Havering
LONDON BOROUGH

PENSIONS COMMITTEE 17 December 2013	REPORT

Subject Heading:	The Local Government Pension Scheme Regulations 2014
CMT Lead	Andrew Blake-Herbert
Report Author and contact details:	Contact: Mo Jones Designation: Pension Project Manager Telephone: (01708) 432275 E-mail Address: Karen.balam@havering.gov.uk
Policy context:	LGPS Regulations
Financial summary:	Savings are expected nationally but there are risks to cash flow that may arise, although benefits accruals (liabilities) would be reduced.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report advises Members of a brief overview of the proposed details of the Local Government Pension Scheme (LGPS) 2014 coming in to effect on 1 April 2014

:

RECOMMENDATIONS

1. To note the report and its contents and to be aware of the potential financial impact the scheme detail could have on the Havering fund.
2. To note that some final details of the new scheme are still awaited.
3. To note that a further report will be brought back to the Pensions Committee regarding impact and implications arising when further guidance is released.

REPORT DETAIL

Introduction

1. Following the Hutton report into Public Sector Pensions, the Department for Communities and Local Government (DCLG) working in conjunction with Local Government Association (LGA) and with the support of the unions, have issued an overview of the content of the new Local Government Pension Scheme 2014 which comes in to force on 1 April 2014.

2 Other Public Sector Pension Scheme changes come into force on 1 April 2015, but have had incremental changes to their schemes annually since April 2012. The LGPS has, with the unions support not been subject to these incremental changes following the commitment of all parties to bring the new scheme in a year ahead of other public sector schemes. It was also recognised that as a funded scheme the LGPS was in a different position to the other public sector schemes.

3 The main design of the scheme is as follows:

- To be a Career Average Revalued Earnings (CARE) scheme
- The accrual rate to be 1/49th for the main section
- Each members Normal Pension Age (NPA) to be in line with State Pension Age (SPA)
- New salary bandings to be introduced extending the current 7 bands to 9, with an increase to the % paid for those earning over £43,000 per year
- Employee contributions to be paid on all salary received, which would include additional hours for part timers, and any non contractual overtime for full timers.
- Part time scheme members would also only pay contributions on their actual pay and not the whole time equivalent.
- There is the introduction of a 50:50 section for those members thinking of opting out.
- Retirement benefits for all membership prior to 1 April 2014 are protected, including any remaining “rule of 85” protection.

- Scheme members outsourced under a TUPE arrangement have the right to stay in the LGPS on the first and any subsequent transfers. Currently this is the choice of the new employer.

4 An in-depth detail of the scheme is given in Appendix A, together with an assessment of impact.

5 A comparison between the proposed new scheme and the current scheme is given in Appendix B.

IMPLICATIONS AND RISKS

Financial implications and risks:

The new LGPS is expected to achieve savings nationally although it is difficult to measure the precise impact on individual funds at this stage.

Once implemented there is a risk that some existing scheme members may drop out of the scheme due to the increased level of contribution rates or may opt to reduce contributions under the 50:50 arrangements, in each case these may have a detrimental impact on fund cash flow and performance. The changes to contributions based on actual part time pay rather than the whole time equivalent will also impact on cash flow. The long term impact of these scenarios mean that benefit accrual (liabilities) would be reduced.

These matters will be kept under review and reflected in both the actuarial review and investment strategy review.

Legal implications and risks:

The fund has no choice but to accept the terms of the revised scheme as it is created by secondary legislation. As detailed, the new scheme involves a fundamental change in the nature of the scheme from final salary to career average, albeit that existing rights are protected. Otherwise the immediate implications are all financial.

Human Resources implications and risks:

The LGPS is widely viewed as a valued benefit by Council employees and is often ‘promoted’ by the Council as an incentive to attract new recruits during the recruitment process.

With the end of the ‘Final Salary Scheme’ and further changes that mean the LGPS will cost more employees more, may pay out less following a longer wait there could be a risk that this benefit is no longer viewed as being so attractive both for current employees or new recruits, potentially leading to recruitment and retention issues.

Whilst there are some improvements under the Regulations for part-time employees whereby their contribution rates decrease which may encourage more of these employee to join the scheme, it is impossible to predict the HR impact with any certainty because this will be an individual issue for each employee or future employee.

However, should the changes to the LGPS impact on the Council's ability to recruit and retain employees particularly to key posts or in scarce skill areas, some consideration will need to be given as to what other 'incentives' may be offered.

Equalities implications and risks:

The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member's employer. The benefits package is rarely, if ever, within the control of the Fund to adjust. All eligible employees working for employers in the pension scheme are automatically admitted as a member of the Scheme unless they choose to opt-out. Each employer is responsible for informing the London Borough of Havering of new eligible employees joining the Scheme and those who later decide to leave.

DCLG has published an equality statement, assessing the equality impact of the Local Government Pension Scheme reforms (2014 Scheme) using the current, 2008 Scheme as a baseline. The equality statement considers the impacts, both positive and negative, of the reforms on groups with protected characteristics. This statement is available at: https://www.gov.uk/government/consultations/local-government-pension-scheme-2014.

Appendix C provides a summary of the equality impacts of the key reforms.

BACKGROUND PAPERS

The Local Government Pension Scheme Regulations (various) and the Guidance notes issued with them.

The Public Service Pensions Act 2013

Proposals for a new LGPS design in England and Wales can be viewed at http://www.lgps.org.uk/lge/core/page.do?pageId=15431012.

