

STOCKTAKE REVIEW AND CHANGES TO THE LGPS

Report of the Finance Director

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1. Purpose of the Report

- 1.1 To inform the Committee of changes made to the LGPS Regulations in April and June of this year.
- 1.2 To outline the Office of the Deputy Prime Minister's (ODPM) proposals for regulation changes in April 2005.

2. Summary

- 2.1 The stocktake review of the LGPS has been running since 2001 with the aim of assessing the sustainability of the scheme.
- 2.2 The first changes to the scheme were made with effect from 1st April 2004. The most significant changes were a reduction in the vesting period and the requirement to produce Funding Strategy Statements.
- 2.3 On 1st June 2004 changes to the regulations removed the Secretary of State from the appeals process, ensuring both stages of appeal happen locally.
- 2.4 Further changes are proposed for the scheme, which the actuary believes would have a beneficial impact on employer contribution rates.

3. Conclusion

- 3.1 It is recommended that the Finance Director responds to the ODPM on the proposals for April 2005 on the basis of members' views expressed at this meeting.

4. Background

- 4.1 In August 2001 the Office of the Deputy Prime Minister (ODPM) announced a stocktake review of the Local Government Pension Scheme (LGPS). Since then various discussion papers have been published and the last report to the Committee on the subject was in September 2003.
- 4.2 The aim of the review is to assess the sustainability of the scheme and to recommend changes where appropriate.

5. New Regulations April 2004

- 5.1 The first changes to Regulations as a result of the review were effective from 1st April 2004. An outline of the changes is below.

5.2 Vesting Period

The most significant change to the benefit structure is the reduction in the length of membership required to receive a benefit from the Scheme from two years to three months. This means that a refund is now only payable within the first three months of membership. Any membership in excess of three months will result in a benefit being paid.

5.3 Funding Strategy Statement

Every Administering Authority must now prepare, maintain and publish a Funding Strategy Statement having consulted with employers in their Fund by 1st April, 2005. The proposal for the implementation of this statement was discussed at the Committee's meeting in September 2003. The Committee's objections were passed onto the ODPM, however the regulations now enforce it. The Finance Director will be working with Hymans Robertson, the actuary and Mercers, the Investment Consultant on how to implement this and will report in more detail at a future meeting.

5.4 Other Changes

- All active and deferred scheme members must receive an Annual Benefit Statement. Active members of the Hertfordshire scheme already receive them, so the change will affect deferred members only.
- An NHS employer can enter into an admission agreement so that LGPS members transferred to them by virtue of a Partnership can remain in the Scheme.
- The definition of "permanently incapable" for entitlement to ill health benefits has been amended to clarify it means "the member will more likely

than not be incapable, until at the earliest, age 65”.

- The possibility of receiving ill health benefits a second or further time has been removed.
- The provision of a re-employed pensioner to elect to combine the membership from the first retirement with that of the second in order to increase the value of benefits has been removed.

5.5 The detail above shows the major changes to the Scheme. There were a number of other minor changes which were mainly clarification of the existing regulations.

6. New Regulations June 2004

- 6.1 On 1st June 2004, the regulations relating to the Internal Disputes Resolution Procedure (IDRP) changed. This is the procedure for dealing with appeals against decisions made about individuals' pension arrangements.
- 6.2 Under the old rules, all appeals were first heard by an officer of the Administering Authority. In Hertfordshire's case this was Andrew Laycock, County Secretary. The scheme member had the right to a second stage of appeal, if the first was unsuccessful, to the Secretary of State.
- 6.3 The change in the regulations removes the Secretary of State from the procedure, so all appeals are dealt with locally. There are two types of decision which may be appealed against - employer decisions, based on their discretions policies and Administering Authority ones. The process for appeals against each type is described below.
- 6.4 Any employer decisions should be reviewed by the employer and should be seen as an opportunity to reconsider and review all the facts. This will be carried out by Corporate Personnel for the County Council and all employers in the Fund will have to appoint someone in their organisation to fulfil this role. If the scheme member is not satisfied with the outcome, they have the right to refer their appeal to the Administering Authority as Stage 2 of the process. Stage 2 appeals will be reviewed by Andrew Laycock, County Secretary.
- 6.5 Administering Authority decisions must be reviewed by the Administering Authority and Andrew Laycock will consider Stage 1 appeals of this nature. Stage 2 of an appeal against the Administering Authority will be considered by Chris Sweeney, Finance Director.
- 6.6 If the scheme member is not satisfied with the outcome of Stage 2, they may take their complaint to the Pensions Ombudsman.

7. Proposals for April 2005

7.1 The ODPM has circulated draft regulations which would be effective from April 2005 if they go ahead. Comments on the draft regulations are invited from authorities.

7.2 There are two key proposals for change:

- to increase the earliest age at which scheme benefits can be paid;
- to remove the 85 year rule.

These are discussed in more detail below.

7.3 It is proposed to increase the earliest age at which scheme benefits can be paid, other than on the grounds of ill health, from 50 to 55 years. This means that those made redundant between 50 and 55 would no longer be entitled to immediate payment of pension benefits. It is also proposed to offer some transitional protection by ensuring that it would not affect those who will be 50 years old or more as at 31 March 2005.

7.4 The second proposal is to remove the 85 year rule, making the earliest retirement age 65 for all scheme members. (The 85 year rule allows scheme members who are 60 years old or more to retire without reductions if their age plus service is equal to or more than 85.). Transitional protection is also proposed for this change and would allow those who would reach age 60 and satisfy the 85 year rule before 1st April 2013 to retire without reduction.

7.5 The actuary, Hymans Robertson, estimates the benefit to employers' contributions might typically be in the range of 1% to 2.5% of pay. If no transitional protection was provided, they estimate the benefit to be 1.5% to 3.5% of pay. The precise benefit will depend on an individual employer's staff profile.

7.6 The employers in the Fund have been consulted on this and 20 responses have been received. Their responses are summarised below:

	Agree	Disagree
Increase earliest age at which benefits may be paid from 50 to 55 years	17	3
Transitional protection for those who will be 50 years old or more at 31 st March 2005.	16	4
Remove the 85 year rule.	16	4
Transitional protection for those who attain age 60 and satisfy the current 85 year rule before 1 st April 2013.	14	6

- 7.7 A number of earlier proposals linked to the Inland Revenue's tax simplification plans will not be introduced until 1st April 2006, when the Chancellor plans to introduce the new tax regime. These include plans to allow employees to continue working while receiving a pension.
- 7.8 The ODPM have decided not to include an amendment to increase employees' contributions at this time. A further discussion paper will be issued by them in the autumn to seek further views on this issue.

8. Conclusion

- 8.1 The Local Government Pension Scheme regulations have been changed with effect from April this year - the first change as a result of the stocktake review.
- 8.2 There are two key proposals for implementation in April 2005, which the actuary believes would have a beneficial impact on employer contribution rates.

Background Papers used by the Author

Letter from ODPM, 11th March 2004 LGPS Amendment Regulations 2004

Letter from ODPM, 31 March 2004 LGPS Amendment No.2 - Regulations 2004 Consultation Draft.

LGPC Circular No.156 May 2004 - Changes to the LGPS in England and Wales.

Hymans Robertson Current Issues April 2004.