Coventry City Council

8.2.4

Public report
Cabinet Report

Cabinet — 29th November 2011
Council — 6th December 2011

Name of Cabinet Member:
Cabinet Member (Strategic Finance and Resources) - Councillor Duggins,

Director Approving Submission of the report:
Director of Customer and Workforce Services
Director of Finance and Legal Services

Ward(s) affected:
None

Title:
Consultation Response: Local Government Pension Scheme

Is this a key decision?
No

Executive Summary:

The Government issued a consultation document on proposed revisions to the Local Government Pension Scheme on 7th October 2011 with a closing date for responding of 6th January 2012. If accepted, the proposals would introduce significant changes to the scheme to the level of pension contributions and the rate at which pension benefits are accrued for thousands of City Council employees. This issue is important to the City Council for several reasons:

Many City Council employees will earn modest pensions upon retirement even within existing superannuation arrangements. If the Council wants to continue to be perceived as a good employer then it should be looking to protect the interests of these employees.

The Local Government Pension Scheme is an important part of the overall remuneration package that the Council is able to offer particularly in those areas where salaries may not be comparable with the private sector. For the Council to continue to attract high quality candidates into the organisation the pension arrangements on offer need to continue to be an attractive component of the overall package.

There is a risk that individuals will perceive that it is no longer worth being a member of the Local Government Pension Scheme. Should there be a high level of opt out from the scheme, this could threaten its future viability.

The City Council is part of the West Midlands Pension Fund and has responsibilities for overseeing the Governance and financial management of the fund. In particular it cannot afford to pay ever increasing employer superannuation contributions and should seek to ensure that a balanced set of measures is on offer to cap the overall cost in the future.

In view of these reasons, it is in the Council's interests to ensure that future pension arrangements are robust, well-balanced, equitable and affordable. The proposed response in this report to the Government's consultation is designed to help achieve such a position.

Recommendations:

Cabinet is recommended to:
Consider the consultation response and propose any changes for consideration by Council.

Council is recommended to:
Approve the consultation response including any changes proposed by Cabinet.

List of Appendices included:
None

Other useful background papers:
None

Has it been or will it be considered by Scrutiny?
No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?
No

Will this report go to Council?
Yes, on 6th December.

Report title: Consultation Response: Local Government Pension Scheme

1. Context (or background)

1.1 The Government issued a consultation document on proposed revisions to the Local Government Pension Scheme (the LGPS) on 7th October 2011 with a closing date for responding of 6th January 2012. The proposals within the consultation document would mean significant changes to the scheme to the level of pension contributions and the rate at which pension benefits are accrued for thousands of City Council employees. This report includes the proposed City Council response, in its capacity as employer.

1.2 The Spending Review 2010 published in October 2010 included planned savings from public sector pensions starting in 2012/13 and building eventually to £1,800 million (£1.8 billion) per annum. Subsequent correspondence involving the Local Government Association (LGA) and HM Treasury indicated that the LGPS element of this was £900 million. The Department for Communities and Local Government issued a paper subsequently showing how increases to LGPS employee contributions averaging 3.2% could potentially achieve these savings. Council approved a formal response opposing this specific proposal on March 22nd 2011 on the basis that it threatened the viability of the scheme and was inequitable for staff.

1.3 At about the same time as this, the Independent Public Service Pensions Commission – otherwise known as the Hutton Review – published its final report in March 2011. The report made recommendations for the whole of the public sector that provided the broad means through which the Spending review savings might be achieved. The headline proposals included moving towards career average schemes, linking schemes to state pension age, setting a clear cost ceiling to schemes (with a clear risk of future increases to employee contributions and lower benefit accruals) and using the Consumer Prices Index rather than the Retail Prices Index as the measure of inflation (decreasing the value of benefits paid - a measure that has already been implemented). Hutton stopped short of recommending specific increases in employee pension contributions or specific reductions in pension accrual rates.

1.4 The Government made a subsequent announcement in July 2011 that was headlined by a proposed 3.2% average increase in employee contributions weighted towards higher earners. In response to this the Local Government Group made a counter proposal that recommended a mix of employee contribution increases and lower accrual (pension benefit) rates. Discussions between the Government and the Trades Unions followed without a successful conclusion and the unions proposed day of strike action across the public sector set for 30th November. The consultation paper that is the subject of this report was issued on 7th October.

1.5 In summary, the consultation document outlined two potential options designed to achieve overall savings of £900m. Both options included proposals to increase employee pension contributions and reduce the rate at which pension benefits are accrued (which would require individuals to work longer than previously to earn the same level of pension). Option 1 provided for a 50:50 weighting between the saving achieved from contributions and benefits, Option 2 was weighted one-third contributions, two-thirds accrual rates.

1.6 On November 2nd, the Government made a set of revised proposals. The proposals as they apply to LGPS employees are summarised below:

- Protection of pensions benefits already earned including benefits linked to final salary when employees leave the scheme;
- For those, as of 1 April 2012, have ten years or less to their current pension age, the Government's objective is that they will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age.
- Index-linked pension benefits on retirement;
- An accrual rate of 1/60ths and earnings indexation for benefits while still working in the public service;
- Choice about when to retire with fair adjustments to the pension for those retiring earlier or later than the State Pension Age.
- Employees to pay more towards their pensions
- The future retirement age set within schemes is to be linked with state retirement ages.