Appendix A

LOCAL GOVERNMENT PENSION SCHEME (LGPS) 2014

Design of the new scheme

CARE scheme
The way a CARE scheme works is that each years earnings “buy” a sum of pension in accordance with the accrual rate. Quite simply, divide the salary earned by 49 and the result is the amount of pension bought.

The accrual rate
Actuaries seem to think that the accrual rate agreed is fair.

NPA to be in line with State Pension Age
There can be no argument with raising the NPA to SPA if we look at the rising age expectancy rate. Indeed in L B Havering, 22% of the pensioners on our payroll are over the age of 80, 3 of which are over the age of 100, the oldest is 104.
However, there are proposals to allow all pre 2014 benefits to be payable at age 65, with post 2014 benefits payable at SPA. This could add a layer of administration to what is already in place but we won’t know what the final rights are until the regulations are circulated ultimately.

New salary bandings, Employee contributions and Part time members
The new salary bandings, with contributions being deducted on actual pay and not FTE for part timers has shown that the expected employees total contributions into the fund would be £86,000 **less** in year one of the new scheme against the expected final employees contributions for 2013/14, which equates to 1.815% of the current total employees contributions.

With the revised bandings proposed, the tipping point for full time staff paying more into the scheme is an annual salary of around £34,000 as they will be paying 0.3% more per year, which equates to an additional £102.

Earnings above £43,000 move from 6.8% to 8.5% contribution. A member of staff on £43,368 can expect to pay an increase in contributions of £737.26 per year, with members of staff earning between £100, 000 and £150,000 moving from 7.5% to 11.4%, an increase of at least £3,900 per year.

This could see an increase in the higher earners opting out of the LGPS altogether, and the fund could be reliant on those high earners paying the greater amounts in to the fund to offset those paying a lot less. Alternatively, the high earners may take advantage of the new 50:50 section (see further information on this below)
This piece of work is based on the assumptions that the members of the scheme are still exactly the same in 2013/14 and 2014/15 as the current financial year, that

salaries don't increase, and ignoring the effect of "term time" adjustment to the salary bandings, as this was found to be deminimus when looked at closely.

Further more, it is also based on the assumption that the salary bandings as published in July 2013 will not change in April 2014. This may now not necessarily be the case, as it is intimated they could indeed be subject to change for the inception of the new scheme. If the salary band levels themselves were to raise, it is possible initially that more scheme members would fall in to a lower band, even with the re-instatement of annual pay awards. So the total employees contributions paid to the fund may be even less than was estimated in July 2013 when this was originally looked at.

If the bandings were to rise, the method of any such increase is also unknown. The current scheme regulations state that such increases are to be at the same level as the Pension Increase (PI) each year. If this were the case with the new scheme the annual pay award increase is still less than the rise for PI. For example PI for 2013 was 2.2% but pay awards were 1%. PI for 2014 is expected to be 2.7%

It is known however, that going forward once the new scheme is in place, that banding reviews will only take place every 3 years.

Academy schools on the Councils payroll were disregarded for this exercise.

Risk and impact on members opting out of the LGPS -

- The top ten earners in the pension scheme currently contribute a total of £84,500.
- The total contributions payable under the CARE 2014 scheme would be £125,250 for the same top ten earners in the pension scheme.
- The new scheme would generate increased contributions of £40,750 per annum.
- Such a rise in contributions for reduced overall benefits under the new scheme would lead to the risk of top earners leaving the scheme or moving to a 50:50 deduction.

50:50 section

The details around the 50:50 option as stated in the draft regulations, leaves uncertainty to its true value.

There does not appear to be enough clarity around this option. Although stated it is a "temporary reduction in contributions" it does not indicate the maximum amount of time that a member can elect for a 50:50 section. Neither does there appear to be a maximum number of times that a member can elect for a 50:50 section. It does however set out when the members' election is cancelled (when on reduced or no pay due to sickness, or leave without pay).

The administration around this regulation is burdensome and unclear and the assumption that it may be used as a short term option only appears unfounded. There does not appear to be any long term restrictions.

The option may encourage people to join the scheme or keep members in the scheme that would otherwise have opted out, if they keep renewing their 50:50 election.

Employers still have to pay the full employers contribution rate for these members. This could also be seen as a mechanism for retaining “high earners” as active members.

Under the current scheme, the highest contribution rate is 7.8%. In LGPS 2014, this is rising to 12.5% however, in this Borough that is likely to have a minimal impact. The next highest rate is 11.5% and is likely to impact more members. Should those members opt for the 50:50 section, the contribution they would pay reduces to 5.75%, and more significantly for them, the pension they accrue would be ½ of the standard accrual, and so the annual growth would be less. In turn this will impact on whether or not that growth exceeds the HMRC “annual allowance” which in itself attracts a tax charge thus making pension scheme membership less attractive.

So, although the level of administration is likely to increase significantly, this option could result in retaining members that otherwise may decide that pensions are a luxury they just cannot afford.

It is also not clear how many times a scheme member can elect to pay in to the 50:50 section of the scheme and so a member may in theory spend most of their scheme membership in that section, but the employer still has to pay the full employers contribution due. The only effect to benefits is that the pension accrues at ½ the full rate, but that all other benefits maintain the level of paying in to the main section of the scheme. In other words, any death benefits are paid out at full value.

