

UPDATE ON ISSUES AROUND THE NEW LGPS ENGLAND AND WALES FROM APRIL 2014



The LGPS Regulations 2013 SI No 2356

Came into force 1.4.2014 - It covers benefits and contributions

Transitional Protection Regulations 2014 SI No 525

Came into force 1.4.2014- It covers protections and pre April 2014 service

Regulations will be laid to cover:-

1. Cost management regulations **expected later this year**
2. Governance regulations **expected later this year**
3. New Fair Deal could be either by regulation or direction
 - **response from Treasury say HE and FE are not covered**
 - **Principles of New Fair Deal published by Treasury**

Glyn Jenkins

Head of Pensions

UNISON

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The scheme that was agreed

For service from April 2014 main differences are :-

- | | |
|---------------------------------|--|
| Basic pension | instead of final salary it is Career Average Revalued Earnings (CARE) |
| Better Accrual Rate* | 1/49 th (just over 2%) instead of the previous 1/60 th (just over 1.66%) |
| Revaluation Rate | Consumer Price Index (CPI) used to increase CARE earnings |
| Pensionable Pay | includes non-contractual overtime |
| Contribution Flexibility | Can elect to reduce contributions to 50% and get 50% accrual rate 1/98 th |

*Accrual rate is the fraction or % of earnings used to build up your pension for each year or part year of service

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The scheme that was agreed

For service from April 2014 main differences are :-

Vesting Period

2 years (before April 3 months) Those who return to the LGPS within 5 years can combine their service otherwise they can take a refund of their own contributions.

Higher Normal Retirement Age

Will be State Pension Age instead of 65

Can retire from age 55

Employer consent for those in service at 1 April over the age of 55 no longer required but there are likely to be high early retirement reductions

Benefits earned before the 1 April 2014 remain the same

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FOCUS ON THE TRANSITIONAL PROTECTION REGULATIONS



The salary link on benefits earned before April 2014 is the same as the definition in the 2008 Regulations i.e. 'final salary'

This includes protections if pay goes down for service before April 2014

Someone who has opted out of the LGPS will retain the salary link if they rejoin within 5 years of opting out.

Underpin protection for those who were within 10 years of their normal retirement age in April 2012 contributing to the LGPS at 31.3.2014

Those with Rule of 85 protection will have the same protection as they have now after April 2014.

Note:- if member retires after April 2014 they must take all their benefits at the same time unless the employer agrees to flexible retirement when they will have a choice on whether to draw pension they earned after April 2008.

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Focus on how much members will pay



FROM	TO	Gross Rate	Net after tax relief
	Up to £13,500	5.5%	4.4%
£13,501	£21,000	5.8%	4.64%
£21,001	£34,000	6.5%	5.2%
£34,001	£43,000	6.8%	5.44%
£43,001	£60,000	8.5%	5.10%
£60,001	£85,000	9.9%	5.94%
£85,001	£100,000	10.5%	6.3%
£100,001	£150,000	11.4%	6.84%
More than £150,000		12.5%	6.88%

Part time workers will be put in the contribution band based on their actual pay not their whole time equivalent pay.

For the first time non contractual overtime will count towards deciding which contribution band a member will be put in.

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Focus on how LGPS will be Costed at scheme level from April 2014

The target cost of the **scheme** will be 19.5% of payroll of members who contribute to the scheme.

It is based on the cost of future service only and an average of all the 89 Funds in England and Wales.

It excludes the Funds investment returns and deficits

The employer portion will be 13% the member portion will be 6.5% a fixed ratio of 2 to 1.

If this overall scheme cost goes above or below 19.5% or either the employer or member portion is less or more than 13%/6.5% employer/trade unions will enter into discussions at scheme level that may result in recommendations to change the regulations to alter the rate of employee contributions or change future benefits after consultation.

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The treasury cap and why is the cost of the scheme different to what individual employers pay?

