

Reform of Public Sector Pensions

There has been a lot of news recently on the proposals to reform all public sector pensions which may have an effect on schemes over time. The proposals which are currently subject to consultation recommend an increase in employee contributions on a phased basis from April 2012 with other changes being introduced before 2015.

The Local Government Pension Scheme (LGPS) is a funded scheme compared to that of others, so there is a separate consultation paper. The closing date for responses to the consultation is 6 January 2012. The main proposals for change from 1 April 2012 are to increase employee contribution rates and change the accrual rates. More details on the LGPS consultation documents can be found on the link at the bottom of this document. Regardless of proposed changes to the LGPS, it is intended to remain a very good pension scheme.

There is also a separate consultation paper for the Teachers Pension Scheme (TPS). More details on the TPS consultation documents can be found on the link at the bottom of this document.

Why are all Public Sector Pension Schemes being reformed?

The Public Service Pension Commission, headed by Lord Hutton, was asked to make recommendations about how pensions could be made sustainable and affordable, whilst remaining fair to the workforce and all taxpayers.

His independent full report, published in March 2011, made a number of recommendations, and as a result, the Government is looking to reform public service schemes. As people can look forward to living longer this is putting a strain on public sector pensions, so the reform will ensure that the cost of providing these pensions is affordable, not just now, but in the decades to come.

The Government's position is that public service pension schemes will remain among the very best available, providing a defined benefit pension for all employees.

Why is further reform needed beyond those made in 2008?

Lord Hutton acknowledged that savings had been achieved from the changes made in 2008. However, he also pointed out that the cost of public service pensions had increased significantly over the last decade and would continue to increase. The previous reforms had not addressed the imbalance between employer and member contributions rates that had arisen from previous increases in life expectancy where the cost had fallen exclusively on employers.

Which public sector pension schemes are affected by the changes?

The changes are being made to all the pension schemes across the public sector.

There are 2 main pension schemes that employees of KCC are in – The Teachers Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS).

The LGPS is a nationwide pension scheme for people working in local government or working for other types of employers participating in the Scheme. This is not the same pension scheme that health workers and civil servants are in. The LGPS is administered locally through regional pension funds. The administration for the Kent Scheme is run by Kent County Council, Pension Section who has **launched a brand**

new web site from 10 November 2011. Please have a look
www.kentpensionfund.co.uk

The TPS is a contributory scheme administered by Teachers' Pensions (TP) on behalf of the Department for Education (DfE). It provides pension cover for the vast majority of teachers and lecturers who are, or have been, employed in England and Wales. To obtain more information on the scheme, please visit the TP website at
www.teacherspensions.co.uk

What changes are the Government proposing for all Public Sector Pension Schemes?

The proposed scheme keeps high quality benefits.

What will stay the same:

- You will continue to receive a guaranteed income in your retirement
- You will keep the pension benefits already earned and this will remain linked to your final salary on retirement
- You will retain options to retire at any age between 55 and 75

What are the proposed changes?

- Moving from a final salary pension to a career average pension scheme. (See definition below). However, further Government changes from week ending 4 November 2011, are proposing the career average scheme does not apply to staff who, on 1 April 2012 are within 10 years of retirement age and they will remain in the current scheme.
- A phased increase to the Local Government normal pension age in line with changes to the ***State Pension Age**
- A rebalancing of employee and employer contributions to provide a fairer distribution between members and other taxpayers.
- Pensions in payment will be inflation-related, rising in line with the consumer prices index (CPI). Benefits under the current schemes were previously linked to the Retail Prices Index (RPI), but with effect from April 2011 they changed to using CPI.

*State Pension Age	Men	Women
Born before 6 December 1953	65	
Born before 6 April 1950		60
Born on or after 6 April 1950 but before 6 December 1953		Between 60 and 65
Born on or after 6 December 1953 but before 6 October 1954	Between 65 and 66	
Born on or after 6 April 1954 but before 6 April 1968	66	
Increases from 66 to 67 and then to 68 will affect men and women born on or after 6 April 1968		

As a member of the LGPS what increase in contribution and accrual rates are being proposed from April 2012 to April 2015?

As the press has highlighted, the Government has proposed an increase in employee contribution. In response, the Local Government Association (LGA) have proposed to

the Government how savings can be achieved other than wholly through increasing employee contributions. This is ongoing as part of the consultation period. However, the proposals aim to minimise the impact on the lower paid whilst giving choice to individuals.

The key elements of the LGPS 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% and an increase of between 2% and 2.5% 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 rate could also choose to pay a lower contribution rate but would, as a result, have a reduced pension accrual rate instead for future service from April 2014.

So, what have the Department of Communities and Local Government (CLG) proposed for other public sector pensions?

There are two approaches:

Approach One is to introduce over a phased period up to 2014/15:

higher increases in employee contributions (with exception to the lower paid who will either have no change or minimal change for those with full-time equivalent earnings on a salary up to £21,000) **AND** a change in the accrual rates from 60ths to 64ths in 2013/14 and 65ths in 2014-15.

Approach Two is to introduce over a phased period up to 2014/15: similar or less increases in employee contributions (with exception to the lower paid who will either have no change or minimal change for those with full-time equivalent earnings on a salary up to £21,000) **AND** a change in the accrual rate from current 1/60th to 1/67th with effect from 1 April 2014.

