

Proposed changes to LGPS regulations

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Executive Portfolio Holder: Not applicable

Division and Local Not applicable

Member:

1. Summary

1.1 Under the public service pension framework, the costs of the pension schemes are periodically assessed to ensure the reforms remain affordable and sustainable.

1.2 In the LGPS there are two mechanisms used to do this:

- The Employer Cost Cap (ECC), which currently stands at 14.6%
- The Future Service Cost (FSC), which currently stands at 19.5%. The FSC is operated by the LGPS Scheme Advisory Board (SAB) and includes employer and member contributions at a ratio of 2:1 (13% employers' contributions and 6.5% relating to members).
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1.3 If the total employer contribution rate changes by 2% or more in either direction, changes are required in order to bring the Scheme cost back into target.

2. Issues for consideration

2.1 The report is for information only unless the Board deems that action is necessary having reviewed the report.

3. The proposed changes

- 3.1 A recent review by the Government Actuary Department (GAD) has determined that the costs of the LGPS are now below the target rate. To address this, the SAB has proposed the following improvements to the Scheme, which are due to be implemented on 1st April 2019:
- Removal of Tier 3 Ill Health;
 - Minimum Death-in-Service lump sum of £75,000 per member (not employment);
 - Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
 - Revised member contribution rates and bandings, which take account of varying tax relief:
 - a) a 2.75% contribution rate for salaries between £0 and £12,850
 - b) an expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from 5.8% to 4.4%
 - c) an expansion of the 6.8% contribution band from £45,200 to £53,500
- 3.2 The proposals take into consideration the change in the annual revaluation of CARE (Career Average Revalued Earnings) benefits to CPIH (Consumer Price Index including owner occupiers' housing costs), as opposed to CPI (Consumer Price Index) announced in the October 2018 budget.
- 3.3 It is expected that the proposals will result in an increase to the average employer future service rate across the scheme of approximately 0.9% of payroll costs. However, the impact on individual employers will vary and will be dependent on the 2019 valuation process.

4. Consultations

- 4.1 A short consultation is due in February and is expected to only be open for 3 weeks.

5. Background Papers

None

Note For sight of individual background papers please contact the report author.