Haringey Council

Report for:	**Corporate Committee 19th Dec. 2011**	**Item number**	

Title:	**Pensions Reform DCLG Consultation Paper**

Report authorised by :	Report of Assistant Chief Executive People and Organisational Development

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Ward(s) affected: N/A	**Report for Key/Non Key Decision:** N/A

1. Describe the issue under consideration

1.1 On 7th October 2011 the Department of Communities & Local Government published a consultation paper on proposals to deliver short-term savings in the LGPS (England & Wales). The targeted savings are £900m per annum by 2014-15 equivalent to an average increase in members contributions of 3.2% (3% for the LGPS)

1.2 To limit the rise in employee contributions in the short-term, while delivering the required savings, the paper proposes reductions in the rate at which the pension builds up. Two options are offered for consideration.

1.3 On 2nd November HM Treasury issued a revised offer on the new scheme design (based on the Hutton Report) due to start in April 2015. Under the Hutton proposals the change from final salary to career average as the basis for calculating benefits and linking retirement age to the State Retirement Age will generate longer term savings to the scheme.

1.4 The DCLG proposals; the HM Treasury offer; a summary of the Hutton proposals are set out in **Appendix 1**).

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1.5 The Council's draft response is to urge withholding an immediate increases in employee contributions and recover cost savings by bringing the reforms proposed by Lord Hutton forward from 2015 to 2014 (**Appendix 2**)

2. Cabinet Member Introduction

N/A

3. Recommendations

3.1 That the draft response to the DCLG consultation paper of 7th October 2011attached as Appendix 2 to this report is approved.

4. Other options considered

4.1 There are serious concerns that at a time of pay restraint and inflation, the proposed increase in contributions could lead to a significant level of opt outs. In addition, the proposed options for a rise in the contribution rate and an interim lower rate of pension build up adds a complexity to the scheme which will make it difficult to understand and thereby lead to further opt outs

4.2 A significant number of opt outs will have the effect of increasing the cost of deficit recovery and could eliminate any cost savings. A serious haemorrhaging of the scheme membership will accelerate the point at which the Fund will experience a negative cash flow. This in turn will have a negative impact on the Council's management of the fund deficit

4.3 The Council's draft response is attached as Appendix 2. It argues for a delay in applying the increase in employee contributions to avert any significant opt out from the scheme. It also proposes that the government brings forward the proposed Hutton Reforms from April 2015 to April 2014.as a means of achieving the required savings.

5. Background information

5.1 The proposed increases in LGPS employee contributions of 3% are to be phased in from April 2012. However the Government has accepted that the funded LGPS can be treated differently to the unfunded public sector schemes and can use alternative ways to deliver the savings.

5.2 Following input from the Local Government Group and the Trade Unions, the DCLG published two main options to deliver the £900m annual savings by 2014-2015. On 2nd November the Government announced an improved offer as a basis for negotiation. This offer is conditional upon a settlement being agreed by the end of the year.

5.3 There is wide spread concern that an increase in employee contributions at a time of continuing wage restraint will provoke a significant number of members into opting out of the LGPS. In addition to the damage to long term employees' retirement planning and life cover, increases in the number of opt-outs would accelerate to the point at which benefit payments exceed contribution income. Reaching this point would restrict Pension Funds' investment policies and could lead to employers having to pay in more to recover the deficit. From the Council's position as both an employing body and the administrator of the Haringey Pension Fund neither of these outcomes is desirable.

5.4 Although the consultation paper refers to the possibility of a reduction in employer contribution rates, the fund actuary has informally advised that any reduction resulting from the consultation proposals is unlikely, given the deterioration of market conditions since the last valuation.

5.5 Option 1 has a phased increase in employee contributions of 1.5% and requires a change from 1/60th to 1/64th at April 2013 and to 1/65th from April 2014 reverting to 1/60th from April 2015. Option 2 has a lower phased contribution increase of 1% from April 2013 and a change from 1/60th to 1/67th at April 2014 reverting to 1/60th at April 2015. The consultation document also mentions the option to increase the retirement age .

5.6 These proposals put additional strain on scheme administrators required to implement short-term scheme changes. There is also an increase in complexity for members which is unhelpful when there is already much concern about the proposed rise in membership cost and extended retirement ages. There is a danger that this additional complexity will act to further disaffect scheme members and increase the number of those deciding to opt-out.

