will be explored to keep any contribution increases to a minimum.

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### Q. What will the benefits be in the new scheme?

A. These will be determined by discussions taking place between now and April 2012. There will be regular updates on the progress of these discussions and consultation with all stakeholders.

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**Q. What are the 'big ticket' items to be agreed by April 2012?**

A. These are as follows:

- Confirmation of the basis of the scheme design (e.g. CARE, being a scheme where benefits are based on career average revalued earnings, rather than final pensionable pay)
- The accrual rate for the scheme (being the rate at which the pension is built up for each year of service in the scheme e.g. 1/60th of pay for each year)
- The revaluation rate (being the rate by which, during employment, each year's worth of pension is subsequently increased after it has been built up)
- The actuarial methodology for reducing or increasing benefits if they are drawn before or after Normal Pension Age
- The amount and timing of any employee contribution increases
- Any transitional protections for older scheme members
- The limits for the maximum and minimum employer contribution to the new scheme (sometimes referred to as the employer "cap and collar")
- The mechanism for varying elements of the scheme design in the future to ensure costs are maintained within the cap and collar values
- Recommendations on best practice in scheme governance (management and control) and the engagement of services by pension funds.

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**Q. When will members be able to retire?**

A. The proposal is for benefits to be able to be taken at any age from 55 to 75, with the value of those benefits to be adjusted up or down dependant on how far either side of the Normal Pension Age they are taken.

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**Q. What will Normal Pension Age be?**

A. For the new scheme, this is proposed to be the later of age 65 or State Pension Age. **However, all benefits built up in the current scheme will retain the current Normal Retirement Age of 65.**

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**Q. Will any benefits be protected?**

A. All benefits built up to the date of implementation of the new scheme will be **protected in full**, including the age at which they can be taken and the method of calculation. **The Government has proposed extending protection to members who will be within 10 years of age 65 by April 2012.**

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**Q. What is the employer 'cap and collar'?**

A. The parties to the discussions will come to an agreement on an acceptable maximum and minimum range for future employer contributions. This will apply only to the benefits being built up in the new scheme and will be measured at a national level using data from the notional model fund (which includes data from all the LGPS funds in England and Wales). Individual employer contributions will continue to also contain elements for past service funding deficits and local factors, which may result in an individual employer's total contribution rate falling outside of the range.

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**Q. How will the cost of the scheme be managed within the cap and collar?**

A. A mechanism will be agreed by which elements of the scheme design can be varied in the future to ensure costs are maintained within the cap and collar values. It is proposed that the mechanism is within the scheme and under the control of its stakeholders to ensure the process of reform that we are currently going through should not have to be repeated.

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**Q. What kinds of recommendations on best practice are envisaged?**

A. These are proposed to cover both the potential effect of the cap and collar at individual pension fund level as well as encouraging a greater degree of member involvement, joint working and the effective engagement of services by pension funds.

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**Q. What are the next steps?**

A. A **project team** consisting of unions, the Local Government Association (LGA) and the Department for communities and Local Government (DCLG) will meet weekly to work up costed options and make recommendations to a **project board** (again with representatives from the same bodies) which will meet fortnightly. The aim is to reach an agreement which each party to the process can put to their respective memberships in good time for final proposals to be accepted by the Government in April 2012, so that drafting of new scheme regulations can commence - see Proposed Pension Reform Bulletin No.5 on the Pension Services website for further details.

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