The treasury will set its own employer contribution cap at Scheme level for future service that is likely to be higher than 13% but will be calculated differently.

Neither the 13% employer proportion nor the treasury employer contribution cap, when it is known, will apply to individual funds or employers.

Because it will be based on average figures for all the funds in England and Wales

There will continue to be employers paying significantly more or less than these targets for future service and it will not affect how much employers will be paying on top to pay off their past service deficits.



Focus on New Fair Deal

The first consultation on the principles of New Fair Deal has been published and confirms that in future member's pensions will be protected, with very few exceptions, by the member staying in their public service pension scheme when they are outsourced or the service is retendered.

The principles of New Fair Deal shall also apply to most employers in the LGPS including Local Government

The second consultation is on whether the principles of New Fair Deal will apply to higher and further education.

The union side continue to argue that FE and HE should follow the same principles as Best Value Authorities and that by not being covered by new fair deal this would be contrary to the agreement with government.

It has been confirmed that the principles will apply to academy schools.

Talks are to start shortly with DCLG to see how the regulations need to be changed to introduce NFD principles to the L:GPS



Focus on early retirement

Redundancy retirements (No change)

Providing the member is:-

Made redundant or is retired by the employer on the grounds of 'efficiency' (employer retires the member without having to delete a post) and has attained age 55

Then the member must take an immediate pension based on all their combined LGPS service without the pension earned to the date of leaving being reduced for early payment.

If the member has benefits from a previous LGPS employment that was not combined to the current LGPS service this will not be brought into payment automatically and will be treated as a deferred pension.

If the member is made redundant before attaining the age of 55 then the pension will not come into payment and will be treated as a deferred pension.

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Focus on early retirement



Ill Health Retirements (same formula and definitions continue)

Ill health provision is currently being reviewed by the Benefits and Administration Sub group

UNISON is pushing for tier 3 to be removed and replaced by a life time pension.

Can retire on ill health from any age up to Normal Pension Age

Ill Health provision

Tier 1	Pension earned at date of leaving service enhanced to Normal Retirement Age
Tier 2	Service enhanced by 25% to NRA
Tier 3	Pension earned to date of leaving payable for up to 3 years

A member can be retired by their LGPS employer if a medical advisor, appointed by the employer to consider ill health referrals (but with no other connection with the employer) agrees the member meets the conditions for ill health retirement set out in the Regulations.

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Focus on early retirement Ill Health Retirements

To qualify for an ill health retirement:-

The member has at least 3 months service
(going up to a minimum of 2 years for new starters from April 2014)

The member on the balance of probability is permanently incapable for medical reasons of being able to do the duties of their employment until their Normal Pension Age.

They cannot do gainful employment as defined when they leave

Gainful employment is any employment but for a minimum of 30 hours a week for at least 12 months.



Focus on early retirement

III Health Retirements

. So which tier?

If the medical advisor believes on medical grounds the member is not likely to recover sufficiently to do gainful employment before their normal retirement age it is Tier 1.

If it is likely to be more than three years after leaving but before NRA then it is tier 2

If it is likely to be less than 3 years it is Tier 3

Appeal the decision?

There are full rights of appeal on all decisions.

Those on Tier 3 can ask the decision to be reviewed at any time within the three years the pension is payable to get it upgraded to Tier 2 if the medical evidence supports this.



Focus on early retirement

Under the existing LGPS regulations

a member can ask an employer to agree to their early retirement any time over the age of 55 .

After the age of 60 the member can retire without the employer's consent.

From April 2014

the member can retire any time after the age of 55 without the employer consent

but if they will need to bring their benefits payable under the 1997 and 2008 regulations into payment at the same time, and all the benefits will be liable for an early retirement reduction. The reduction on the 1997 and 2008 regulations will be based on a normal retirement age of 65 and the post April 2014 benefits will be based on the state pension age.

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Focus on early retirement

So effectively the discretion is the other way round

The 2008 Regulations gave the employer the discretion **not** to allow early payment before age 60 but if they do members with benefits protected by the rule of 85 would be covered.