6. Head of Legal Services and Legal Implications

7.1 The statutory consultation being carried out by DCLG is in respect of the Government draft proposals to achieve short term savings of £900m within the LGPS by 2014-15. The recommendations set out in this report must be submitted before the deadline of 6 January 2012.

7.2 Members should note that, subject to the outcome of the consultation exercise, the intention is for the proposed amendments to the scheme's regulatory framework to take effect from 1st April 2012

7. Equalities and Community Cohesion Comments

7.1 The proposed phased increase in contribution rates has protection for employees earning full-time equivalent pay under of £15000 pa. For the fund as a whole this will benefit approximately 6% of the membership. Setting the protection at this level of pay excludes the remaining largely female part-time staff and other workers at the lower end of the pay spectrum from this protection.

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8. Head of Procurement Comments

N/A.

9. Consultation

The Employees Side have been consulted and their comments are attached as Appendix 3 to this report

10. Use of Appendices

Appendix 1 is a summary of the DCLG and HM Treasury offers of 7th October 2011 and 2nd November 2011 respectively together with a summary of the Hutton proposals

Appendix 2 is the Council's draft response to the DCLG Consultation Paper of 7th October 2011

11. Local Government (Access to Information) Act 1985

a. DCLG Consultation Paper 7th October 2011
b. Hymans Robertson Briefing Notes October 2011 and Nov 2011
c. HM Treasury Statement by Chief Secretary to the Treasury 2nd Nov 2011.

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Appendix 1

DCLG Short-term savings proposals (£900 million) (7th October 2011)

__Option 1__ involves:-

- a phased increase in employee contributions (equivalent to 1.5%) (starting in 2012/13) (**Saving £450 million**)
- a change in the current pension accrual rate of 1/60th of final pay for each year of service. This would reduce to 1/64th for service between April 2013 and March 2014, and to 1/65th for each year of service after March 2014[1]. (**Saving £450 million**)

__Option 2__ involves:-

- a phased increase in employee contributions (equivalent to 1.0%) (starting in 2012/13) (£350 million)
- a change in the current pension accrual rate of 1/60th of final pay per year of service. This would reduce to 1/67th per year of service after March 2014[2]. (£600 million)

There is some additional flexibility available around adjusting the retirement date to build in some element of savings.

HM Treasury Proposal 2nd November 2011

Accrual rate changed from 1/65th to 1/60th April 2015

Ten year transitional guarantee protecting benefits for those close to retirement from April 2012

Offer conditional on agreement being reached by the end of 2011.

Hutton Reforms from April 2015

- Retain defined benefit scheme
- Career average revalued earnings (CARE) to replace final salary. Revaluation linked to average earnings increases.
- Existing benefits built up prior to April 2015 to retain link to final salary when benefits taken.
- Benefits to build up at !/60th. This is an increase of 8% on the previously proposed rate of 1/65th. Revaluation linked to Consumer Price Index (CPI)
- Retirement age linked to State Pension Age.
- 10 year transitional protection for those close to retirement.

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[1] I/60th from April 2015

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Appendix 2

Dear Mr Crossely

Local Government Pension Scheme
Consultation on proposed increases to employee contribution rates.

Thank you for your letter of 7th October 2011 inviting the Council to comment on the Government's draft proposals on increased employee contributions rates and changes to scheme accrual rates.

The Council has considered the proposals together with the Chief Secretary to the Treasury's statement of 2nd November and our response is as follows:-

There is a growing concern that any increase in contribution rates from April 2012 will lead to many members opting out of the scheme. Calls coming into the Pensions Team from all grades of employees express concern about increases in pension contributions at a time of pay restraint and consumer inflation. These calls mirror the concerns of other local authorities some of which have reportedly experienced an increase in opt outs from the scheme.

There is the danger that any significant reduction in membership will have serious implications for the financial well being of the fund. Informal advice from the fund actuary is that no saving are likely to emerge, in the short term, from the options being put forward in the consultation paper.

Of the two options put forward to mitigate contribution increases in the LGPS, the Council would favour Option 2. This is the least complex of the two options both for members and administration.

