

## **STOCKTAKE OF THE LOCAL GOVERNMENT PENSION SCHEME**

### **1 SUMMARY**

- 1.1 The purpose of this report is to seek Members' views in respect of the proposed response suggested by the Local Government Pensions Committee to the above consultation

### **2 BACKGROUND**

- 2.1 The Government is consulting on ways in which the Local Government Pension Scheme (LGPS) may be amended in order to better reflect current circumstances.
- 2.2 The current scheme originates from the 19<sup>th</sup> Century and is designed for people having a long term career in local government. It is a defined contribution scheme based on 1/80<sup>th</sup> of final salary for each year of contribution.
- 2.3 The current employment trend is for people to have more mobility between employers and have more career changes. For this type of employment pattern, the LGPS is regarded as not really suitable.
- 2.4 In addition, the real benefit of the scheme is for those people for whom their salary is at its highest at the time of retirement. This, therefore, does not cater very well for the low paid, part time workers or people who would wish to "downsize" their job a number of years prior to retirement.
- 2.5 The current problems within the Stock Market have had a severe effect on levels of funding within pension schemes. This is a problem throughout both the private and public sectors, with some major companies having closed their defined contribution pension schemes.
- 2.6 Funding levels have also been affected by greater longevity of members and changes introduced by the Government for the withdrawal of tax benefits from pension schemes.

### **3 STOCKTAKING OF THE LGPS**

- 3.1 A full stocktake of the LGPS is being undertaken by the Office of the Deputy Prime Minister (ODPM).
- 3.2 Local Government Pensions is a complex subject, consequently the Local Government Pension Committee (LGPC) has undertaken the

task of formulating a response on behalf of Local Government. Individual Councils are being asked to endorse that response.

- 3.3 A full copy of the response is on deposit in the Members' Library at Rayleigh and Members' Room at Rochford.
- 3.4 Attached at Appendix 1 of this report is a table of main headings on which the Council is asked to agree or disagree. Officers have given a provisional view in responding to the questions and Members' views are sought on the proposed response.

#### **4 COMMENT**

- 4.1 Fund values are very much dependent upon the Stock Market. During the 90's when markets were buoyant, many employers were able to enjoy contribution holidays from their pension schemes. Now that the Stock Market is low in funds, pensions schemes are underfunded and contributions are having to increase significantly. For the Essex County Council scheme this will be following the next actuarial valuation.
- 4.2 The problems of now funding pension schemes do need to be viewed in the long term. There have been periods before when the Stock Market has been low and pension funds have always recovered over a period of time. This is demonstrated in the response and the table used is replicated below:-

| <b>Bear Market</b> | <b>Fall</b> | <b>Years to return to previous high</b> |
|--------------------|-------------|---|
| 1936-40            | 60%         | 7.5                                     |
| 1946-49            | 29%         | 4                                       |
| 1955-56            | 28%         | 3                                       |
| 1968-70            | 37%         | 2.5                                     |
| 1972-74            | 73%         | 6                                       |

- 4.3. With regard to Essex, the pension fund was already in deficit and the indications are that, if stock values do not improve so that the actuaries can take a more optimistic long term view employers' contributions will need to increase further.
- 4.4. A further report in respect of the Essex Pension Fund will be submitted to Members when further information becomes available on the Council's position within the pension fund. In addition, during the year, officers will be reporting to the Finance Overview & Scrutiny Committee on a risk management approach to budgeting. This type of issue will need to be addressed as part of that approach.

**5 RECOMMENDATION**

**5.1 It is proposed that the Committee RESOLVES**

To agree a response to the proposals put forward by the Local Government Pensions Committee. (CD(F&ES))

Roger Crofts

Corporate Director (Finance & External Services)

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**Background Papers:**

None.

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## Appendix 1

## Stocktake of the LGPS – Retirement Benefit Package Options Discussion Paper

## Summary of the key points in the LGPC's draft response

The purpose of this questionnaire is to gauge employers' reaction to the key points being made in the Local Government Pensions Committee's (LGPC) draft response to the Office of the Deputy Prime Minister's (ODPM) discussion paper on the retirement benefits package options for the LGPS.