From next April the employer cannot stop early payment after age 55 but if the member goes they suffer early retirement reductions

but the employer does have the discretion to waive early retirement reductions.

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So how much do I lose if I go before my Normal Retirement Age ?

CURRENT FACTORS TO USE AFTER AGE 55

YEARS EARLY	PENSION REDUCTION (%)		Reduction on the cash sum you have to take on service before April 2008
	Males	Females	
1	6	5	3
2	11	11	6
3	16	15	8
4	20	20	11
5	25	24	14
6	29	27	16
7	32	31	19
8	36	34	21
9	39	37	23
10	42	40	26

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So when is my Normal Retirement Date

Most members will have one date for their service before April 2014 and another date for service after that date

Pre April 2014 service

Age 65

Or an earlier date if you retire over age 60 and have Rule of 85 protection

Post April 2014 service

Age 65 or your State Pension Age if later

State Pension age for both men and women will start to increase to reach 66 by October 2020.

Will be 67 between 2034 and 2036

Will be 68 between 2044 and 2046

The Pensions Bill going through Parliament would increase State Pension Age to 67 between 2026 and 2028

Check your SPA:-

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/181343/spa-timetable.pdf

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So how does it work? Example based on current factors

Member retires 1st April 2024 at age 57 with 30 years service

- **14 years service before April 2008. Covered by rule of 85.
reduction is based on 3 years from age 57 to 60
Pension reduced 16% male 15% female. Additional lump sum reduced 8%**
- **6 years service between 1 April 2008 and 31 March 2014
reduction is based on 8 years from age 57 to 65
Pension reduced 36% male 34% female**
- **10 years service from 1 April 2014 to 31 March 2024
reduction is based on 10 years from age 57 to 67 (SPA)
Pension reduced 42% male 40% female**

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Focus on Governance

The Public Service Pensions Act 2013 sets out that every 'Scheme' must have a manager

For the LGPS this will mean every Fund has a manager that is the 'responsible' authority and its pensions committee manages the fund

That every Fund must also have a board with employer and employee representatives in equal numbers.

The board assists the scheme manager

- Secures compliance with the scheme regulations
- Secures compliance with requirements imposed by the Pensions Regulator
- Such other matters as the regulations may specify**

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Focus on Governance

The regulations setting out how LGPS funds are to be managed have not been finalised and may not come into force until April 2015

At one extreme it could mean business as usual for the manager/existing pension committees with a separate board with equal member employer representation simply acting as a watch dog and whistle blowing to the Pensions Regulator if the Board thinks the fund is not complying with the Regulations

Or it could mean the LGPS Regulations require just one body combining the two roles of watch dog and manager so members could have a say in how their fund is managed and money invested

This is the model favoured by UNISON. We are actively seeking members to come forward and be trained

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Want to find out more?

- UNISON is publishing circulars for branches
- UNISON is putting information on the UNISON website
- UNISON is running a one day LGPS course
- UNISON is running a one day course focused on how LGPS funds are run
- UNISON Pension Unit is running pension surgeries for members on request from Branches and Regions



- ❑ Useful website is the Local Government Association :
www.lgpps.gov.uk and for finding out who to contact at your Administering Authority
www.lgpps.org.uk/lge/age/page.do?page.do?pagedd=9925
- ❑ You can also get general information from the pension pages on the Knowledge part of the UNISON pension website
<https://secure.unison.org.uk>
- ❑ Any specific questions on pension options you can take up with your employer's pension department
- ❑ Any problems you can approach your UNISON branch, often via your branch Pension Champion or Pension Rep who will forward it to UNISON Region and UNISON National Pension Unit if necessary
- ❑ To get financial advice for example on how much pension to convert to cash on retirement, you will need to approach an Independent Financial Advisor
- ❑ Queries on State Pension go to the Pension Service

<https://www.gov.uk/contact-pension-service>

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