Protection for Retirement benefits prior to 1 April 2014

This is in line with Lord Hutton’s recommendation that what is earned prior to the date of scheme change will not be lost, and is consistent with previous scheme changes. Given that the cost of provision for these benefits has already been catered for with previous valuations, there should be no issue with this regulation.

Scheme members outsourced under a TUPE arrangement

Currently this matter is decided by the new employer asking for admitted body status, subject to the Committees risk requirement. New employers have their own dedicated employers contribution rate. To date, this Council has not refused allowing an employer admitted body status. This allows transferring employers who are already members of the LGPS continuity of membership.

Overall the proposed changes appear to be fair in relation to the scheme. However, whether or not it is viable for the next 25 years is difficult to predict given what history has evidenced in the past.

Appendix B

Local Government Pension Scheme 2014 – Overview December 2012

LGPS

The Local Government Pension Scheme

2014 – OVERVIEW December 2012

This overview sets out the main features of the proposed LGPS 2014 starting from 1 April 2014. This new scheme has resulted from the first phase of the LGPS 2014 Project – a process of negotiation between The Local Government Association (LGA) and the Local Government unions in consultation with the government, and is subject to consultation before it is introduced.

Please note, the information given in this overview may change in the event of the scheme overview changing following consultation.

New scheme from 1 April 2014	Current Scheme
Retirement benefits based on a Career Average Revalued Earnings **(CARE)** scheme for all membership from 1 April 2014	Retirement benefits based on "final salary"
Accrual rate to be 1/49th	Accrual rate – 1/60 for membership from 1 April 2008 1/80 for membership pre 1 April 2008 + an automatic lump sum of 3/80 X membership
Each member's Normal Pension Age (NPA) will be the same as their State Pensions Age	Age 65, or in accordance with any "rule of 85" protection
Salary bandings extended with contributions deducted on all pay received, including part and term timers – *see table overleaf*	Salary bandings but with contributions based on whole time equivalent pay for part and term timers

New scheme from 1 April 2014	**Current Scheme**
50:50 option: for those wishing to be a member of the scheme, but do not wish to pay the full contribution rate, you pay 50% of the contributions and so receive 50% of the pension package, but retain full value of other benefits, such as ill health pension, death in service, and redundancy	No equivalent
Benefits for service prior to 1 April 2014 are protected, including "Rule of 85" protection put in place in 2006. Past service also to be based on Final salary when you eventually retire. Further protections are to be put in place for those members within 10 years of age 65 as at April 2012	“Rule of 85" protection in place at 2006.
Where scheme members are out sourced to a non council contractor under a TUPE arrangement, they will be able to stay in the scheme on the first and any subsequent transfers.	The new employer chooses whether or not to ask for Admitted Body status in the pension scheme

Proposed salary bandings table – based on your Gross pay earned

£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%
more than £150,000	12.5%

At a glance details comparisons of the new and existing scheme, as well as those detailed previously:

New scheme from 1 April 2014	Current Scheme
Pensionable pay to include all non contractual overtime plus additional hours for part time staff	Pensionable pay excludes non-contractual overtime and non pensionable additional hours
commuting (converting) pension to lump sum, at the rate of 1:12 to give additional lump sum. So for every £1 of pension given up, you receive £12 lump sum	commuting (converting) pension to lump sum, = 1:12 to give additional lump sum So for every £1 of pension given up, you receive £12 lump sum
death in service = 3 times pensionable pay	death in service = 3 times pensionable pay
death in service survivor benefits = 1/160 based on Tier 1 ill health pension enhancement	death in service survivor benefits = 1/160 based on Tier 1 ill health pension enhancement
Ill health Provision – 3 Tiers • Tier 1 - immediate payment with service enhancement to Normal Pension Age • Tier 2 - immediate payment with 25% service enhancement to Normal Pension age • Tier 3 – Temporary payment of pension for up to a max of 3 years, no enhancement	Ill health Provision – 3 Tiers • Tier 1 - immediate payment with service enhancement to age 65 • Tier 2 - immediate payment with 25% service enhancement to age 65 • Tier 3 – Temporary payment of pension for up to a max of 3 years, no enhancement
The rate at which benefits increase will be in line with CPI	The rate at which benefits increase is in line with CPI, previously RPI prior to 2011 increases
Vesting period – 2 years membership *This is the minimum time you need to be a member of the scheme to qualify for a retirement benefit. It is also the time limit to have a refund of contributions.*	Vesting period – 3 months membership *This is the minimum time you need to be a member of the scheme to qualify for a retirement benefit. It is also the time limit to have a refund of contributions.*

EXPLANATION OF TERMS

50/50 option	The ability for contributing members of the LGPS 2014 scheme to pay half their employee contribution rate in return for half accrual rate.
Accrual rate	The proportion of Pensionable pay that each year of membership adds to your pension – effectively the speed at which your pension builds up
CARE	Career Average of Revalued Earnings
CPI	Consumer Price Index
Deferred Pension	Pension built up by members who leave before retirement
Final Salary	A type of defined benefit pension scheme in which your pension is largely determined by your salary at retirement
HMRC	Her Majesty's Revenue and Customs (formerly the Inland Revenue)
LGPS 1997	The Local Government Pension Scheme in operation prior to April 2008
Indexation of benefits	The increase applied to pension in payment (and deferment) each year in order to retain its value, - From April 2011, index used is **CPI**
LGPS 2008	The Local Government Pension Scheme in operation from April 2008 to the present time
LGPS 2014	The Local Government Pension Scheme due to be introduced from April 2014
Normal Pension Age (NPA)	The age at which the scheme will pay your benefits without actuarial reduction or enhancement as of right
Pensionable pay	The pay used to calculate employee contributions and benefits
RPI	Retail Prices Index. This is the measure that was used prior to April 2011 for increases to pensions in payment and deferment.
Rule of 85	A provision in the LGPS 1997 that enabled some members with long service who retire below 65 to have their pension unreduced. This has been phased out, but some members have protected service under the transitional protection arrangements made in 2006
State Pension Age	The age at which, based on your date of birth, your state pension becomes payable
Tax relief	Pension contributions are deducted from your earnings before tax is calculated. This is known as pension tax relief

