

**ROTHERHAM BOROUGH COUNCIL**

**REPORT TO CABINET**

<b>1.</b>	<b>Meeting:</b>	<b>Cabinet</b>
<b>2.</b>	<b>Date:</b>	<b>18<sup>th</sup> July 2012</b>
<b>3.</b>	<b>Title:</b>	<b>Local Government Pension Scheme Changes</b>
<b>4.</b>	<b>Directorate:</b>	<b>Resources</b>

**5. Summary**

This report highlights the recently published proposals to change the Local Government Pension Scheme from April 2014 and seeks to confirm the Council views on these proposals.

In addition this report also seeks permission to apply for a temporary deferment of the provisions detailed in the Pensions Act 2011, where legislation sets out that employers must provide for Automatic Enrolment of their eligible employees into a qualifying pension scheme from a published 'staging date'.

**6. Recommendation**

**That Cabinet support the proposals in respect of the new LGPS from April 2014.**

**Cabinet give permission to apply to defer the automatic enrolment for eligible employees beyond the staging date originally outlined for Council's of our size.**

**To further note that the auto-enrolment compliance affects the Teacher's Pension Scheme but it is not yet clear if some short term deferment may be possible in respect of this scheme.**

## **7. Proposals and Details**

### **7.1 Background and Context**

Changes to the Local Government Pension Scheme (LGPS) are not unusual with relatively significant changes being made over recent years in 2006 (Taxation changes), 2008 (tiered contributions & 60ths accrual). As a result of changing demographics, where people are living longer and with the costs of providing pensions increasing, the government has now required that the scheme be required to deliver £900m of savings from the current and future costs of the pension scheme.

The proposals set out in Appendix 1, now being circulated for consultation and recommendation, have been the subject of extensive work including representatives of the recognised Trade Unions. It is proposed that these would come into effect from April 2014, with various protections for employees within 10 years of their normal retirement date as at this April 2012.

In addition the government is introducing measures to ensure that as many employees as possible are covered by an occupational pension scheme. As a result it is proposed that eligible Council employees who are currently not members of the scheme will be automatically enrolled from a determined 'Staging Date' based on employee numbers. In the case of Rotherham this would be 1<sup>st</sup> March 2013. Affected employees could then still elect to 'opt out', but every 3 years Councils will be required to re-enrol them.

There are obviously internal administrative workload issues for both the South Yorkshire Pensions Authority (SYPA) and ourselves in taking payroll deductions and processing entry or withdrawals, but the most significant matter relates to the potential for increased employer contributions associated with this increased membership.

Based on current opt-out numbers there would be a requirement to auto-enrol 2,693 employees into the LGPS at the 1 March 2013 staging date. Given current earnings of those employees and an employer contribution rate of 12% (excluding the usual additional 5.9% costs for historical shortfalls) the potential cost of this auto-enrolment is estimated at over £1.5m pa.

It is expected that many of these employees would immediately opt-out again but the numbers are unknown. Some may decide having reviewed the pension contribution against the benefits of death-in-service, ill health protections, or indeed benefitting from tax thresholds, to elect to remain in the scheme. Overall, there is the potential that the Council could face an increased liability for LGPS pension employer contributions within this current or future financial years.

The legislation allows for a deferment for current optants-out until the end of the transition period. Presently this is October 2016 but the Department for Work and Pensions (DWP) is consulting on whether to allow a further opportunity to extend this period potentially until October 2017.

The deferral process does not require the Pensions Regulator approval but an employer is required to notify the affected employees of the transition delay within one month of the staging date.

Teachers Pension Scheme was not initially providing an opportunity to defer but later notifications are suggesting a short term deferment of 1 year might yet be possible. Further details are awaited.

The South Yorkshire Pensions Authority is recommending employers take the transitional delay option but confirms that this remains an employer decision. Discussions with SYPA have also suggested that a deferred date of 1<sup>st</sup> March 2016 could be the most advantageous date for employers based on impact on Actuary calculations for the next valuation, whilst still reducing the immediate potential cost. This is being considered from a Pensions perspective and advice will be taken into account to enable Councils to make the most advantageous choice.