The added complexity of short-term accrual rates for members, linked to the proposed increase in employee contributions rate will further act to encourage opt outs from the scheme. We would therefore urge the government to delay any change to contribution rates for April 2012 and bring forward the New Scheme Reforms from April 2015 to April 2014. This will simplify the transition process to the new pension scheme, ensuring that the scheme membership remains stable and afford the opportunity for fund actuaries to build in change costs when the next round of triennial fund valuations are process in April 2013.

Yours sincerely

Cllr G Meehan
Chair Corporate Committee

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[2] from April 2015

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Appendix 3

UNISON Comments on LGPS Report to Corporate Committee

These comments are solely from UNISON, as I have not had the opportunity at the deadline of clearing them with the other Constituent Unions. However I believe the views expressed reflect their positions and hope by the date of the Corporate Committee to confirm this

We welcome the recognition in the paper that an increase in Employee contributions would be counter productive. Our members have consistently indicated that such an increase would force many of them to leave the scheme. This would have the effects indicated within the Officers paper, however it would also result in increased poverty at pension age and consequent increased demands upon state support. A survey carried out by UNISON and the PCS across members in public sector schemes indicated up to 50% would either opt out or seriously consider doing so in the event of increased contributions. This was particularly prevalent amongst the lower paid.

It is important to note that the tapered protection on increases would have little or no effect in Haringey. This is because the minimum whole time equivalent income in Haringey is £14,940.00 per year (spinal pt 6) so anyone over this spinal point would potentially be required to make additional contributions

It was the proposed increase in contributions, which played a heavy part in all three constituent Unions of Employeeside securing yes votes of in excess of 75% in favour of strike action. It was however not the sole issue as members also had serious concerns at the potential to be required to work longer and to see reduced pensions as a result of amended accrual rates and/or the introduction of the CARE scheme approach.

However we have grave concerns at the proposal that the Hutton recommendations be implemented in full as a way of resolving the situation.

Firstly it should be noted that the LGPS, along with the other Pension Schemes in the public sector. Was only updated as recently as 2006 (effective dated 1st April 2008) It has been the contention of UNISON and other Trade Unions that the changes agreed at that point would have a considerable effect in reducing the ongoing costs of Pension provision. These for example abolished the 85-year rule and brought in a sliding scale of contribution increases as well as changing the way benefits were calculated. It should noted that some of the current short term funding problems in our scheme (which is unique amongst those in the public sector) arise from issues such as the current poor performance of the funds particular in relation to the stock market, the pensions holidays taken in the good years, and the increased demand upon the fund as a result of the need for increased early release caused by government funding cuts.

Secondly the decision of the government to move from RPI to CPI will clearly significantly reduce future pension increases with a subsequent reduction in the financial demands upon the fund.

Hutton's proposals also included the abolition of "Fair Deal for Pensions" the mechanism introduced by the previous Labour government with the intent of protecting public sector workers pensions in the event of outsourcing. The code required the provision of an equivalent pension scheme or admitted body status to the LGPS. The Council previously indicated its support in retention of this approach in a response to a separate consultation on its abolition. We would urge the Council to make clear in its response that it continues to support the retention of Fair Deal.

Hutton proposes the introduction of a CARE scheme. UNISON is not in principle opposed to a move from final salary to CARE but it is clear any such scheme would need adjustments in the accrual rate in order to protect current members of the scheme. For example the Civil Service scheme when it was switched to a CARE model introduced an improved accrual rate to help compensate for the change. There is no indication that Hutton proposes any such change in the accrual rate.

The proposal to link normal retirement age to increases in the State retirement age is of concern. We are particularly concerned since in his autumn statement the Chancellor announced the bringing forward of the increase from 66 to 67 to 2028. We are concerned that in many cases workers who are members of our scheme operate in frontline roles which either require a great deal of manual dexterity or involve high levels of stress. This means requiring them to work into their late 60's which will cause a great deal of difficulties.

We also believe that the Council should make it explicit in its response that changes to the LGPS should be achieved by negotiation not by dictat. The Trade Union side has entered into negotiations in good faith and believes that the message needs to be sent to Ministers that this Council expects no changes to be imposed upon its employees.

Seán Fox Branch Secretary 7th December 2011