Further and more detailed information on the current and the proposed schemes can be found on the following website: www.yourpension.org.uk

Click on the **LGPS 2014** tab, and then on **Documentation** from the list on the left hand side of the screen. Click on **Scheme Reform explained** for a list of documents.

The following give more detailed explanations of the changes

- Consultation accepted by both employers and members
- Scheme reform at a glance
- Overview
- Career average explained
- Protections for current members
- Contribution rates

Other documents that may be of interest

- Frequently asked questions on scheme reform
- Retirement age
- Worked examples on the new scheme

These documents can also be found on: `www.lgps.org.uk

Appendix C

Local Government Pension Scheme 2014

Equality Statement

Department for Communities and Local Government

Local Government Pension Scheme 2014

Equality Statement

September 2013
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: https://twitter.com/CommunitiesUK

September 2013

ISBN: 978-1-4098-4022-0

Contents

1. Name of Directorate
Department for Communities and Local Government Local Government Finance Workforce, Pay and Pensions Division
2. Please list all the policy streams in your business area.
The Independent Public Service Pensions Commission published its final report on public service pensions in March 2011, setting out 27 recommendations to the Government on reform of public service pensions so that they could be made sustainable, affordable, and fair to both public service workers and the taxpayer. The Commission concluded that change was needed to make public service pensions schemes simpler, more transparent and fairer to those on low and moderate earnings[1]. The Government accepted the Commission's recommendations as a basis for consultation with public service workers, trade unions and others. One outcome of these talks was that there should be scheme level discussions alongside the central process to ensure a fuller understanding of the implications of reform for each individual scheme. As part of these scheme level discussions for the Local Government Pension Scheme, the Government agreed that the Local Government Association and local government trades unions should come forward with a set of high level principles for the reformed Local Government Pension Scheme[2]. Both parties accepted that any agreement should be subject to consultation with, and confirmation by, their respective memberships. In February 2012, the Local Government Association and local government trades unions submitted detailed proposals for the design of a reformed Scheme based on the set of principles agreed earlier. This was followed by extensive and constructive discussions between Government, the Local Government Association and trades unions to ensure that the future service cost of the proposed scheme fell within the agreed 19.5 per cent cost ceiling[3]. Informal consultations took place between June and August 2012 and resulted in overwhelming support. The proposals were supported by 93 per cent of employers; 90 per cent of UNISON members; 95 per cent of GMB members and 84 per cent of Unite members. The majority of other unions with members in the Local Government Pension Scheme also accepted the proposals. Wider public consultations on the various aspects of Scheme design and regulations began in December 2012[4] and are expected to continue until Scheme implementation in April 2014.

[1] A copy of the Independent Public Service Pensions Commission Final Report can be fount at http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm
[2] A copy of the principles paper can be found at http://www.lgps.org.uk/lge/aio/15431141
[3] A copy of the LGPS 2014 - Joint Statement can be found at http://www.lgps.org.uk/lge/aio/19370393
[4] LGPS 2014 consultation documents can be found at https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-government-pensions

3. Identify any policy streams aimed at or impacting upon a Protected Group.

The Department has considered impacts, both positive and negative, of the proposed reforms to the Local Government Pension Scheme on the groups protected by equalities legislation.

These groups, with reference to their protected characteristics, are:

- Age
- Disability
- Gender Reassignment
- Pregnancy and Maternity
- Race
- Religion or belief
- Sexual Orientation
- Gender
- Marriage and Civil Partnership

The reformed Scheme, of which public and private sector employees are members, will affect active members of the current 2008 Scheme and those who choose to become members of the 2014 Scheme in the future. Members who were ten years or less from the Scheme's Normal Pension Age as of 1 April 2012 will be largely unaffected by the reforms (see section on transitional protections).

All pensions in payment or built up before 1 April 2014 will be protected. The changes will not affect those who are currently in receipt of a pension or those who have left the Scheme with a deferred pension.

A summary of the proposed core parameters of the new 2014 Scheme, compared with the existing 2008 Scheme, are set out in **annex A**.

The impact of the Local Government Pension Scheme reforms (2014 Scheme) has been assessed using the current, 2008 Scheme as a baseline. However, the overall value of a pension depends on unique individual factors that are outside the structure of the Scheme itself. These factors include the period of employment, career progression, salary and personal financial decisions. The analysis provided therefore concentrates on the key features and reforms being introduced through the new 2014 Scheme.

This equalities analysis is based on available data, a high level summary of which is set out at **annex B**.

Transitional protections

The Government announced in November 2011 that those closest to retirement will see no change in when they can retire, or any decrease in the amount of pension they receive at their current Normal Pension Age.

