

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:			
DATE:	21 JANUARY 2014	REPORT NO:	CFO/014/14
PRESENTING OFFICER	DEPUTY CHIEF EXECUTIVE		
RESPONSIBLE OFFICER:	KIERAN TIMMINS – DEPUTY CHIEF EXECUTIVE	REPORT AUTHOR:	KIERAN TIMMINS
OFFICERS CONSULTED:			
TITLE OF REPORT:	REVISED LOCAL GOVERNMENT PENSION SCHEME 2014		

APPENDICES:	NONE
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Purpose of Report

1. To advise the Authority on the significant changes to the revised Local Government Pension Scheme (LGPS) and to set out proposals to implement the new scheme.

Recommendation

2. It is recommended that Members :-
 - 2.1. Note the changes to the Local Government Pension Scheme (LGPS) brought about by recent legislation.
 - 2.2. Approve the proposals to ensure the scheme is implemented by 1st April 2014

Introduction and Background

3. The LGPS is changing with effect from 1st April 2014. Members may recall that the Government had commissioned Lord Hutton, the former Works and Pensions Minister, to undertake a full review of public sector pensions in 2010 with a view to their continued long term sustainability. The LGPS formed part of that review. Lord Hutton reported upon his recommendations in 2011 and after detailed discussions between Ministers, employers and Trade Unions the fine details of the proposed scheme for 2014 were established and the Regulations to give effect to such have recently been approved by Parliament. These changes will require the payroll provider to amend the payroll system and processes. There are a number of fundamental changes to the Scheme and these are set out below.

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4. This report does not comment on the effectiveness of the changes in meeting the Government's sustainability objectives nor does it comment on the funding of the pension fund. The latter will be taken into account and considered as part of the 2014/15 budget process when details of the Triennial Valuation are available post December 2013. On the subject of costs, however, it is important to note that the new scheme has no impact on past service deficit costs which are managed through deficit reduction strategies agreed by each employing body.

Major Changes from the Current Scheme

5. The main provisions of the LGPS 2014 are as follows:

Career Average

The new Scheme sees the introduction of a Career Average Revalued Earnings (CARE) basis for calculating benefits. This is a significant change from the current final salary based scheme. Alongside this the new scheme features an improved accrual rate of 1/49th of pensionable pay as opposed to the current accrual rate of 1/60th. Despite the improved accrual rate of 1/49th, Government actuaries have determined that the new scheme is broadly cost equivalent to the current final salary scheme due to the use of the Consumer Price Index (CPI) as the revaluation factor.

6. The CARE pension is calculated each year by multiplying pensionable pay by the accrual rate and then revaluing the pension by reference to the CPI to take account of inflation.

Contribution Rates

7. The average member contribution under the new Scheme is set to remain at 6.5% of pensionable pay. However, there are changes to pay bands and some of the rates. Similar to the current scheme, the lowest rate will be 5.5% although the highest rate will now be 12.5%. Pension fund members receive tax relief on their contributions and so the actual rate will be lower as a proportion of gross pay (i.e. the lowest rate would be 4.4% and the highest rate 6.88%). The new contribution rates (along with the current rates) are as follows:

Contribution Pay bands 2013/14 (Current Scheme)	
Full time equivalent salary	Contribution Rate
£0 - £13,700	5.5%
£13,701 - £16,100	5.8%
£16,101 - £20,800	5.9%
£20,801 - £34,700	6.5%
£34,701 - £46,500	6.8%
£46,501 - £87,100	7.2%

£87,100 or more	7.5%
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Contribution Pay bands 2014/15 (LGPS 2014)	
Full time equivalent salary	Contribution Rate
£0 - £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%
£150,001 or more	12.5%

Pensionable Pay

8. Under the new Scheme pensionable pay will include all (with certain exceptions) the salary, wages, fees and other payments paid to the employee and any benefit specified in the employee's contract of employment as being a pensionable emolument. Pensionable pay will therefore now include non-contractual overtime. An employee's pensionable pay does not include any sum which has not had income tax liability determined on it.

Part-Time Staff

9. Under LGPS 2014 contribution rates are determined by reference to actual as opposed to full time equivalent pay which is not the case under the current scheme. This will mean that some part-time workers will pay a lower contribution rate than under the current scheme.

The 50:50 Option

10. LGPS 2014 contains an option for pension fund members to pay 50% of the contributions in return for a 50% pension whilst retaining the full value of other scheme benefits. This is intended to attract non-members on low pay to the scheme and retain members who suffer periods of financial difficulty. The option is not designed to replace long term membership of the full scheme but is intended to provide a short term alternative to those who may be considering opting out of the scheme. However, it is thought that the option may be useful in encouraging younger employees to join the scheme. It should be noted that the employer rate would remain the same regardless of whether they pay full or 50/50 option.

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11. If significant numbers of existing members take up the 50:50 option this would result in a lower employer contribution rate at Scheme valuation. Although an increase in participation by non-members may result in increased cash costs in the short term but these should be mitigated by the resulting impact on overall rates brought about by improvements in membership profile.

Protection of Benefits

12. The new LGPS will start on 1st April 2014 and only membership after that point will be in the new scheme. Employees with membership in the current final salary scheme (LGPS 2008) will retain the link to final salary for all membership built up before 1st April 2014. There will also be additional protection for members within 10 years of age 65 as at 1st April 2012.
13. The provisions for employees retiring on grounds of efficiency or redundancy are the same in the LGPS 2014 as they are in the current scheme i.e. benefits are payable immediately and without reduction subject to being 55 or over.
14. The provisions for ill-health retirement are largely unchanged

Retirement Age

15. Under the new scheme rules an employee's pension age will follow the State Pension Age for the member i.e. a minimum of age 65. Similar to the current scheme, employees can receive a pension at age 55, however, unlike the current scheme rules no employer decision is required; instead pensions will be subject to actuarial reduction (up to 42% for ten years before normal retirement age).

Implementing the changes

16. Payroll officers will adjust the payroll system for the change in employee rates as part of the implementation of the new payroll system. In addition it is expected that once the new LGPS regulations have been finalised payroll software companies will action the relevant amendments to payroll programmes to facilitate the new LGPS pension scheme.
17. A communications plan is being developed to ensure that the Authority engages with stakeholders and staff. It should be noted that there is already considerable advice available for employees regarding the new scheme on the LGPS, LGA and MPF websites. These details have already been shared with staff and placed on the portal. Close liaison will also be maintained with Merseyside Pension Fund throughout the project to ensure consistency of approach and workflow design.

18. The revised Scheme comes into effect on 1st April 2014. Payroll systems and processes will need to be amended and tested before this date. Communications with stakeholders will take place over the coming months.

Equality and Diversity Implications

19. None immediately arising from this report.

Staff Implications

20. All non-uniformed staff affected by changes. Broadly staff will have to work longer and benefits in pension schemes are reduced or varied in some circumstances.

Legal Implications

21. None immediately arising from this report.

Financial Implications & Value for Money

22. The new payroll contract includes provision for the software upgrades associated with the new LGPS scheme. In terms of the impact of the triennial valuation assessment of the current MFRA LGPS scheme any variation to current employer pension rates or movement on the pension deficit position will be reported as part of the 2014/15 budget process.

Risk Management, Health & Safety, and Environmental Implications

23. None immediately arising from this report.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

24. None immediately arising from this report.

BACKGROUND PAPERS

GLOSSARY OF TERMS