1.7 It is fair to say that the overall volume of proposals and counter proposals over the past year have made it difficult to make sense of what is already a complex subject. In particular it would appear (but it is not clear) that the government announcement on November 2nd summarised above supersedes the formal consultation document that was issued less than a month earlier.

1.8 Current expectations are that changes to the local government scheme are likely to be implemented in two stages. Developments arising from the proposals above that are agreed or decided upon in the near future will be implemented in the first stage. Other changes will be considered at a later date, probably 2015, including moving from a final salary scheme to a career average scheme. Such a proposal is not part of the current response.

1.9 The continued fast pace of developments at a national level in recent weeks have increased the risk that these events overtake the contents of this report in a short space of time. In addition, there is likely to be some complexity involved in administering some of the proposed changes for employer and pension authorities that have not yet been fully understood. In the case of the West Midlands Pension Scheme, Wolverhampton Council undertakes the administering authority role on Coventry's behalf. The proposals in this report address the consultation questions and also try to take into account the main developments that have occurred since the consultation was issued.

2. Options considered and recommended proposal

2.1 The options for this report are to accept the proposed response in full, to accept the response plus any proposed amendments or to not send a response. The recommended proposal is to approve the proposed response in full.

2.2 The consultation document contains two broad options and is attached in full as an Appendix. The headline proposals in are as follows:

Option 1 would achieve cost reductions of £450m (1.5% of pensionable pay) each from increased employee contributions from April 2012 and reduced accrual rates from April 2013. This proposal would mean:

- No contribution increase for those earning under £15,000

- Tiered contribution increases of between 1.2% for lower earners and up to 5% for the highest earners introduced in stages over three years from 1st April 2012
- An employee earning £25,000 paying an additional £30 per month by 2014/15
- Accrual rates reduced from 1/60 to 1/64 by April 2013 and 1/65 with effect from April 2014

Option 2 would achieve cost reductions of £300m (1% of pensionable pay) from increased employee contributions from April 2012 and £600m (2% of pensionable pay) from reduced accrual rates from April 2013. This proposal would mean:

- No contribution increase for those earning under £15,000
- Tiered contribution increases of between 0.1% for lower earners and up to 5% for the highest earners introduced in stages over three years from 1st April 2012
- An employee earning £25,000 paying an additional £17 per month by 2014/15
- Accrual rates reduced from 1/60 to 1/67 by April 2014

The proposals have been made on the basis that all existing accrued pension benefits are protected.

2.3 The consultation includes five questions in total.

Question 1 – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

There is no clarity available on the calculation of the £900m pa saving that the Government says is the share of the overall savings form public sector pensions that is attributable to local government. The City Council therefore does not accept the basis of the policy or the objectives in relation to the proposed changes to the LGPS.

The Council's view is that the focus purely on employee contributions and accrual rates in the consultation document is too narrow. The broad range of proposals on offer within the subsequent Government announcement on 2nd November appears to cover every aspect of pensions' provision. The Council would encourage the Government and Trades Unions to continue to include all of these in arriving at a robust set of proposals.

The Hutton Report discussed the desirability of public service employees continuing to have access to good quality pensions. There is a significant risk within the current proposals that the sudden increases in pension contributions will cause many employees to opt-out thus reducing the overall access to a good quality pension scheme.

Question 2 – Are there any consequences or aspects of the proposals that have not been fully addressed?

There has been a presumption throughout 2011 that the LGPS must meet a savings figure of £900m. However, no clear explanation has ever been given as to how this figure has been calculated and it appears to be a very high % of the overall public sector savings target of £1,800m. Without this explanation there is a concern that the LGPS is being faced with an iniquitous share of the burden in relation to pension reform despite the fact that, as a funded scheme, there is no expectation that central government will have to pay any cost of pensions for local government employees.

None of the discussion around this issue has dealt adequately with how the Government's proposed changes to the Local Government Pension Scheme will deliver savings envisaged within the Spending Review 2010. For instance there is no automatic link between higher employee contributions and how this affects employer contributions and government funding of local authorities. A comprehensive and definitive statement on these matters is essential to allow Local Government to make a proper assessment of the total package of proposals.

The Council foresees that there may be significant administrative, communication and ICT system challenges for both employer and pension authorities in implementing the range of proposals currently on offer. These will need to be resolved before the changes can be implemented and there must be real doubt as to whether this can be achieved within the deadlines being proposed currently.

Upon retirement, many LGPS members are in receipt of very low pensions. These proposals may lead to mass opt out form LGPs and will also reduce the real value of pensions. This could increase costs to the public sector by making former employees dependant on the state rather than meeting their living expenses form their occupational pensions. There is no quantification or discussion of this significant risk in the proposals.

Question 3 – Is there a tariff (contribution rate) or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

As referenced in the answer to Question 1, the consultation has focussed too much on pension tariffs. The Council considers that the broader range of proposals now on offer following 2nd November as an approved approach is a better way to reduce the rate of opt-outs from the scheme. Despite this, the Council's view is that there will be a significant challenge in ensuring that such opt-outs do not occur on a significant scale and it calls for a concerted joint effort from employers, Government and Trades Unions to communicate the continued high quality of the scheme on offer.