N.B. 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.

Full details of the consultation document can be found in link at bottom of document.

What is a defined benefit occupational pension scheme?

A defined benefit pension scheme commits to paying a specified amount to each member upon retirement depending on years of service and salary. Both final salary and career average schemes are defined benefits schemes.

What is a final salary pension scheme?

A final salary pension is where your retirement benefits will be calculated on your final year's pay. That is, the pay due in respect of your final year. If you are part-time, your final year's pay is increased to what you would have received had you been full-time (based on 37 hours for 52 weeks a year). For those who work in schools where members could never work 52 weeks per year the whole time equivalent pay is the same as that above but this is then reduced by the number of weeks they are paid for.

Why is the Government proposing a move to a career average scheme?

This would give a defined benefit pension based on your average revalued earnings over your career rather than one based on your final salary as now. The government believe this is a fairer basis to calculate pension benefits as the current final salary scheme tends to benefit certain scheme members more than others, particularly those who get a promotion towards the end of the scheme.

So, what are the current KCC pay bands and rates being applied for 2011/2012?

Since 2008, the rate of contribution that you make to the LGPS is based on different pay bands. Each year the pay ranges for these bands have been reviewed. The rate you pay will depend on which pay band you fall into and is based on your full-time equivalent pensionable pay (including any pensionable allowances) or full-time equivalent term time pay. If you work part time you only pay contributions on the pay you earn although the rate is based on the whole-time pay rate for the job.

Band	Range	Employee Contribution rate
1	£0 - £12,900	5.5%
2	£12,900.01 - £15,100	5.8%
3	£15,100.01 - £19,400	5.9%
4	£19,400.01 - £32,400	6.5%
5	£32,400.01 - £43,300	6.8%
6	£43,300.01 - £81,100	7.2%
7	More than £81,100	7.5%

KCC currently pay 21% towards your pension

So, what are the current benefits of the LGPS?

The LGPS is one of the best ways to plan for retirement with an excellent range of benefits that both full-time and part-time employees can enjoy, including:

- Contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.
- Immediate life cover – lump sum death grant of three times your actual pay.
- A secure pension for life
- The option for tax free cash
- Pension for husband, wife, civil partner or nominated co-habiting partner and eligible children following your death
- Immediate pension benefits if you are unable to work due to ill health

- Apply for voluntary early retirement from age 55 – 60 subject to employer approval
 - Access your pension benefits from age 60 - 65
 - Opportunity to apply for Flexible Retirement
 - Options to boost your pension
- and**
- KCC currently pay 21% towards your pension
 - Pension increases are linked to the consumer prices index (CPI)

As a final salary scheme, your benefits are normally based on your final year's pensionable pay and the number of years you have been a member of the scheme. For each year in the scheme you receive a pension of 1/60th of your final year's pensionable pay. You can take a lump sum, if you want to and you can receive £12 lump sum for each £1 of pension given up. You can take up to 25% of the capital value of your pension benefits as a lump sum. Any changes to this will not affect your accrued benefits; these will be protected up to the point of change which means that you will not lose what you have already saved.

You can look forward with confidence with the LGPS, because:

- Contributions you pay today will provide you with retirement benefits based on your pensionable pay in the year you leave. This means the pension you build up during employment keeps pace with rises in your pay.
- After retirement, your pension increases with the cost of living.
- The benefits you build up are secure.

And you can:

- Pay more to increase your benefits
- Ask to transfer previous pension rights into the scheme within 12 months of joining the Scheme.

What is the Trade Union's position on the changes?

The main thrust of Unison's argument is that the current proposals are unfair and mean that most people will pay more and work longer to get a pension that will be worth less.

GMB also feel that members are being asked to pay more and get less pension and are concerned that the proposals endanger the future sustainability of the scheme.

Until the proposals are finalised it is not possible to quantify the overall effect of the changes but it is agreed that contributions will increase. The increases, however, will be tapered so that those on the lowest incomes will pay the least amount.

Whichever of the options from the consultation are agreed, the Local Government Pension Scheme is intended to remain a good scheme and, as set out above, offers more than just security in retirement, it, therefore, will remain a key feature of the Kent County Council Reward Package.

How can I increase my future benefits?

Additional Voluntary Contributions (AVCs) are extra payments to increase your future benefits. The LGPS in Kent has a choice of two AVC providers, Standard Life and Prudential in which you can choose to invest. Both companies offer various methods of investing AVCs. Further information can be obtained from:

- **Prudential** - 0845 6070077
- **Standard Life** - website user name is **LGPS** - 0845 6060047

N.B. These proposals are subject to change as has occurred over the last few weeks and can only reflect the current position. After the close of consultation on 6 January 2012 and the Government's consideration of responses, a further communication will inform members of changes.

See Useful web links below:

Useful links:

Full details of the consultation document can be found at
www.communities.gov.uk/publications/localgovernment/pensionconsultation

More details on the consultation documents for the TPS can be found at
<http://www.teacherspensions.co.uk/resources/pdf/CONSULTATION%2013092011.pdf>

More details on opportunities to apply for Flexible Retirement can be found at
<http://knet2/staff-zone/pay-and-pensions>

A useful independent source on the latest reported changes can be viewed on the BBC News website > Public Sector Pensions <http://www.bbc.co.uk/news/>