Transitional arrangements will mitigate the effect of introducing reforms to the Scheme for older members approaching retirement. These arrangements recognise that pensions are typically a form of long term financial planning for retirement, and that members closer to retirement therefore have a more limited opportunity to make financial and lifestyle changes to lessen the impact of Scheme reforms. To protect those closest to retirement moving into the new 2014 Scheme, all members within 10 years of their normal retirement age as at 1 April 2012 will get a pension at least equal to that which they would have received under the 2008 Scheme.

In addition to transitional arrangements, all members' accrued rights from the 2008 Scheme are protected. This means that any service earned in the current final salary scheme before 1 April 2014 will retain the link to final salary and can be taken at the Normal Pension Age that would have applied under the current 2008 Scheme rules.

As part of these accrued rights, previously agreed protections will also continue. This includes the retirement age provisions for remaining members with the right to take a pension before age 65 without any actuarial reduction applying if they satisfy the rule of 85. This rule requires that at the point of leaving the Scheme, the member's age and service added together total 85.

Age

The Department recognises that only the older Scheme members; within up to ten years of their Normal Retirement Age on 1 April 2014; will benefit from future transitional protections. As set out above, this is because those closest to retirement would otherwise be disproportionately affected by the reforms as they would have less time to adjust their financial plans for retirement.

However, those closer to retirement are also more likely to have accrued a higher level of benefit in the 2008 Scheme and to have a lower retirement age. The transitional protections may therefore enable older members to receive a greater level of pension benefit than younger members.

The Department considers it appropriate that the transitional protections impact differently on members due to their proximity to expected retirement age. As set out above, the approach is necessary to protect those closest to retirement who are less able to respond to Scheme design changes and would otherwise be disproportionately affected by the Scheme reforms. Younger members will not benefit from the transitional arrangements, but have longer before retirement to adapt their long term financial plans.

Other Protected characteristics

The Department does not consider that transitional arrangements would have a differential impact on members of the Scheme due to disability; gender reassignment; pregnancy and maternity; race; religion or belief; gender; sexual orientation or marriage and civil partnership.

Pension age

As life expectancy has increased, so too has the average time that a public service pension is in payment. The Commission's report found that, whilst increases in life expectancy had normally been recognised in future projections, the actual rate of improvement had been consistently underestimated. The Commission therefore concluded that as it was not possible to be confident about longevity in the future, the most effective way of managing the risk of increasing longevity leading to rising costs, would be to link a member's Normal Pension Age to their State Pension Age.

The Normal Pension Age is the age at which members are expected to take their pension. Members can choose to retire before or after their Normal Pension Age, and where they do so, their pension benefits will be adjusted to reflect that. It is also the point at which deferred members of the Scheme can access their benefits.

As set out above, the new 2014 Scheme will link a member's Normal Pension Age to their State Pension Age. This means that if the member's State Pension Age rises, then their Normal Pension Age will also increase for all benefits accrued since the start of the 2014 Scheme.

Members falling outside of the transitional protections are very likely to see an increase in their Normal Pension Age for benefits accrued under the 2014 Scheme, regardless of any protected characteristics. General improvements in longevity across all protected groups mean any impact of the reforms is proportionate as people are living longer.

As people are living longer, the proportion of time spent in retirement has increased. The changes to normal pension age are therefore needed to rebalance the amount of time spent in active employment and the time spent in retirement. Whilst members unprotected by the transitional arrangements will need to work for longer, they will on average, still be able to enjoy a comparable period of time in retirement.

Mitigations are in place in the 2014 Scheme to enable those who do not wish to, or cannot, continue to work into older age. Those who would like to retire at their existing 2008 Scheme Normal Pension Age can take an early actuarially reduced pension. Those who need to retire early, for example on ill health grounds, may be entitled to compensatory provisions in the Scheme.

Gender

Figures from the Office for National Statistics show that mens' average life expectancy is four years less than that of women (78.1 for men compared to 82.1 for women). These figures also predict continuing improvement in life expectancy for both genders, so that for those born in 2035, the cohort life expectancy may be 94.2 for men and 97.2 for women[5].

As women live longer on average, they are more likely to spend a greater period of time in retirement and to receive pension payments for longer, reducing the impact of the increase in Normal Pension Age. However, as trends in life expectancy have historically shown that women live longer than men, the changes brought about as a result of these

[5] http://www.ons.gov.uk/ons/rel/lifetables/period-and-cohort-life-expectancy-tables/2010-based/p-and-c-le.html

reforms will not disproportionately impact one gender more than is currently the case.

Age

Younger members are likely to see a greater increase in their Normal Pension Age compared to older members, although they would continue to accrue pension benefits during that time. However, they are also expected to see a greater increase in life expectancy than those already close to retirement and so will spend a comparable time in retirement. As such, the changes to the Scheme should ensure that all members continue to spend an appropriate balance of time in retirement and at work.

There is no anticipated overall negative impact as younger members are expected to live longer and therefore could continue to accrue pension benefits and spend a comparatively similar time in retirement as current members.

Race

Projections of life expectancy by ethnicity are not available for Scheme membership. The Department for Work and Pensions considered the impact of the increase in State Pension Age to 67 on ethnic minorities in its Impact Assessment, published December 2011, but concluded that robust projections of life expectancy data by ethnicity were not available. On this basis, the Department considers that it cannot reach a view on whether any particular ethnic group will be disproportionately affected by the changes to the Normal Pension Age.