Question 4 - Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

The Council strongly supports the proposed approach to protect those on lower salaries and those nearing retirement. These efforts can be justified as reasonable adjustments to the new scheme proposals against what might otherwise have been inequitable impacts of the proposed pension changes.

Because many local government employees are women or staff in low paid part time employment the proposals are disproportionately damaging to these groups.

Local Government workers like many in the public sector are suffering from a pay freeze at a period of high inflation that is eroding their real pay. This will continue if as proposed by government the pay freeze continues in 2012/13. The combination of the pay freeze and the scale and speed of the proposed changes to LGPS, on top of the significant cutbacks to Local Government spending arising form the Spending Review, mean that Local Government is contributing disproportionately and unfairly to the reduction of the public sector deficit.

Question 5 - Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton’s report.

The Council recognises the long-term demographic trends that have prompted the need to re-assess the state pension age but views it important to take account of the fact that that future increases in the retirement age will be difficult to come to terms with for many individuals and in some specific professions. Nevertheless, the Council accepts that on the grounds of equity, there is a strong case for aligning the state pension age and those of public sector pension schemes.

The Council strongly agrees with the approach in the government's announcement on 2nd November that those with ten years or less to retirement age should see no change in when they can retire, or any decrease in the amount of pension they receive at their current Normal Pension Age. It also agrees with the 2nd November proposal to allow choice about when to retire with fair adjustments to the pension for those retiring earlier or later than the State Pension Age.

Other Comments
Although there has been a considerable amount of attention to these matters over the past 12 months, it is disappointing that this issue remains shrouded in uncertainty and confusion. It is clear that even pension fund administrators and actuaries remain unable to understand fully the interaction between the options on offer and their likely impact on local government pension and budgeting arrangements. To enable the Council and its pension fund administrators to make a proper analysis of these matters requires a clear and unequivocal statement by the Government of the proposed changes and their impact.

3. Results of consultation undertaken

3.1 The Council has shared the proposed response in this report with the Trades Unions.

4. Timetable for implementing this decision

4.1 The consultation response needs to be submitted by 6th January.

5. Comments from Director of Finance and Legal Services

5.1 Financial implications
The key financial implication is in relation to the first point of the response to question 2. It is vital to understand how the final arrangements will affect employer superannuation contributions and whether there will be any compensating adjustments to Formula Grant. There is no clarity on this issue at this stage It is also imperative that there is no detrimental impact to the overall robustness of pension schemes through mass opt outs which represents the most significant threat to the financial viability to the LGPS.

5.2 Legal implications
There are no specific legal implications at this stage. Any final scheme proposals will be backed by legislative changes.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

No specific implications.

6.2 How is risk being managed?

The Council's response attempts to influence any changes in a way that softens the overall impact.

6.3 What is the impact on the organisation?

The key potential impacts result from a reduction in the attractiveness of the Scheme and include the imminent likelihood of strike action, significant opt-out from the LGPS and a reduction in the Council's ability to recruit candidates of sufficient quality for vacant posts in the future. The Council has only a limited ability to influence these pension developments and it is too early to say at this stage to what degree the longer-term impacts will materialise.

6.4 Equalities / EIA

The Council's duty under section 149 of the Equality Act 2010 is not affected by the response to this consultation

6.5 Implications for (or impact on) the environment

None.

6.6 Implications for partner organisations?

Some of the Council's partner organisations are members of the LGPS and have employees who are in the scheme. They will face similar issues to the Council.

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This report is published on the council's website:
www.coventry.gov.uk/councilmeetings

Communities and Local Government

www.communities.gov.uk
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To Local Government Pension Scheme interests in England and Wales (see list below)

7 October 2011

Dear Colleagues,

Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 (SI 2007/1166) (as amended)

Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended)

Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012 in England and Wales

Introduction

1.1 With ministers' agreement, this consultation paper sets out the Government's draft proposals to achieve short term savings of £900m within the Local Government Pension Scheme ('LGPS') by 2014-15, equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes.

1.2 This consultation exercise marks the start of the formal statutory consultation process for proposed amendments to the LGPS Regulations (mentioned above), as required by section 7(5) of the Superannuation Act 1972.

1.3 Your comments are now invited on the proposed amendments, described in paragraphs 4.1 to 4.5 and Annex A, and should be sent preferably by email to Richard.mcdonagh@communities.gsi.gov.uk

Alternatively, postal responses may be sent to:

The LGPS Pension Team
5/G6,
Department for Communities and Local Government
Eland House,
Bressenden Place
London SW1E 5DU

1.4 **The closing date for responses is 6 January 2012**.

1.5 The intention is that the proposed amendments to the scheme's regulatory framework will take effect from 1 April 2012, subject to the outcome of this consultation exercise.

1.6 Consultees are reminded that the proposed amendments, and any others brought forward, will continue to be discussed at forthcoming meetings of the Policy Review Group, and at other meetings being arranged by the Department with LGPS business partners within the statutory consultation period.

1.7 The details of the possible amendments to the existing LGPS regulatory framework are explained in paragraphs 4.1 to 4.8.