It would be helpful if, having considered the evidence presented in the draft response (see Appendix 2), employers could complete and return this questionnaire to the Local Government Pensions Committee, Employers' Organisation for local government, Layden House, 76-86 Tummill Street, London, EC1 in SLG by 11 April 2003.

| Based on the findings presented in Appendix 2 do you agree with the key points being made in the LGPC draft response to the ODPM's discussion paper?  |             |    |
|---|-------------|----|
|   | Please tick |    |
|   | Yes         | No |
| <b>The national framework for pensions</b><br><i>Key points:</i>  |             |    |
| • The LGPS, like any other occupational pension scheme, does not exist in isolation from the national pensions framework;   | ✓           |    |
| • some of the issues raised in the Stocktake discussion paper, particularly in relation to the low paid, cannot be resolved by the LGPS within the current national pensions framework;   | ✓           |    |
| • we support the NAPF in believing that the State should provide a reasonable level of pension benefit to all and move away from the current system that will leave many reliant on means tested benefits. This would overcome the difficult question of compulsory scheme membership since any additional pension benefits that people chose to save towards would simply sit on top of the State benefit, thereby avoiding the current situation in which people can save themselves into the so-called means tested pensions 'poverty trap'. | ✓           |    |

| <b>The role of the LGPS</b><br><i>Key points:</i>   | Yes   | No   |
|---|---|--|
| <ul style="list-style-type: none"> <li>we believe that, from an employer perspective, the LGPS is               <ul style="list-style-type: none"> <li>➤ an important element of the remuneration package;</li> <li>➤ an important recruitment and retention tool;</li> <li>➤ and, albeit at cost to the employer, is a useful management aid in facilitating change;</li> </ul> </li> </ul>  | <input checked="" type="checkbox"/><br><br><br><input checked="" type="checkbox"/><br><br><input checked="" type="checkbox"/> | <input type="checkbox"/><br><br><br><input type="checkbox"/> |
| <ul style="list-style-type: none"> <li>the LGPS should remain as attractive to prospective and current employees as the other main comparator public sector pension schemes;</li> </ul>   | <input checked="" type="checkbox"/>   | <input type="checkbox"/>                                     |
| <ul style="list-style-type: none"> <li>as the future size and nature of local government and its workforce is uncertain it is important that the Scheme should continue to be available to all employers with staff undertaking local government related work;</li> </ul>   | <input checked="" type="checkbox"/>   | <input type="checkbox"/>                                     |
| <ul style="list-style-type: none"> <li>we believe that, from a wider perspective, the LGPS has a role to play               <ul style="list-style-type: none"> <li>➤ in delivering the Government's objective of providing people with a reasonable retirement income; and</li> <li>➤ in contributing to the delivery of authorities' social and economic well-being responsibilities / policies;</li> </ul> </li> </ul>  | <input checked="" type="checkbox"/><br><br><input checked="" type="checkbox"/>  | <input type="checkbox"/><br><br><input type="checkbox"/>     |
| <ul style="list-style-type: none"> <li>any worsening of the LGPS benefit provisions could have a knock-on effect in other areas e.g. (a) an increased reliance on State (means tested) welfare benefits, on the NHS (as there is a correlation between poor income and poor health) and on those welfare services which local government provides; (b) an impact on the numbers claiming rent and rate rebates; (c) an increase in the incidence of social exclusion caused by, amongst other things, low incomes.</li> </ul> | <input checked="" type="checkbox"/>   | <input type="checkbox"/>                                     |

| <u>Does the LGPS meet the needs of the workforce?</u><br>Key points:  | Yes                       | No                      |
|---|---------------------------|-------------------------|
| <ul style="list-style-type: none"> <li>the LGPS does, for the most part, meet the needs of much of the workforce;</li> </ul>  | ✓                         |                         |
| <ul style="list-style-type: none"> <li>more could be done to explain the LGPS to the workforce thereby increasing understanding of the Scheme and the take up rate amongst employees<sup>1</sup>;</li> </ul>  | ✓                         |                         |
| <ul style="list-style-type: none"> <li>the issue of non-provision of a partner's pension needs to be addressed;</li> </ul>  | ✓                         |                         |
| <ul style="list-style-type: none"> <li>existing flexibilities in the Scheme have not been greatly used and offering further flexibilities would increase the complexity of the Scheme. We do, however:               <ul style="list-style-type: none"> <li>➤ support the Government's proposals to permit partial retirement, and</li> <li>➤ would be happy to explore with the ODPM areas where it can be shown that additional flexibilities would be beneficial;</li> </ul> </li> </ul> | <div>✓</div> <div>✓</div> | <div></div> <div></div> |
| <ul style="list-style-type: none"> <li>although the Stocktake paper asserts that the LGPS is not well designed to meet the needs of part-timers, etc we believe no other type of pension arrangement meets their needs any better than a final salary scheme;</li> </ul>  | ✓                         |                         |
| <ul style="list-style-type: none"> <li>whilst the Government retains its current policy of providing means tested State benefits it is not possible for, nor is it the role of, the LGPS to resolve the issue of pension provision for the low paid, (e.g. by redesigning the scheme to attract the low paid). Many, by joining, could simply be saving for benefits that the State would otherwise provide;</li> </ul>   | ✓                         |                         |
| <ul style="list-style-type: none"> <li>there should be no compulsion to join the LGPS (nor a discretion for LGPS employers to make membership of the LGPS compulsory) whilst the means tested 'poverty trap' remains.</li> </ul>  | ✓                         |                         |

<sup>1</sup> The LGPC has already agreed a course of action to further 'promote' the LGPS.

| <u>Costs and sustainability of the LGPS</u><br>Key points:  | Yes | No |
|---|-----|----|
| <p>For a number of reasons, employers' contribution rates and the cost of the LGPS have been rising and the 2004 valuations will, in all likelihood, result in further increases. It is important to recognise, however, that there are two elements to an employer's contribution rate. Firstly, there is the cost of providing benefits in respect of service already accrued (past service) and secondly there is the cost of future service. The element of the employer's contribution rate in respect of past service is inescapable. Even if the Scheme were amended in respect of future service, the past service cost would still have to be met. The current average cost of future service in the LGPS (net of employee contributions) based on the 2001 valuations was typically of the order of 11% to 12% and is projected to increase by around 2% of pensionable payroll. Therefore, in order to mitigate the increase in cost for future service the LGPC believes that the following actions should be taken to ensure the ongoing sustainability of the Scheme:</p> |     |    |
| <p>➤ in recognition of the increase in longevity since the 6% rate was set in 1939, increase the employee's contribution rate for new joiners to 7% (inclusive of partner's pensions)</p>   | ✓   |    |
| <p>➤ remove, as soon as possible, the '85 year rule' for new members and in respect of future service for existing members (as proposed in the Government's Green Paper on pensions) thereby ensuring the Scheme has a Normal Retirement Age of 65<sup>2</sup>. This would act to reduce the typical future service contribution rate for schemes by up to 1.5% of pensionable payroll</p>  | ✓   |    |
| <p>➤ increase the earliest age at which benefits can be taken (on grounds other than ill health) from 50 to 55 as proposed in the Green Paper</p>   | ✓   |    |
| <p>➤ remove the right to automatic unreduced benefits at age 50 (or 55) upon redundancy / efficiency retirement (subject to consideration being given to the protection of accrued rights of existing members). Instead, such benefits could be paid with a full actuarial reduction, which could be waived in full or in part if the employer chose to do so (possibly in accordance with guidelines concerning the exercise of the discretion). In conjunction with such a change, employers</p>  | ✓   |    |

<sup>2</sup> Age 70 for coroners, Justices' Clerks and eligible councillors.

|   |  |  |
|---|--|--|
| discretion). In conjunction with such a change, employers should be provided with greater flexibility to improve upon the current 66 weeks compensation provisions. |  |  |
|---|--|--|

Signed ..... Date .....

Designation (in capital letters) .....

For and on behalf of (name of employer in capital letters) .....

Please return the completed questionnaire by 11 April 2003 to:

LGPC  
Employers' Organisation for local government  
Layden House  
76 – 86 Turnmill Street  
London  
EC1M 5LG