Disability

Data examining life expectancy for members with or without a disability is unavailable for the Scheme. The Department for Work and Pensions also considered the impact of increasing State Pension Age for those who have a disability. It concluded that the disabled could be affected disproportionately in their ability to adjust to change, where they faced greater obstacles in remaining in employment.

However, the 2014 Scheme contains extensive provisions for those needing to retire before the Normal Pension Age on the grounds of ill-health. These provisions are specifically designed to protect members who need to retire early for health reasons, by ensuring that they receive a fair and broadly comparable pension to those able to work until Normal Pension Age. The provisions for ill-health retirement will continue unchanged from the 2008 Scheme. On this basis, the Department considers that whilst members with a disability and not subject to the transitional protections may be disproportionately affected by the increase in Normal Pension Age, the Scheme’s provisions for ill-health retirement should help to mitigate this impact.

Other protected characteristics

The Department does not consider that changing the Normal Pension Age would have a differential impact on members of the Scheme based on their gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marriage and civil partnership.

Career average pension scheme design

As part of it review of public service pensions, the Commission found that higher earners tended to benefit disproportionately from existing final salary schemes, such as the 2008 Scheme. This is because they could see a sudden increase in earnings at the end of a career that greatly increased the overall value of the pension benefits. The Government has therefore decided to address the fairness gap that exists in final salary arrangements between those who have flatter career paths compared with higher earners.

The Commission concluded that scheme design relating to average earnings over the whole of a member's career provided the fairest and most sustainable scheme design. In fact, they found that the lowest paid decile of public service workers could benefit by around 30 per cent under a career average design if working a full career, whereas the top decile of earners could lose around 4 per cent of benefits compared to a final salary scheme.

The 2014 Scheme will therefore move to a career average form of defined benefit. This means that members' benefits will accrue each year in relation to their salary for that period, rather than being determined as a proportion of final salary. Members covered by transitional protections will also accrue pension on a career average basis. However this amount would then be compared with what they would have accrued on a final salary basis and the higher amount awarded.

Gender

As set out above, moving from a final salary scheme to a career average scheme will disadvantage high earners. Within the Local Government Pension Scheme, men represent a marginally higher proportion of those earning higher salaries. For example, 4.6 per cent of Scheme members are men earning more than £35,000, compared to 3.8 per cent for women (although only 25 per cent of all scheme members are men).

However a career average structure is considered to offer the fairest outcome across all groups. Evidence submitted to the Commission suggested that higher earners have a better capacity for self-provision of pension benefits than lower paid workers. Higher earners may therefore have greater capacity to develop additional forms of savings and investment which can be used to supplement their Scheme pension.

In recognising that a career average scheme provides a fairer outcome for all members, the Department considers that the marginal negative impact on men compared to women resulting from the move to career average is proportionate.

Age

As benefits may accrue at a faster rate under the 2014 Scheme, older members who could continue to link their benefits to their final salary might be better off adopting a career average benefits sctructure. To ensure that they are not unfairly impacted by the offer to protect the link to final salary, the transitional arrangements allow members to determine their pension under both mechanisms and take whichever is higher.

As set out in the section on transitional protections, the Department considers that the additional protection afforded to older members of the Scheme is necessary as they have less time to make changes to the long term financial plans for retirement. It also judges that the greater impact on those further from retirement is proportionate, as they will be able to accrue pension for longer at the faster rate under the career average scheme.

Other protected characteristics

The Department does not consider a differential impact of a career average pension scheme design on members of the Scheme based on race, disability, gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or marriage and civil partnership.

Contribution rates

The employee contribution rates, (as set out at annex A), were agreed with the Local Government Association and the local government trades unions as part of the development of the 2014 Scheme. The agreed rates meet a target employee contribution yield of 6.5 per cent, ensuring that the average member contribution to the new 2014 Scheme will be the same as the old 2008 Scheme (6.5 per cent).

Contributions (and benefits) in the new Scheme will be based on actual pensionable pay rather than full-time equivalent pay which is currently used in the 2008 Scheme. This will impact part-time workers whose pensionable pay will no longer be converted into a full-time equivalent figure to determine their contribution rate. As a result, part-time workers may see their contribution rate go down.

In line with other public service pension schemes, the Department considers that high earners should pay a higher rate of contribution towards the cost of the Scheme in order to help ensure the long term viability and affordability of the Scheme from April 2014 onwards. This is also needed in light of the changes to the definition of pensionable pay in order to maintain the average employee contribution rate of 6.5 per cent and protect lower earners. All members earning more than £43,001 and continuing to earn pension benefits will therefore be required to pay a higher contribution rate than is currently the case, regardless of transitional protections or protected characteristics.

These new contribution rates are in line with Government policy to protect, either partially or fully, the contribution level paid by members earning less than £21,000. As 77 per cent of Local Government Pension Scheme members earn £25,000 or less, this inevitably results in a greater burden on middle and high earners.

Gender

The proposed employee contribution rates for the 2014 Scheme will result in increased contributions for those on salaries of £43,001 or more, when compared to the 2008 Scheme. This will have a marginally greater effect on men (see table 6 annex B) as 1.8 per cent of Scheme members earning more than £45,001 are men compared to 1.1 per cent who are women. (A salary of £45,001 has been used as data is not held on membership of the Scheme earning £43,001 or more). However, overall the vast majority of Scheme members of both genders will either pay the same or lower contribution rates.