Policy context

2.1 In June 2010 the Government commissioned former Work and Pensions Secretary, Lord Hutton, to chair the Independent Public Service Pensions Commission's review into the long term future of public service pensions. In his final report Lord Hutton set out his recommendations on how these can be made sustainable and affordable in the long-term, whilst at the same time being fair to both public sector workers and the taxpayer. Lord Hutton concluded that reform was needed.

The Government accepted his recommendations as a basis for consultation with public sector workers, trade unions and other interested parties about the need for long term reform. The Government intends to introduce changes from 2015 and has confirmed that all pension benefits earned up that point will be protected. The reforms will ensure that all public service pensions, including the LGPS, will continue to be amongst the best pensions available. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Delivery of short term savings

3.1 Before making his recommendations for wider reform, Lord Hutton published his interim report. This recommended that if the Government wished to make short term savings to meet current cost pressures, then raising contribution rates would be the most effective way to achieve that objective. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

3.2 Lord Hutton set out the following rationale for increasing member contributions to public service pension schemes:

a. people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people's lives are now being spent in retirement – between 40 per cent to 45 per cent of adult life compared with around 30 per cent for pensioners in the 1950s

b. as people are living longer in retirement, the cost of providing pensions is increasing; annual expenditure on public service pensions over the last decade has increased by a third to £32bn. And in the case of the LGPS, expenditure on benefits has increased from £1.8bn to £6bn since 1997

c. taxpayers can't be expected to bear all the cost of increased longevity. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

3.3 At the Spending Review, the Chancellor acted upon the rationale Lord Hutton set out by announcing that employee contributions would be increased by an average of 3.2 percentage points in the unfunded public service pension schemes. This will make savings of £2.8bn a year by 2014-15, to be phased in from April 2012.

3.4 The Chief Secretary to the Treasury's statement to the House on 19 July 2011 confirmed that the unfunded schemes would begin formal consultations on the proposed increases in employee contribution rates for 2012-13. In recognition of the funded nature of the LGPS, the Government accepted that separate discussions should take place to see whether alternative ways to deliver some or all of the savings could be found. The equivalent savings in the LGPS are £900m in England and Wales. The Chief Secretary to the Treasury's statement can be found at www.hm-treasury.gov.uk/press_83_11.htm

3.5 On 20 July, the Secretary of State for Communities and Local Government wrote to Sir Merrick Cockell, Chair of the Local Government Group, inviting him to discuss with the local authority trades unions a package of measures to secure the required short-term savings of £900m by 2014-15. The Group was asked to report the outcome of its discussions to the Secretary of State by 9 September.

3.6 Neither the Local Government Group nor the local authority trades unions were in a position to submit proposals as requested by 9 September. Subsequently, on 21 September, the Local Government Group wrote to the Secretary of State with their proposals to achieve the savings requested These are summarised at paragraph 4.7 and a full copy attached at Annex **B** and related costings are at Annex **C.**

3.7 The Local Government Group's proposals can be considered fully within the statutory consultation framework. If discussions between the Local Government Group and local authority trades unions continue, and any other proposals eventually come forward, either separately or jointly, these can also feed into the statutory consultation process alongside any other comments or proposals submitted by other consultees. The Scheme's Policy Review Group provides an expert forum for analysis and discussion to take place. The Government would welcome this discussion continuing and will fully explore any new proposals that are put forward.

Parameters for member contribution increases

3.8 The Government believes that any proposed increases in contribution rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

3.9 These parameters, outlined below, are reflected in the tariffs being proposed in this consultation document. All references are to full time equivalent salaries:

- there should be no increase in employee contributions for those earning less than £15,000

- there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis; and

- high earners in the LGPS should pay progressively more than those in lower salary bands more, but no more than 6 percentage points (before tax relief) more

Proposals for the Local Government Pension Scheme

4.1 For the LGPS in England and Wales, ministers believe there is an opportunity to consider a broad range of measures to secure appropriate levels of savings for scheme employers. This should enable the Government's priorities in implementing the £900m savings package to be met; protecting the high proportion of low paid, part-time members of the Scheme; and ensuring contribution increases are progressive.

4.3 **Option 1 -** The following approach fully meets the Government's priorities. This is the option on the basis of which we have set the cost ceiling[1] for wider reform of the Local Government Pension Scheme.

Option 1 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements:

i) An increase in the employees' contribution tariff from April 2012, to raise an additional £450m (1.5 per cent of pensionable paybill), and

ii) A change in the scheme's accrual rate from April 2013, to raise an additional £450m (1.5 per cent of pensionable paybill)

A more detailed analysis is shown at Annex A

1 The cost ceilings was set with reference to the scheme specific contribution rates required to provide the benefits for a 'Reference Scheme' design, based on Lord Hutton's recommendations for scheme reform. This will inform discussions at scheme level with local government trade unions. Should the outcome of this consultation process be that member contribution increases are not 1.5 pp, the cost ceiling will be amended appropriately.

4.4 The Government Actuary's Department confirms that the measures described at **Annex A** above can achieve the required savings of £900m by 2014-15.

4.5 **Option 2 -** A variation on that approach involving lower tariff increases, but offset by greater changes in accrual rate, or vice versa, could be chosen. One approach is set out below.