## **8. Finance**

Note the potential implications for the current and future financial years are outlined in the body of the report. There could be additional system development costs alongside indirect HR Service Centre costs / time spent working on implementing the required administrative requirements that had not been forecast nor planned.

Additional administrative costs may result in respect of administration undertaken on behalf of Doncaster Council for whom Rotherham MBC provide transactional HR & Payroll services under our new shared service operation.

## **9. Risks and Uncertainties**

Concern has been expressed that proposed changes to the LGPS due to take effect from April 2014 and only just published for consultation, may result in greater numbers opting out of the pension scheme.

To not apply the transitional deferment of joining non-members could incur additional administration costs as up to 2,693 employees are enrolled to LGPS on 1 March 2013 plus an immediate cost for increased employer contributions. The potential budget risk is up to a potential worst case scenario of over £1.5m.

As indicated, there are major concerns with respect to the impact of increased pension administration on the Council's Payroll Service especially during this period of migration of the Doncaster Council payroll service. An equivalent deferment of auto-enrolment by Doncaster MBC would help alleviate some of these pressures.

Other payroll providers commissioned by schools would need to be able to cope with the new arrangements. Schools need to be satisfied that their provider would be able to cope with the complexity of this new arrangement.

with further implications for the administration of the auto-enrolment legislation. The proposed deferment until 2016 (2017) or other most advantageous date in consultation with SYPA would ease future administrative pressures.

## **10. Policy and Performance Agenda Implications**

The provision of an attractive pension scheme is a key element of the Council's remuneration package which supports its ability to attract and retain staff.

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6<sup>th</sup> July 2012

APPENDIX 1

## Pensions – New Local Government Pension Scheme Provisions

The Local Government Association (LGA) and trade unions have recently announced the outcome of their negotiations on new Local Government Pension Scheme proposals (for England and Wales) **to take effect from 1 April 2014.**

These proposals will now be communicated to scheme members, employers, funds and other scheme interests. Unions will consult their members over these proposals and the LGA will consult employers. Government has confirmed that a favourable outcome of these consultations will enable them to move directly to a statutory consultation later in the Autumn to implement the proposals.

The main provisions of the proposed Local Government Pension Scheme 2014 are as follows:

**Career Average Re-valued Earnings (CARE)** scheme using CPI as the re-valuation factor (the current scheme is a final salary scheme).

The **accrual rate** would be **1/49<sup>th</sup>** (the current scheme is 1/60<sup>th</sup>).

There would be no normal scheme pension age, instead each member's Normal Pension Age (NPA) would be their **State Pension Age** (the current scheme has an NPA of 65).

Average member contributions to the scheme would be **6.5%** (same as the current scheme) with the rate determined on **actual pay** (the current scheme determines part-time contribution rates on full time equivalent pay).

A table is included below detailing the proposed contribution rates by salary banding.

While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more **progressive scale after tax relief** (see table below).

Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the **50/50** option (the current scheme has no such flexible option).

For current scheme members, **benefits for service prior to 1 April are protected**, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA.

Where scheme members are outsourced they will be able to **stay in the scheme** on first and subsequent transfers (currently this is a choice for the new employer).

South Yorkshire Pensions Authority will be publishing full details of the new scheme proposals on their website and in a newsletter for all current scheme members.

<b>The Proposed LGPS 2014 Contribution Table Actual Annual Pensionable Pay</b>	<b>Gross Contribution</b>
Up to £13,500	5.5%
£13,501 - £21,000	5.8%
£21,001 - £34,000	6.5%
£34,001 - £43,000	6.8%
£43,001 - £60,000	8.5%
£60,001 - £85,000	9.9%
£85,001 - £100,000	10.5%
£100,001 - £150,000	11.4%
More than £150,000	12.5%