Recognising the importance of protecting lower paid workers, and noting the very small difference between the number of men and women affected, the Department considers that the relative negative impact of increased contribution rates of the 2014 Scheme on men compared to women is proportionate.

The switch to actual pensionable pay is likely to have a disproportionate positive effect on women who represent 87 per cent of part-time workers in the Local Government Pension Scheme. However the Department considers this proportionate and in line with Government intentions to protect lower paid workers, which will include high numbers of part-time workers.

Age

Increased contributions for higher salaried members would also be less likely to affect younger workers who would have had less time to progress their careers and so more likely to be on lower salaries at this time. However, as the Department has set out transitional arrangements to ensure those closest to retirement are not unfairly disadvantaged by the Scheme reforms, it considers that this marginal benefit for younger members is proportionate.

Other protected characteristics

The Department does not consider a differential impact of increased contribution rates on members of the Scheme based on disability, gender reassignment, pregnancy and maternity, race, religion or belief, sexual orientation or marriage and civil partnership.

50/50 option

The proposed 2014 Scheme has a new option that will allow eligible members to elect to pay half the contribute rate and receive half of the benefit for that period in return. It is intended that this option will require renewal after a limited time and is not designed to replace long term membership of the full Scheme. Participating members will still retain the full value of other ancillary benefits such as the death in service lump sum.

The proposed option is primarily aimed at those who may not be able to afford contributions for a short period of time to encourage continued membership - instead of opting out of the Scheme altogether. Although this is a new option, it is expected that lower paid workers with less disposable income are more likely to make use of this provision.

As this option will be available to all members equally the Department does not consider a differential impact of the proposed 50/50 option on members of the Scheme based on age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sexual orientation, gender or marriage and civil partnership.

Survivor benefits

Survivor benefits will continue to be payable to surviving partners irrespective of gender or marital status. This feature is carried on from the 2008 Scheme to ensure equality between groups.

Councillor pensions

Proposals on access to the Scheme by councillors and other elected office holders are currently under consideration following consultation and will be assessed separately.

4. Who has responsibility for developing these policies?

Chris Megainey, Deputy Director of Workforce Pay and Pensions

Robert Holloway, Reform of Local Government Pension Scheme Team Leader

The policy has been developed in line with broader public service pension scheme policy, on which HMT is the Department with lead policy responsibility.

5. Are there any EU or other statutory regulations that need to be adhered to regarding equalities?

Equality Act 2010 and the Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000.

6. The following summary will be analysed and used as evidence which you considered in demonstrating due regard to the Public Sector Equality Duty. Have you used information from any of the following sources when developing policies?

Throughout the reform process extensive scheme level discussions have been made with external partners. In particular, a Project Board comprising representatives from the Local Government Association, the Department and three of the major local government trades unions: Unite, Unison and the GMB was set up to allow the sector greater input to the design of the Scheme.

Considerable amounts of data has been received and analysed from public statutory consultations on various aspects of scheme design and regulations including:

- Local government pension scheme 2014: draft regulations on membership, contributions and benefits
- Local Government Pension Scheme 2014 and 2008 Scheme amending Regulations
- Local Government Pension Scheme 2014
- Taxpayer-funded pensions for councillors and other elected local office holders

Reports and assessments on various aspects of pension reform have been assessed including:

- Independent Public Service Pensions Commission: Final Report
- HM Treasury. Public Service Pension: central equalities impact analysis
- Diverse Cymru. LGPS 2014 Equality Impact Report
- Pensions Policy Institute. Retirement Income and Assets: the implications for retirement income of Government policies to extend working lives
- Department of Work and Pensions. Long term State Pension sustainability: increasing the State Pension age to 67
- Local Government Pension Scheme 2014 Impact Assessment

Data has been used from various sources including:

- Local Government Pension Scheme Funds Statistical Release
- Local Government Demographics 2010 analysis and research
- Data received for the 2010 National Model Fund valuation
- Office for National Statistics labour force and pension trends data

7. Have you discovered any of the following and as a consequence taken actions on identified equality issues?
The Department does not consider that the common features of the 2014 Scheme will result in any substantial differential impacts to persons with the protected characteristics of gender reassignment; pregnancy and maternity; race; religion or belief; sexual orientation and marriage and civil partnership. Provisions may impact persons differently by virtue of their age; disability and or gender. However the Department does not consider that these impacts are unlawful or disproportionate. All members will continue to receive a high quality pension with a guaranteed payment in retirement regardless. Most members, in return for working longer, will see no reduction in the pension income they receive at the 2014 Scheme Normal Pension Age and many low and middle income earners will receive a better pension than they do now. The Department believes that there remains a strong economic rationale for all members, including all groups protected by equalities legislation, to continue active membership of the Local Government Pension Scheme.
8. When your policies are finally implemented which groups are most likely to benefit?
Older members of the Scheme, lower paid and part-time workers are most likely to benefit from pension scheme reform. As before, the Government considers this proportional.
9. In considering the above information have any gaps in data or equalities information been identified?
The Department has identified some gaps in information on some protected characteristics; in particular: gender reassignment, pregnancy and maternity, religion or belief, sexual orientation and marriage and civil partnership. The Department will keep under review the need for extra data collection.