Option 2 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements. It differs from Option 1 due to a lower contribution rate increase which is offset by a greater reduction in the accrual rate: **i) An increase in employees' contribution tariff from April 2012, to raise an additional £300m (1 per cent of pensionable paybill), and** **ii) A change in scheme's accrual rate from April 2014, to raise an additional £600m (2 per cent of pensionable paybill)** A more detailed analysis is shown at Annex A

4.6. **Normal Pension Age:** In his final report, Lord Hutton recommended that the pension age in public sector schemes could be linked to the State Pension Age.

According to the Government Actuary's Department, setting the national pension age of the LGPS at the national State Pension Age would deliver annual savings in the region of £330m if implemented for future service accruals. Measures to achieve the remaining required savings could include a combination of changes to accrual rate and employees' contributions.

4.7 **Local Government Group:** In response to the Secretary of State's invitation of 20 July, the Local Government Group submitted a proposal to secure £900msavings by 2014-15. This consists of an increase to the normal pension age to 66, and a member choice of an increased contribution rate of change in the scheme's accrual rate.

4.8 The Local Government Group's submission (including detailed costings) to the Secretary of State for Communities and Local Government can be found in full in **Annex B** and **C** respectively.

Part time members

4.9 The current scheme regulations require that the appropriate contribution band for part time members is determined by their full time equivalent salary. The amount payable is then based on the individual's actual pay. This will continue to apply. For example, a scheme member currently working part time, doing 50 per cent of full time hours and earning £14,000 will have a full time equivalent salary of £28,000. The rate of 6.5 per cent is therefore applied to the actual earnings of £14,000. It is important to note that although the actual earnings fall within the protection threshold described at para 3.8 above, these protections, like the tariff bands, are based on full time equivalent salaries, in this example, £28,000.

Provision allowing scheme employers to benefit from savings

4.10 The additional income achieved from the scheme amendments following the Spending Review announcement will help to re-balance the costs of public service pension provision between scheme members on the one hand, and employers and taxpayers on the other. In the context of the funded, locally administered LGPS, this is achieved when employers' contributions are reduced as part of the scheme's statutory triennial actuarial valuation process. However, the current regulations do not allow a downward revision of employer contribution rates between three-yearly actuarial valuations.

4.11 To ensure LGPS employers and taxpayers benefit from the savings achieved by the statutory amendments finally introduced, we suggest that it would be necessary to provide a technical amendment, effective from April 2012, that enables scheme-appointed actuaries to vary rates and adjustment certificates both between valuation exercises (i.e. between the 2010 and 2013 valuations), and provide that the accrual rate changes proposed are reflected specifically in the 31 March 2013 valuation exercise to reflect the level of savings produced in scheme employers` contribution rates from April 2014. Views are invited on this particular proposal and how best it might be achieved in regulatory terms.

Summary

5.1 The Government Actuary's Department confirms that the introduction of the measures summarised in paragraphs 4.3 and 4.5 above and described in more detail at **Annex A**, can achieve the required savings of £900m by 2014-15.

Consultation responses

6.1 Consultees' views on the proposals outlined in section 4 are formally sought by 6 January 2012. However, as set out below, those may be subject to modification in response to submissions received from consultees in the course of the consultation period.

Other proposals

6.2 As referred to in paragraph 4.7, the Local Government Group has submitted their proposed package of savings to the Secretary of State. The Department intends to analyse and consider the details of the submission with advisers to the Group within the statutory consultation exercise period.

6.3 Any further alternative proposals which may be submitted should if possible:

- be actuarially costed and verifiable and be clearly explained to provide efficient assessment

- be capable of implementation within the legal powers which govern the regulatory framework of the scheme and

- not take account of the recent changes in indexation from RPI to CPI or the impact of projected workforce reductions which have already been factored into recent LGPS pension fund valuations

6.4 To assist the Department's considerations, consultees who may wish to submit alternative proposals:

- are invited to signal their intention to do so as soon as possible, please, and by **28 October** at the latest and

- are requested, please, to submit any specific costed options by no later than **25 November,** to allow an opportunity for discussion and appraisal

Next steps

7.1 The Department invites consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following questions:

- **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

- **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?

- **Question 3** – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

- **Question 4 -** Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

- **Question 5 -** Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

Use of information

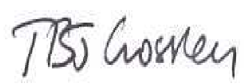
8.1 This consultation will be available for viewing on the LGFPS website at http://www.clg.heywood.co.uk/homepage. A summary of responses will be published within three months of the close of the consultation on this website.

8.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

8.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

8.4 The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Yours sincerely,



T B J CROSSLEY

The consultation is addressed to:

The Chief Executive of:

- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- Bradford Metropolitan City Council
- South Tyneside Metropolitan Borough Council
- Wolverhampton Metropolitan Borough Council
- London Pension Fund Authority
- Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
Audit Commission
National Probation Service for England and Wales
New Towns Pension Fund

Local Government Association (LGA)

Employers' Organisation
LGPC

ALACE
PPMA
SOLACE
CIPFA
ALAMA

Association of Colleges
Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
Society of Welsh Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers
Society of Chief Personnel Officers
Association of Educational Psychologists

NALC
Society of Local Council Clerks

Trades Union Congress
UNISON
NAEIAC
UNITE
UCATT
GMB
NAPO

Equal Opportunities Commission

Annex A: Local Government Pension Scheme in England and Wales

Government's proposals to achieve the required savings of £900m by 2014-15

Design principles

1. The Government believes that any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

2. These parameters, outlined below, are reflected in the tariff proposed in this paper (all references are to full time equivalent salaries):

   - there should be no increase in employee contributions for those earning less than £15,000

   - there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis

   - high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis

3. For the LGPS in England and Wales, ministers believe there is a case to consider a broader range of opportunities to secure appropriate levels of savings for employers within the scheme. The scheme's funded status lends itself to this approach which not only helps to protect the high proportion of low paid, part-time members of the scheme but it assists directly in the Government's objective to minimise opt-outs and contribute to the ongoing viability of the funded LGPS, itself a major policy component of the package given the national significance of LGPS pension funds by value.

Existing tariff

4. The existing levels of employee contributions as currently set out in regulation 3 of the Local Government Pension Scheme (Benefits, Contributions and Membership) regulations 2007 (the Benefits Regulations) are as follows:

£0 - £12,600	5.5%
£12,601 - £14,700	5.8%
£14,701 - £18,900	5.9%
£18,901 - £31,500	6.5%
£31,501 - £42,000	6.8%
£42,001 - £78,700	7.2%
£78,701 +	7.5%

Government proposals for the Local Government Pension Scheme

5. The Government proposes to achieve the required savings of £900m by 2014-15 from a combination of a proportionate increase in the rate of contribution paid by scheme members and a marginal change in the rate at which scheme benefits are accrued. The proportion of each element relative to the required £900m savings would therefore have different impacts on the extent to which scheme members bear additional costs now (increase in the contribution rate) or later, on retirement (change in the accrual rate).

6. Comments are therefore invited on two possible approaches, the first of which achieves most of the savings from the proposed change in accrual rate, thus impacting less on scheme members' disposable income and the second, weighting more of the required savings towards increases in scheme members' contribution with less impact on future accrual under the current scheme.

Approach 1

7. Under this proposal, £450m (equivalent to 1.5 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	2012/2013		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.00%	0.56%	19
£80,000	4.32%	5.22%	0.90%	60

1:Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2013/2014		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.40%	1.20%	25
£40,000	5.44%	6.64%	1.20%	40
£80,000	4.32%	5.52%	1.20%	80

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2014/2015		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.64%	1.44%	30
£40,000	5.44%	6.96%	1.52%	51
£80,000	4.32%	6.00%	1.68%	112

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

8. The balance of £450m in this case would be achieved a by a stepped change in the scheme's accrual rate from the current rate of 1/60ths to 1/64ths with effect from April 2013 and to 1/65ths with effect from April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate from 60ths to 64ths in 2013-14 and to 65ths in 2014-15:

Final pensionable pay (31.03.2015)	1 year of service		
	1/64th	1/65th	% Change
£10,000	£156.25	£153.85	-1.54%
£25,000	£390.63	£384.62	-1.54%
£40,000	£625.00	£615.38	-1.54%
£80,000	£1,250.00	£1.230.77	-1.54%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	64ths and 65ths in last two years	% Change
£10,000	£833.33	£810.10	-2.79%
£25,000	£2,083.33	£2,025.25	-2.79%
£40,000	£3,333.33	£3,240.38	-2.79%
£80,000	£6,666.67	£6,480.77	-2.79%

In the above table, the member accrues 60ths for three years, 64ths for 1 year and 65ths for one year.

A member with final pensionable pay of £40,000 and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 64ths in 2013-14 and to 65ths in 2014-15, then the accrued pension at 31 March 2015 will be around 3 per cent lower at £3,240.38.

9. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£180m	£360m	£450m
Accrual Rate	£0	£360m	£450m
Total	**£180m**	**£720m**	**£900m**

10. In line with the Government's preferred design, the overall savings achieved from the above proposed increases in employees' contribution rates have been phased in over the Spending review period on a ratio of 40:40:20.

Approach 2

11. Under this proposal, £300m of the £900m required savings (equivalent to 1 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	**Current**	**2012/13**	**2013/14**	**2014/15**
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	**2012/2013**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.44%	0.24%	5
£40,000	5.44%	5.68%	0.24%	8
£80,000	4.32%	5.22%	0.90%	60

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2013/2014**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.24%	0.80%	27
£80,000	4.32%	5.28%	0.96%	64

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	**2014/2015**		
Full-time pay	**Contribution rate net of tax relief**[1]	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.00%	0.80%	17
£40,000	5.44%	6.56%	1.12%	37
£80,000	4.32%	5.70%	1.38%	92

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

12. It is proposed that the balance of £600m (equivalent to 2 per cent) would be achieved by a change in the Scheme's accrual rate from the current 1/60th to 1/67th with effect from 1 April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate during the year 2014-15.

Final pensionable pay (31.03.2015)	One year of service		
	1/60th	1/67th	% Change
£10,000	£166.67	£149.25	-10.45%
£25,000	£416.67	£373.13	-10.45%
£40,000	£666.67	£597.01	-10.45%
£80,000	£1,333.33	£1.194.03	-10.45%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	1/67th	% Change
£10,000	£833.33	£815.92	-2.09%
£25,000	£2,083.33	£2,039.80	-2.09%
£40,000	£3,333.33	£3,263.68	-2.09%
£80,000	£6,666.67	£6,527.36	-2.09%

A member with Final Pensionable Pay of £40,000 pa and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 67ths in 2014-15, then the accrued pension at 31 March 2015 will be around 2 per cent lower at £3,263.68 pa.

13. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£95m	£220m	£300m
Accrual Rate	£0	£0m	£600m
Total	**£120m**	**£240m**	**£900m**

Annex B: Local Government Group proposals, 21 September 2011

Local Government Pension Scheme – Proposed increase in employee contributions

As you will be aware, in the public sector Spending Review statement in October 2010 the Government announced its intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). The Government intended that the increases should be introduced progressively over the period 2012-13 to 2014-15. It was subsequently confirmed that the level of increase for members of the Local Government Pension Scheme (LGPS) would be 3.2 per cent, on average.

The Local Government Group made representations to the Government that the funded nature of the LGPS meant that income equivalent to a 3.2 per cent increase could be generated in ways other than wholly via an increase in employee contributions. As a result of those representations the Secretary of State for Communities and Local Government wrote to me on 20 July 2011 asking the Group to enter into discussions with the local government trade unions. This was with a view to establishing a package of measures to secure short term savings by 2014-15, equivalent to a 3.2 per cent increase in employee pension contribution rates, with any necessary legislation to be in place by 1 April 2012. The package could include alternative ways to deliver some or all of the savings, whilst providing protections from contribution increases for the lower paid.

The LG Group has been in discussions with the trade unions since then.

The Secretary of State's letter of 20 July 2011 initially required the Group to provide him with an update on the outcome of the discussions by 9 September but a short extension to this deadline was subsequently allowed. However, despite constructive discussions with the trade unions, it has not so far been possible to reach agreement on a joint proposal to put to the Secretary of State.

I have therefore written to the Secretary of State (on 21 September 2011) setting out the Group's proposals as to how the required 3.2 per cent savings can be achieved in a way which we believe is fair to employees and affordable for the taxpayer (as an alternative to the level of increases in employee contributions that DCLG might otherwise come forward with). The proposals minimise the impact on the lower paid whilst at the same time giving choice to individuals.

The key elements of the Group's proposals are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000

- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65

A full copy of my letter to the Secretary of State is available at http://www.lge.gov.uk/lge/core/page.do?pageId=1 under 'News and features' together with some worked examples of the effect the choice mentioned in the second bullet point above would have on individuals.

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)

- would help the low paid to stay in the scheme and reduce opt out rates

- give employees a choice, which they can exercise in the light of their own personal circumstances

- ensure that those employees earning above the £15,000 threshold who want to keep their current pension accrual rate will have to pay more to retain that accrual rate, and

- reduce the risk of industrial action

We understand that the Secretary of State will issue a statutory consultation document towards the end of September setting out the DCLG proposals for how the 3.2 per cent savings could be met. We would hope that consultation paper will make some reference to the LG Group proposals and it is our intention to continue discussions with the trade unions.

Annex C: Costings submitted with Local Government Proposals, 21 September 2011

1 Data

1.1.1 We have used national salary data to estimate the possible savings. We have assumed a £30bn payroll split as shown below.

	Low er Band	Upper Band	Current Rate	Actual Salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,996,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	plus	7.5%	£730,231,193
Total				£30,000,000,000

1.1.2 This is the best available national data we have and is available in summary form only.

1.1.3 We note that contribution bands have changed but the overall shape of the salary distribution is assumed to remain relevant for this exercise. Any further up to date data becoming available should be used to update the calculations.

1.2 Core element 1 - increasing normal retirement age

1.2.1 Increasing the retirement age for all by one year reduces the ongoing cost of the scheme by about 1 per cent to1.5 per cent of payroll though this will vary by fund. We have assumed that GAD may value this on detailed national data on an average set of fund valuation assumptions and have assumed that 1 per cent of payroll will be saved by adopting this change. This is equivalent to £300m per year on the data shown above.

1.3 Core element 2 - accrual or contribution rate changes

1.3.1 We have therefore considered how we can raise the further £600m being required by HM Treasury.

1.3.2 There are infinite combinations of contribution increases that will provide the £600m provided there are no opt outs, the data remains as estimated above and at this stage we are considering that 60ths accrual remains.

1.3.3 We have shown three examples below. These show the impact and make no allowance for any further options being proposed.

Table 1.3	Lower Band	Upper Band	Current contribution	a) same increase	b) same uplift	c) steeper increase
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	1.9%	1.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%	1.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%	2.0%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.2%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.3%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£605m	£605m

1.3.4 We have assumed that lower paid protection level is set at £15,000 and members with salaries below this level will not be required to increase their contribution levels going forward.

1.3.5 As can be seen, all these options will provide for the required income target. However, there is a higher risk of opt out for higher contribution increases, especially at lower salary levels. We consider that steeper patterns than option c) will effect much higher levels of opt out at higher salary bands, with the possible cascade effect as members follow behaviour patterns of their senior managers or directors.

1.3.6 Option c) also meets the patterns required for other public sector schemes in that a 1.5 per cent limit it set for those with salaries up to £21,000.

