Council Meeting – 18 April 2011

Notice of Motion – Local Government Pension Scheme – Proposals to increase employee pension contributions with effect from April 2012

Introduction

The following notice has been submitted from Councillor Cassidy:

(1) This Council notes:

- *That the LGPS is a sustainable, good quality pension scheme that benefits from being funded and locally managed. It is valuable to employers and employees alike. Successive governments have failed to recognise the distinctiveness of the LGPS in setting policy, most notably in the proposal announced by the Chancellor in the last CSR to impose an extra 3.2% contribution tax on scheme members, increasing scheme average member contributions from 6.6.% to 9.8%. This tax does not benefit the scheme or scheme members or employers. This proposal is in addition to pension reductions caused by being indexed against CPI instead of RPI and is in advance of expected benefit reform recommendations from the Hutton Review.*

(2) This Council agrees:

- *An increase in member contributions as proposed will lead to mass opt outs from the LGPS and that would be undesirable and damaging. The views expressed by the LGA in its letter to the Chancellor dated 16 February 2011 on this subject are also the views of this Council.*

(3) This Council resolves to:

- *Write to the Chancellor of the Exchequer and the Chief Secretary to the Treasury and the Secretary of State for Local Government within the next month stating this Council's support for the LGA letter referred to above and calling for government to rethink it's proposed increases to LGPS member contributions. Council will work with Trade Unions to ensure employees are made aware of the proposals for the LGPS and encouraging them to support the Council's representations to defend their pension scheme.*

Background Information

1. Current Position

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) by, on average, 3%. The increases would be introduced progressively over the period 2012/13 to 2014/15 but with protection for the lower paid.

The Local Government Pension Scheme (LGPS) is a funded pension scheme and as such, pension contributions are held within the fund and are invested for the purpose of paying pensions both now and in the years to come. The relatively poor ongoing performance of the economy has hit investments as a whole. The fund has a funding level of approximately 80% Walsall Council currently pays 18.5% of pensionable pay into the LGPS in addition to the employee's contributions.

2. Potential impact

The views expressed by the LGA in its letter to the Chancellor dated 16 February 2011 with regard to the potential impact of the proposed pension scheme changes is also supported by initial research by the National Association of Pension Funds (NAPF) who also indicate that if the employee contribution rates rise by on average 3 percentage points, there would be an opt-out rate of approximately 40%. This is far greater than the 1% opt-out rate envisaged in the Spending Review Announcement.

If the opt-out rate is of the magnitude envisaged by the NAPF, this would have the effect of increasing the rate of employer contributions substantially in order to maintain the funding levels within the LGPS. This could add a further 5 to 6 percentage points on to the employer's contribution rate.

Officers within the Council have no evidence to dispute the information provided by the LGA and the NAPF, but clearly opting out remains a personal decision taken by the employee of the council.

James Walsh
Chief Financial Officer

4th April 2011

Rt Hon George Osborne, MP
Chancellor of the Exchequer
The Correspondence & Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

16 February 2011

Dear Chancellor,

Local Government Pension Scheme – Proposed increase in employee pension contributions

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) by, on average, 3%. The increases would be introduced progressively over the period 2012/13 to 2014/15 but with protection for the lower paid.

We understand that the Department for Communities and Local Government (DCLG) has been informed by HM Treasury that a 3.2% increase is required in employee contributions to the Local Government Pension Scheme (LGPS), equivalent to an additional £900 million by 2014/15. DCLG has provided us with a paper setting out how the increase in employee contributions to the LGPS could potentially be achieved i.e.