10. Overall, can you make an assessment of the potential of this policy; programme/service to have a substantial equalities impact on discrimination, fostering good relations or advancing equality of opportunity? Please try to limit your answer here to less than an A4 page.
The proposed reforms to the Local Government Pension Scheme are not expected to have any substantial equalities impact on discrimination, fostering good relations or advancing equality or opportunity.
This analysis was undertaken by Jason Cotton and Robert Holloway
SCS Sign off: Chris Megainey **I have read the available evidence and I am satisfied that this demonstrates compliance, where relevant, with Section 149 of the Equality Act and that due regard has been made to the need to: eliminate unlawful discrimination; advance equality of opportunity; and foster good relations.**
Please keep a record of this analysis for audit purposes and send a copy to errol.barnett@communities.gsi.gov.uk **for his records**

Annex A – LGPS 2014/2008 comparison

	Proposed LGPS 2014	LGPS 2008
Scheme design	Career Average Revalued Earnings (CARE)	Final Salary
Pension age	State Pension Age (minimum 65)	65
Accrual Rate	1/49th	1/60th
Revaluation Rate	Inline with price index - currently Consumer Price Index (CPI)	Based on final salary
Employee Contribution Rate	Tiered contributions in line with salary - average 6.5% (see following table)	Tiered contributions in line with salary - average 6.5% (see following table)
Contribution flexibility	Option to pay 50% contributions for 50% benefit	No
Early/late retirement	55 - 75 on an actuarially neutral basis	55 - 75 on an actuarially neutral basis
Pension in payment adjustment	Inline with a price index - currently CPI	CPI (RPI for pre 2011 increases)
Optional lump sum commutation rate	£12 lump sum for £1 pension	£12 lump sum for £1 pension
Death in service lump sum	3 x pensionable pay	3 x pensionable pay
Death in service surviving partner benefits	1/160th accrual	1/160th accrual
Ill health retirement	Tier 1 – immediate payment with membership enhanced to Normal Pension Age Tier 2 – immediate payment of pension with 25% membership enhancement to Normal Pension Age Tier 3 – temporary payment of pension for up to 3 years	Tier 1 – immediate payment with service enhanced to Normal Pension Age (65) Tier 2 – immediate payment of pension with 25% service enhancement to Normal Pension Age (65) Tier 3 – temporary payment of pension for up to 3 years
Vesting period	2 years	3 months
Transitional protection	Accrued rights protected and past benefits linked to final salary when members leave the scheme - Protection underpin for members aged 57 to 59 - Rule of 85 protection (as in 2008 Scheme)	N/A

Employee contribution rate comparison

Pensionable allowance range	***Contribution rate 2014 Scheme (%)***
Up to £13,500	5.5
£13,501 to £21,000	5.8
£21,001 to £34,000	6.5
£34,001 to £43,000	6.8
£43,001 to £60,000	8.5
£60,001 to £85,000	9.9
£85,001 to £100,000	10.5
£100,001 to £150,000	11.4
£150,001 or more	12.5

Pensionable allowance range	***Contribution rate 2008 Scheme (%)***
Up to £13,500	5.5
£13,501 to £15,800	5.8
£15,801 to £20,400	5.9
£20,401 to £34,000	6.5
£34,001 to £45,500	6.8
£45,501 to £85,300	7.2
£85,301 or more	7.5

Annex B – Local government employees' and Scheme data

Figures from tables 1 to 4 are from the Local Government Demographics 2010 analysis and research. These figures were correlated using the total headcount of 2,244,400. Data is unavailable on the impact of recent restructuring of the local government workforce.

Table 1: Employment distribution by gender and work pattern

	Full-time (%)	Part-time (%)	Total (%)
Male	18	7	25
Female	28	47	75
Total	46	54	100

Table 2: Ethnic group of local government employees

Ethnic group	Percentage
White	91.8
Mixed	1.2
Asian	3.0
Black	3.2
Other	0.8

Table 3: Age profiles of local government employees

Age bands	Percentage
24 and under	5.9
25-34	14.7
35-44	26.7
45-54	31.8
55-64	18.6
65 and over	2.3

Table 4: Breakdown of disability status of local government employees

Disability status	Percentage
DDA disabled and work-limiting disabled	5.7
DDA disabled	7.3
Work-limiting disabled only	2.7
Not disabled	84.3

*DDA (Disability Discrimination Act)

Tables 5 and 6 show distribution of Local Government Pension Scheme actives as on 31 March 2010 (based on data received for the 2010 National Model Fund valuation) from the Government Actuary's Department.

Table 5: Age profiles of members of the Local Government Pension Scheme

Age Band	Proportion of Males (%)	Proportion of Females (%)	Total (%)
18-24	1.2	2.1	3.3
25-34	4.4	10.3	14.7
35-44	6.2	20.5	26.7
45-54	8.7	25.9	34.6
55-64	7.1	13.6	20.7
Total (5)	27.6	72.4	100

Table 6: Salary groups of members of the Local Government Pension Scheme

Salary group (£)	Proportion of Males (%)	Proportion of Females (%)
Up to 5,000	1.6	14.7
5,000-15,000	3.5	26.0
15,001-25,000	11.4	19.5
25,001-35,000	6.8	8.1
35,001-45,000	2.8	2.7
45,001-55,000	0.9	0.7
55,001-65,000	0.4	0.2
65,001-75,000	0.2	0.1
75,001-100,000	0.2	0.1
100 000+	0.1	0.0
Total	27.9	72.1