1.4 Core element 3 - reduce accrual option

1.4.1 This section shows the possible savings from providing a reduced accrual option.

1.4.2 These savings assume that all members opt for the reduced accrual option.

Table 1.4	Lower Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduce accrual (68ths)	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.4%	2.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.4%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.4%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£675m	£715m

1.4.3 The accrual reduction that provides for £600m will depend upon both how the GAD value the reduced accrual change of the benefits on national detailed data.

1.4.4 It will also depend upon where the lower paid protection limit gets set and the above assumes that this is set at £15,000.

1.5 Core element 3 – the lower paid

1.5.1 The model suggested allows for lower paid members to pay reduced contributions if they choose the lower accrual route. We have used 68th accrual in the following table and assumed that a reduction in contributions of say 60/68 times the current rate would be a fair level of reduction.

Table 1.5	Low er Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduced contributions	Net effect
Band 1	£0	£12,600	5.5%	2.4%	0.6%	1.7%
Band 2	£12,601	£14,700	5.8%	2.4%	0.7%	1.7%
Band 3	£14,701	£18,900	5.9%			
Band 4a	£18,901	£21,000	6.5%			
Band 4b	£21,001	£24,000	6.5%			
Band 4c	£24,001	£31,500	6.5%			
Band 5	£31,501	£42,000	6.8%			
Band 6	£42,001	£78,700	7.2%			
Band 7	£78,700	plus	7.5%			
Total raised				£32m	£10m	£22m

1.5.2 As can be seen above the saving will depend upon how much a reduction in contributions is offered to the lower paid members and how many of the lower paid opt for reducing accrual compared to the status quo.

1.5.3 However, we feel it remains equitable to offer this reduced cost option, setting the possible accrual level at the same level as the higher paid to provide the lower paid with a similar choice.

1.5.4 Any savings made from the above will depend on members choice so should not be included as certain in the total costs.

1.6 Core element 3 – the higher paid

1.6.1 The model suggested that higher paid members will retain their current 60th accrual by paying more into the scheme. However we recognise that this will not be attractive and perhaps unaffordable for some.

1.6.2 In this section therefore we have shown possible reduced accrual options that would provide these members with an alternative allowing their current contribution rates to remain.

1.6.3 We have shown three cases below corresponding to the tables of proposed contribution increase tariffs within section 1.4.

Table 1.6 a	Lower Band	Upper Banc	Current contr bution rate	a) same increase	Reduce accrual (67ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.1%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%
Band 5	£31,501	£42,000	6.8%	2.1%	2.1%
Band 6	£42,001	£78,700	7.2%	2.1%	2.1%
Band 7	£78,700	plus	7.5%	2.1%	2.1%
Total raised				£600m	£600m

Table 1.6 b	Lower Band	Upper Banc	Current contr bution rate	b) same proportionate increase	Reduce accrual (68ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.9%	2.4%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%
Band 5	£31,501	£42,000	6.8%	2.2%	2.4%
Band 6	£42,001	£78,700	7.2%	2.3%	2.4%
Band 7	£78,700	plus	7.5%	2.4%	2.4%
Total raised				£605m	£675m

Table 1.6 c	Lower Band	Upper Banc	Current contr bution rate	c) steeper increase	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.5%	2.5%
Band 4a	£18,901	£21,000	6.5%	1.5%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.0%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.5%	2.5%
Band 5	£31,501	£42,000	6.8%	2.5%	2.5%
Band 6	£42,001	£78,700	7.2%	2.5%	2.5%
Band 7	£78,700	plus	7.5%	2.5%	2.5%
Total raised				£605m	£715m

1.6.4 Of course there is no way of telling which way members will opt and most will need some help and financial advice to make the correct decision but the above shows that we can design a scheme which meets the required target.

1.6.5 As there is a risk of members selecting the option that does not raise sufficient income the accrual rate for a steeper contribution increase pattern than 1.3 c) will mean the accrual that can be offered as an option will become very unattractive.

1.7 Stepping any changes

1.7.1 We understand that stepping any changes over the three year period may be acceptable. Administratively no changes will be very straightforward but stepping changes to the contribution patterns will be possible whereas stepping the reduction in accrual will not be feasible.

1.7.2 A possible spread of increase in step of 20 per cent/40 per cent/40 per cent will defer much of the change until the new scheme takes shape.

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

- Steeper stepping patterns for contributions than we have considered in section 1.3 which incur very high opt out risk, especially at middle to high salary bands. We have rejected this option due to opt out risk at all levels that may cascade throughout the workforce in general.

- Contribution patterns considered like those in section 1.3, which also have the appeal of being more easily phased in over a three year period.

- Contribution patterns with a suitable accrual reduction depending upon the upper contribution bands to ensure the required savings are met. As accrual reduction cannot be phased in it would need to be accepted that this change would only be practical in say year 2014.

1.8.2 Due to administration simplicity and the ability to step the costs it seem that an option like 1.3 c) may be most favourable.

1.8.3 However if options and choice for members are consider a more key factor then 1.6 b) would appear to offer a good solution as the accrual reduction is minimised.

1.8.4 Alternatively, option 1.6 c) meets the contribution increase limits applying to other public sector funds, whereby the increases at lower salary bands are restricted. It also offers flexibility and choice for members, perhaps being an advantage outweighing the simplicity of 1.3c).