Band	Salary	Current rate	2012/13	2013/14	2014/15
1	> £12,600	5.5%	5.5%	5.5%	5.5%
2	£12,601-£14,700	5.6%	5.6%	5.6%	5.6%
3	£14,701-£18,000	5.9%	5.9%	5.9%	5.9%
4	£18,001-£24,000	6.5%	6.5%	6.5%	6.5%
5	£24,001-£31,500	6.5%	7.8%	9.1%	9.7%
6	£31,501-£42,000	6.8%	8.5%	10.2%	11.0%
7	£42,001-£75,000	7.2%	9.5%	11.8%	13.0%
8	£75,001-£100,000	7.5%	10.1%	12.7%	14%
9	£100,001-£150,000	7.5%	10.3%	13.1%	14.5%
10	£150,001 >	7.5%	10.5%	13.5%	15%

The Local Government Group are very concerned that the implications for local authorities, their workforce and the wider economy may not have been fully considered by HM Treasury. These include:

- with only 6.5% of the LGPS membership earning in excess of £42,000 and with protection for lower paid employees (40% of the LGPS workforce earn less than £18,000), the main burden of the 3.2% increase will fall on middle earners;

- there may be pressure during pay negotiations to recoup, via the pay settlement, the effects of any increase in contributions (or loss of future pension rights upon opting out);

- the demographics of the Scheme's membership makes it difficult to produce a set of tariff tables that are fair and progressive across all salary bands;

- there is strong evidence to suggest that the opt-out rate will be far greater than the 1% envisaged in the Spending Review announcement. Neither is there any evidence to suggest that full account has been taken of the likely reductions in the local government workforce over the Spending Review period, a large proportion of which will be scheme members;

- there is a considerable risk therefore that the £900 million target additional income by 2014/15 will not be achieved unless even greater increases are imposed on those scheme members who remain (leading to the possibility of a vicious circle of even higher opt-out rates);

- a significant increase in employee contributions at a time of pay restraint / pay cuts and increasing inflation is likely to lead to a significant worsening in industrial relations;

- such an increase in contributions will lead to a further dampening of employee spending power at a time when the Government is seeking to promote economic recovery;

- there are real concerns over the disparity between public sector schemes meaning that, for example, highly paid members of some other public service schemes will be paying a lower contribution rate than the lowest paid workers in local government;

- there are consequential recruitment, retention and promotion implications. The pension scheme as an element of the reward package will be less attractive and the cliff edges contained in the above table may act as a disincentive to seek promotion (e.g. an employee earning £24,000 who receives a £1 increase would pay an extra 3.2% on all of their earnings, reducing their take-home pay to significantly less than it was prior to the promotion);

- part-time employees, who constitute the overwhelming majority of low paid workers in local government, have their contribution rate assessed by reference to their whole-time equivalent salary. Thus, many of those part-time employees with part-time salaries below the low pay protection threshold will, in fact, not benefit from the protection (because their wholetime equivalent salary is greater than £24,000);

- a significant level of opt outs would result in:

    i. a serious and detrimental impact on the Scheme's future sustainability and viability;

ii. LGPS Funds would become more mature leading to a move away from equities into bonds. This could distort the bond market and a move out of UK equities (in which the LGPS Funds have significant holdings) could have an impact on the UK investment sector (FTSE).
iii. fewer employees would be making adequate pension provision for themselves, ultimately leading to further reliance on the State via means tested benefits in retirement.

The LGPS is different to the other public sector schemes in that it is a funded scheme and currently has a positive cash flow.

For some years the LG Group has pursued a policy position of the LGPS being sustainable and affordable. In our opinion these proposals seriously undermine these principles. All political Groups within the LGA strongly urge that this is recognised and that the Government enters into dialogue with employers and unions in order to consider further how best to achieve the Government's aims ahead of the outcomes from the report of the Independent Public Service Pensions Commission.

We are prepared to consider amendments to Scheme benefits with CLG as regulator and the trade unions to try and find alternatives to mitigate the rising cost of pensions to the public purse.

Yours sincerely,

Eaton

Baroness Eaton DBE DL
Chairman, Local Government Association

Mayor Sir Steve Bullock,
Chair, Workforce Programme Board.

Cc:
Rt Hon Eric Pickles, MP – Secretary of State for Communities and Local Government
Rt Hon Danny Alexander, MP – Chief Secretary to the Treasury