

HAMPSHIRE COUNTY COUNCIL

Information Report

Panel:	Pension Fund
Date:	15 June 2012
Title:	Issues affecting the LGPS
Reference:	4038
Report From:	Nick Weaver – Head of Pensions Services

Contact name: Nick Weaver

Tel: 01962 847584

Email: nick.weaver@hants.gov.uk

1. Summary

1.1. The purpose of this paper is to update the Panel on the current issues affecting LGPS administration.

2. Reform of the LGPS

2.1. In December 2011, a heads of agreement document, setting out the broad principles for the reform of the LGPS, was issued by the LGA, government and local government unions.

2.2. One of the key features of this document was that there would be a single solution to both short and long term issues raised in the Hutton Report, achieved by the introduction of the new LGPS scheme by April 2014, rather than 2015. This negates the need for scheme changes, particularly increases in employee contribution rates, in advance of this date.

2.3. Proposals for the new scheme design were released on 31 May 2012. The key features of the proposed 2014 scheme are:

- a Career Average Revalued Earnings (CARE) scheme (currently final salary)
- an accrual rate of 1/49th (currently 1/60th)
- pension age matched to an individual's state pension age (currently 65 for all members)
- average member contributions of 6.5%, but those earning above £43,000 will pay between 8.5% and 12.5% (currently the highest rate is 7.5%)
- an option to pay 50% less contributions in return for 50% pension benefits (expected to be taken up by those considering opting out for a short period)
- protection for benefits accrued to 31 March 2014 and full protection for members who were within 10 years of age 65 in April 2012.

- 2.4. The next stage of the project is for unions and the LGA to consult members and employers on the proposals. If the outcome of these discussions is favourable then it is anticipated that the Government will move to a statutory consultation on the regulations later in the Autumn.
- 2.5. Employer contributions will continue to be set with reference to the triennial valuation. However future scheme costs will be monitored and controlled to ensure stability and affordability of the new scheme. Further details on cost management and scheme governance will be released at a later date.
- 2.6. Pensions Services will alert members and employers to the release of these proposals and signpost the LGA website which contains full details of the 2014 LGPS reform project.

3. Annual allowance

- 3.1. HM Revenue and Customs (HMRC) introduced a change to the pension tax regime with effect from 6 April 2011, reducing the annual allowance (the amount a pension can increase each year without incurring tax charges) from £255,000 to £50,000.
- 3.2. As more members are affected by this lower limit, HMRC have introduced a requirement for annual allowance information to be provided each year to members, which will be achieved by inclusion of the figure on annual benefit statements.
- 3.3. Employers have provided historic AVC contribution information to Pensions Services as part of their end of year returns, so that the full amount of annual allowance used each year by LGPS pensions can be calculated through the pension administration system.
- 3.4. Members who exceed the annual allowance, can use unused allowances from the preceding three years to offset the chargeable amount. Members with a tax charge greater than £2,000 can ask for the scheme to pay the tax over to HMRC on their behalf, in exchange for a reduction in their pension benefits.
- 3.5. There are a few members known to have exceeded the annual allowance in 2011/12 who are likely to take this 'scheme pays' option. These members are currently taking independent financial advice on their options.
- 3.6. From 6 April 2012, the lifetime allowance was reduced from £1.8m to £1.5m. Those whose pensions exceeded £1.8m at 5 April 2012 were entitled to apply for protection against this reduction.

4. Automatic enrolment

- 4.1. Under the Pensions Bill 2011, all employers will be obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years. The implementation of this requirement is being rolled out from October 2012 over a period of years, starting with the largest employers (according to PAYE references).
- 4.2. Changes to LGPS regulations will be made so that the LGPS becomes a qualifying scheme under the automatic enrolment (AE) regulations, and can be used as such by Fund employers. Pensions Services will also need to

change some processes in order to comply with the requirements and will work with employers to ensure they understand the changes, as well as their own responsibilities under the regulations.

- 4.3. Hampshire County Council's 'staging date' is 1 January 2013, and a project team is currently assessing the changes that will need to be made in order to comply with the regulations. This team is also leading a working group comprising representatives of the unitary and district councils, as well as Police and Fire, who will have staging dates in the following months.
- 4.4. One of the biggest challenges of auto-enrolment is the associated administration for employers, who are required to assess and re-assess their workforce, and provide tailored information at frequent intervals.
- 4.5. The Leader of the County Council and the Director of Corporate Resources have written to the Secretary of State asking that consideration is given to exempting the public sector from the detailed requirements of auto-enrolment; instead all employees would simply be put into the LGPS and re-enrolled every three years. This approach would deliver the same outcome as intended by AE regulations, but would minimise the administrative burden on public sector employers.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact

