



Local Government Pensions Committee  
Secretary, Terry Edwards

## **LGPC Bulletin 80 – March 2011**

This month's Bulletin contains a number of general items of information.

Please contact Dave Friend with any comments you might have on the contents of this Bulletin or to suggest other items that you would wish to see included in future Bulletins. [LGPC contacts](#) can be found at the end of this Bulletin.

This month [Bits and Pieces](#) includes an item on [LGPC Communications](#), [the latest Circulars](#), and the [Timeline Regulations](#).

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## The Government's Independent Public Service Pensions Commission

The Independent Public Service Pensions Commission (IPSPC) issued its final report on 10 March 2011. The report re-iterated the original case for reform of the public service pension schemes which included:

- the rising value of benefits due to increase longevity;
- unequal treatment of members within the same profession;
- unfair sharing of costs between the employee, the employer and taxpayers; and
- barriers to increasing the range of providers of public services.

Any reform would need to ensure that public service pension schemes are:

- affordable and sustainable;
- adequate and fair;
- supportive of productivity; and
- transparent and simple.

The report has made 27 recommendations for the reform of the public service pension schemes. The main ones that will have implications for the Local Government Pension Scheme are:

- the LGPS is to remain funded;
- accrued rights in the LGPS should be honoured in full;
- members of the defined benefit public service pension schemes should be moved to the new career average revalued earnings (CARE) schemes;
- tiered contribution rates should be set according to the level of earnings;
- there should be a fixed cost ceiling to protect the taxpayer;
- pensions benefits should be uprated in line with average earnings while the member is an active member;
- comprehensive data for all LGPS funds should be centrally collated and published (including comparisons);
- every individual LGPS fund should have a properly constituted, trained and competent Pension Board with member nominees;
- public service pension schemes should continue to provide an adequate level of income in retirement;
- non-public service workers should not have access to the public service pension schemes in future;
- public service employers should take greater account of public service pensions when determining total remuneration packages and designing workforce strategies;
- employers should seek to maximise participation in the schemes where appropriate;
- flexible retirement should be encouraged and abatement in its current form should be removed for those who return to work;
- a system should be established which ensures there is independent oversight of the governance, administration and data transparency of public service pension schemes;
- the Office of Budget Responsibility should regularly publish an analysis of the long term fiscal impact of the main public service pension schemes; and
- benchmarking standards should be applied to the administration of the public service pension schemes.

The IPSPC expects the new schemes to be introduced before the end of this Parliament – that is before May 2015. In the [complete Budget Report](#), the Government has accepted the IPSPC’s recommendations “as a basis for consultation with public service workers, trades unions and other interested parties.” The Government will publish its proposals in the autumn.

As part of the process the IPSPC discussed a number of key issues with stakeholders at a seminar. The Pensions Policy Institute has published a further briefing note entitled, “[How can we measure adequacy in the context of public sector pensions?](#)” which is based on the discussions held at the seminar. Those, who attended the seminar, agreed that the IPSPC should use the Turner Commission’s benchmark replacement rates (e.g. 67% for median earners) to assess whether pension provision is adequate. The Government will need to decide what level of retirement income the public service pension schemes should provide as part of its response to the Final Report of the IPSPC.

### **The Local Government Pension Scheme (Benefits, Membership and Contributions) (Amendment) Regulations 2011**

[The Local Government Pension Scheme \(Benefits, Membership and Contributions\) \(Amendment\) Regulations 2011 \[SI 2011 / 561\]](#) were laid before Parliament on 7 March 2011 and come into force on 1 April 2011. They correct earlier drafting errors in regulations 20(4), 20(11)(aa), 20(14), 24 and 31 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2011.

### **LGPS Scotland 2009 – Actuarial transfer factors (version 3.1)**

SPPA issued [version 3.1](#) of the GAD guidance entitled “Actuarial Factors for Individual Cash Equivalent and Club Transfers from 1 October 2010” on 9 March 2011. The guidance is dated 14 December 2010 as a number of points of clarification had to be resolved. SPPA detailed the points of clarification in the [covering email](#).

### **Pensions Increase 2011**

The Statutory Instruments with respect to this year’s annual pensions increase were made on 16 March 2011. [The Guaranteed Minimum Pensions Increase Order 2011 \[SI 2011/801\]](#) confirms that a 3% increase will be applied to the post 88 GMP with effect from 6 April 2011. [The Pensions Increase \(Review\) Order 2011 \[SI 2011/827\]](#) states that the pension increase to be applied on 11 April 2011 will be 3.1% with proportional increases for pensions beginning between 27 April 2010 to 26 March 2011.

[The Pensions Increase \(Modification\) Regulations 2011 \[SI 2011/826\]](#) modify section 59 of the Social Security Pensions Act 1975 to ensure that the “base period” is defined correctly so that all pensions which began in the period from 6 April 2009 to 10 April 2011 receive the correct amount of pensions increase.

The equivalent Statutory Rules have been made in Northern Ireland.

## **The Social Security Revaluation of Earnings Factors Order 2011**

LGPS Administering authorities may wish to note that [The Social Security Revaluation of Earnings Factors Order 2011 \[SI 2011/475\]](#) (detailing the earnings factors to be used to calculate a scheme member's GMP) was laid before Parliament on 28 February and come into force on 6 April 2011. The percentage increase for the tax year 2010/11 is 2.3% and is based “on the measure of Average Weekly Earnings (which has replaced the Average Earnings Index as the lead measure of short term changes in average earnings in Great Britain)”.

## **LGPS 2008: Referendum on the Voting System**

The Secretariat has received several queries regarding whether fees paid in respect of the referendum on the voting system will be regarded as pensionable pay for the purposes of determining benefits payable under the LGPS. Regulation 11 of the LGPS (Administration) Regulations 2008 says that the following separate additional duties are pensionable:

- (a) a returning officer at—
  - (i) local government elections, or
  - (ii) elections for the National Assembly for Wales, or
- (b) an acting returning officer (including as a regional or local returning officer at a European Parliamentary election).

In some areas, there is to be a combined referendum and local election. The legislation provides that the Counting Officer is to be the Returning Officer for district, county or borough elections. A Counting Officer is responsible for the administration of the referendum and, in addition, for the election-related functions which are taken on by the Counting Officer where polls are combined. As a Returning Officer the person is responsible for the non-combined aspects of the election, which include nominations and the counting of votes at the local elections.

The Secretariat's opinion (and that of DCLG) is that the duty of Local Counting Officer does not fall within the definition of Returning Officer in regulation 11 of the LGPS (Administration) Regulations 2008 and so any fees for acting as a Local Counting Officer are not pensionable; whereas any fees received for acting as the Returning Officer are pensionable.

## **Discount rate used to set unfunded public service pension scheme contributions**

The LGE responded to the HM Treasury consultation on the discount rate used to set unfunded public service pension scheme contributions. The main thrust of the LGE's response was that the setting of the discount rate should not be considered in isolation from:

- the Chancellor's announcement in last year's Spending Review concerning an increase in employee contributions,

- the potential outcomes from the Independent Public Service Pensions Commission's final report, and
- the cap and share arrangements.

In other words, the exercise should not be conducted as if the discount rate, contribution levels and benefit levels are mutually exclusive issues.

Having considered the responses to the consultation the Government has decided that the discount rate for public service pensions should be based on the long-term expectations of Gross Domestic Product growth. Over the next five years, the discount rate will be set to 3% above CPI (compared to the current 3.5% above RPI). It will then be reviewed and the methodology (to determine the discount rate) itself will be reviewed.

### **The state pension**

In the budget, the Government announced it intends to reform the state pension system so that it will provide a simple, contributory, flat-rate benefit in the region of £140 per week. DWP will publish a Green Paper which will outline the options for reform of the state pension system. The Green Paper will include a proposal for a single tier pension which will lead to the end of contracting out for defined benefit pension schemes. The Government will investigate the potential impact on employees and pension schemes in both the private and public sectors.

### **The Pension Protection Fund and CPI**

The DWP have published its [summary of the responses](#) to its consultation on draft regulations which would permit the Pension Protection Fund (PPF) to use CPI as the basis for payment increases. The PPF will use RPI to revalue accrued pensions for periods before 31 March 2011 and CPI after that date. The current Pensions Bill going through Parliament contains measure which will enable the change in indexation on payments by the PPF from RPI to CPI.

### **Bits and Pieces**

#### **LGPC Communications**

#### **Update Leaflets**

##### **February 2011**

The Local Government Pensions Committee (LGPC) has produced an update leaflet on changes affecting employees who are members of the LGPS. The leaflet provides brief information on the updated pay bands for contribution rates from April 2011, the increase to State pension age, the new annual allowance from 6 April 2011 and the removal of the default retirement age.

The leaflets are [available on the LGE website](#).

Please note: there are different leaflets for employees in England and Wales and for employees in Scotland.

Funds may wish to use the text of the leaflet as it is, as part of their own communications or as an addendum to their scheme guides.

This information is also available in the ["Latest News" section](#) of the LGPS members' website.

### **March 2011**

An update leaflet on the Hutton report is being finalised and will be available on the LGE website in the next few days. Pension Managers will be notified when this is available.

### **Scheme Guides and Leaflets - April 2011**

The standard scheme guides and leaflets produced by the LGPC Secretariat are being revised for April 2011. Pension Managers will be notified when these become available on the LGE website.

### **LGPC Circulars**

The Secretariat has issued four further Circulars. [Circular 244](#) is an updated version of Circular 187 and covers the LGPS implications of salary sacrifice schemes. [Circular 245](#) replaces Circular 215 (issued in August 2008) in consequence of [the Additional Paternity Leave Regulations 2010 \[SI 2010/1055\]](#) , [the Additional Paternity Leave \(Adoptions from Overseas\) Regulations 2010 \[SI2010/1059\]](#) and related SIs. [Circular 246](#) advertises a series of three different 'Understanding' workshops - 'Guaranteed Minimum Pensions', 'Transfer Values' and 'The Employer Role'. [Circular 247](#) is the annual update Circular confirming:

- the National Insurance contribution rates that apply from 6 April 2011;
- the annual increase to be applied to qualifying pensions from 11 April 2011 is 3.1% and the increase to be applied from 6 April 2011 to the post 5 April 1988 Guaranteed Minimum Pension element of a pension in payment is 3.0%;
- the earnings factors to be used, from 6 April 2011, in the calculation of a scheme member's Guaranteed Minimum Pension; and
- the maximum "weeks pay" for calculating a statutory redundancy payment increased from 1 February 2011 from £380 per week to £400 per week.

### **Timeline Regulations**

The LGPS Regulations 2007/2008 for England and Wales have been updated to reflect the amendments contained within [the Local Government Pension Scheme \(Benefits, Membership and Contributions\) \(Amendment\) Regulations 2011 \[SI 2011/561\]](#).

In the United Kingdom section, [the Guaranteed Minimum Pensions Increase Order 2011 \[SI 2011/801\]](#), [the Pensions Increase \(Modification\) Regulations 2011 \[SI 2011/826\]](#), [the Pension Increase \(Review\) Order 2011 \[SI 2011/827\]](#) and [the Social Security Revaluation of Earnings Factors Order 2011 \[SI 2011/475\]](#) have all been added.

## Legislation

### United Kingdom

#### SI Reference Title

|           |  |
|-----------|--|
| 2011/475  | The Social Security Revaluation of Earnings Factors Order 2011   |
| 2011/477  | The Social Security Pensions (Low Earnings Threshold) Order 2011   |
| 2011/517  | The Armed Forces and Reserved Forces (Compensation Schemes) Order 2011   |
| 2011/554  | The Pension Protection Fund (Revaluation Amendments) Regulations 2011  |
| 2011/561  | The Local Government Pension Scheme (Membership, Benefits and Contributions) (Amendment) Regulations 2011  |
| 2011/601  | The Data Protection Act 1998 (Commencement No.3 Order) 2011  |
| 2011/634  | The Social Security (Deferral Retirement Pensions) Regulations 2011  |
| 2011/664  | The Pensions Act 2008 (Commencement No.9) Order 2011   |
| 2011/671  | The Pension Protection Fund (Prescribed Payments and Investment Costs – Amendment) Regulations 2011  |
| 2011/672  | The Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations 2011  |
| 2011/673  | The Application of Pension Legislation to the National Employment Savings Trust Corporation Regulations 2011   |
| 2011/674  | The Social Security (Miscellaneous Amendments) Regulations 2011  |
| 2011//678 | The Additional Statutory Paternity Pay (General) (amendment) Regulations 2011  |
| 2011/679  | The Social Security (Claims and Payments) Amendment Regulations 2011   |
| 2011/682  | The Welfare Reform Act 2009 (Commencement No.4) Order 2011   |
| 2011/701  | The Finance Act 2009, Sections 101 to 103 (Income Tax Self Assessment and Pension Schemes) (Appointed Days and Transitional and Consequential Provisions) Order 2011 |
| 2011/702  | The Finance Act 2009, Schedules 55 and 56 (Income Tax Self Assessment and Pension Schemes) (Appointed Days) Order 2011   |
| 2011/703  | The Finance (No.3) Act 2010, Schedules 10 and 11 (Income Tax Self Assessment and Pension Schemes) (Appointed Days) Order 2011  |
| 2011/709  | The National Insurance Contributions Credits (Miscellaneous Amendments) Regulations 2011   |
| 2011/723  | The Statutory Maternity Pay (Compensation of Employers) Amendment Regulations 2011   |
| 2011/726  | The Pension Protection Fund (Pensions on Divorce etc: Charges) Regulations 2011  |
| 2011/729  | The Income Tax (Pay As You Earn) (Amendment) Regulations 2011  |
| 2011/731  | The Pension Protection Fund (Pension Compensation, Sharing and Attachment on Divorce etc.) Regulations 2011  |
| 2011/780  | The Divorce and Dissolution etc. (Pension Protection Fund) Regulations 2011  |
| 2011/801  | The Guaranteed Minimum Pension Increase Order 2011   |
| 2011/826  | The Pensions Increase (Modification) Regulations 2011  |



2011/827 The Pensions Increase (Review) Order 2011

## Scotland

### SSI Reference Title

2011/154 The Police Pensions (Amendment) (Scotland) Regulation 2011

## Northern Ireland

### SR Reference Title

- 2011/52 The Social Security Pensions (Low Earnings Threshold) Order (Northern Ireland) 2011
- 2011/89 The Occupational and Personal Pension Schemes (Miscellaneous Amendments) Regulations (Northern Ireland) 2011
- 2011/90 The Social Security (Claims and Payments) (Amendment) Regulations (Northern Ireland) 2011
- 2011/108 The Pensions (2008 No.2 Act) (Commencement No.5) Order (Northern Ireland) 2011
- 2011/112 The Guaranteed Minimum Pension Increase Order (Northern Ireland) 2011
- 2011/113 The Pension Protection Fund (Pension Compensation, Sharing and Attachment on Divorce etc.) Regulations (Northern Ireland) 2011
- 2011/114 The Pension Protection Fund (Pensions on Divorce etc: Charges) Regulations (Northern Ireland) 2011
- 2011/117 Local Government Pension Scheme (Councillors) (Amendment) Regulations (Northern Ireland) 2011
- 2011/122 The Occupational Pension Schemes (Levy Ceiling) Order (Northern Ireland) 2011
- 2011/123 The Pension Protection Fund (Pension Compensation Cap) Order (Northern Ireland) 2011
- 2011/128 The Pensions Increase (Modification) Regulations (Northern Ireland) 2011
- 2011/129 The Pensions Increase (Review) Order (Northern Ireland) 2011



## Useful Links

[The LGE Pensions page](#)

[The LGPS members' website](#)

[LGPS Discretions](#) lists all the potential discretions available within the LGPS in England and Wales, and Scotland.

[Qualifying Recognised Overseas Pension Schemes](#) approved by HMRC and who agreed to have their details published.

[Tax Guide \(Version 11\)](#)

[The Timeline Regulations](#)

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## Distribution sheet

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