

Consultation on indexation of GMP in public service pension schemes
Workforce, Pay and Pensions Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

21 December 2020

Dear Sir or Madam

Public Service Pensions: GMP indexation consultation: Proposal to extend full indexation

Thank you for your consultation seeking views on a range of questions in relation to the GMP indexation consultation. I respond on behalf of the Local Government Association (LGA) and the Local Government Pensions Committee (LGPC).

The LGA is a politically led, cross-party membership organisation that works on behalf of 335 councils in England including district, count, metropolitan, unitary, London boroughs and the City of London. There are also 22 Welsh unitary authorities in membership via the Welsh Local Government Association (WLGA). The LGPC is a committee of councillors constituted by the LGA, the WLGA and the Convention of Scottish Local Authorities (COSLA).

This response sets out our view, where appropriate, on the questions posed in the consultation. I hope the content is helpful; if you have any questions, please do not hesitate to contact me.

Yours faithfully



Jeff Houston

Head of Pensions

Questions raised in the Public Service Pensions: GMP indexation consultation

- 1. Do you consider an extension of full indexation until April 2024 to be appropriate to ensure that the government can meet its existing commitments, re- evaluate conversion as a long-term solution and resolve the handling of those cases where conversion could not be undertaken on a £1:£1 basis?**

No, we do not consider an extension of full indexation until April 2024 to be enough time. The administrators of public service pension schemes are currently undertaking large programmes of work. This includes pensions remedy work concerning survivor benefits, the McCloud litigation, as well as dealing with the impact of COVID-19.

- 2. Should the government consider an extension of full indexation to cover those reaching SPa beyond 5 April 2024? If so, how long should the government extend full indexation for, and why?**

If the interim solution is to remain on the table as a possible outcome to this consultation, then we believe that it should be extended to cover those reaching State Pension Age (SPa) beyond 5 April 2024. Ideally for as long as possible, potentially until 5 April 2030. This will allow administrators of public service pension schemes who are currently undertaking large programmes of work (eg remedy work concerning survivor benefits and the McCloud litigation, as well as overcoming the impact of COVID-19) to complete these areas. Though in extending the interim solution to 5 April 2030 the value of conversion diminishes rapidly (see our answer to question 3).

- 3. Should the government consider making full GMP indexation the permanent solution for all members due to reach SPa after 5 April 2021? If so, why do you think this is the most appropriate solution?**

Yes, we believe the interim solution should be made the permanent solution for all members due to reach SPa after April 2021. This is because the main cost of conversion is the administrative cost of implementing it.

Whether the interim solution is extended to 5 April 2024 or 5 April 2030 the benefits of conversion diminish over time, and the less value there is in adopting conversion as a long-term solution. The cost of conversion is significant regardless of the numbers converted, so we believe there will be no net benefit of conversion.

To support our preference, we have derived the statistics overleaf from the LGPS in England & Wales. This demonstrates out of a total population of 1.5 million members who hold a GMP, only a quarter of a million of those members reach State pension age on or after 6 April 2030.

Table 1 Statistics derived from the LGPS in England & Wales

	Scheme members (excluding deceased members)	Dependents of scheme members (where dependents pension in payment – dependents can reach SPa outside of the date range)	Total
No. of members with a GMP who reached SPa before 6 April 2016	586,593	124,572	711,165
No. of members with a GMP who reached/will reach SPa on or after 6 April 2016 but before 6 April 2024	271,261	13,510	284,771
No. of members with a GMP who will reach SPa on or after 6 April 2024 but before 6 April 2030	244,650	4,852	249,502
No. of members with a GMP who will reach SPa on or after 6 April 2030	254,172	4,049	258,221

4. Question 4: Do you consider full GMP indexation to be an appropriate method in most cases to avoid unequal pension payments to men and women?

No, not in all cases. Over the years the normal pension age for members of the LGPS has varied. There were also various protections along the way dependent on certain qualifying criteria. The normal pension age of members who left active membership:

- before 1 April 1998 (1995 and earlier schemes) ranges from age 60 to 65 depending

upon membership accrual

- after 31 March 1998 (1998 and 2008 schemes) and before 1 April 2014 is age 65
- after 31 March 2014 (2014 CARE scheme) is SPa or age 65 if later

In accordance with section 13 of the Pension Schemes Act 1993, the LGPS regulations entitle members to the payment of a GMP from GMP pensionable age, in certain circumstances.

For example, a female member who left active membership of the 1995 or 1998 schemes on or before her GMP pensionable age (ie 60), and who at age 60 was not in any local government employment, must be paid her GMP at age 60. This is not the case for an equivalent male member, this requirement only kicks in at age 65. Similar disparities occur in the 2008 scheme and the 2014 CARE scheme, where a member has ceased all employment and leaves active membership of the scheme before GMP pensionable age.

The effect of the above differences is that a female member's GMP, at age 60, is both greater in value and paid earlier than that of her male equivalent. In fact, her male equivalent might see an actuarial reduction for early payment at age 60, depending on his membership accrual. This would not apply to a female member.

The statutory regulations prescribing the above inequalities are:

- Regulation D17 of the LGPS Regulations 1995 [SI 1995/1019]
- Regulation 36 of the LGPS Regulations 1997 [SI 1997/1612]
- Regulation 50A of the LGPS (Administration) Regulations 2008 [SI 2008/239]
- Regulation 3 of the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [SI 2014/525]
- Regulation 51 of the LGPS Regulations 2013 [SI 2013/2356]

5. Question 5: How could the delivery of any of the policies outlined in this consultation, by way of a direction made under s. 59A of the SSPA 1975, impact on wider public sector or private sector schemes which are not providing 'official pensions' under the PIA 1971?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.

6. Question 6: If wider public sector or private sector schemes which are not providing 'official pensions' are impacted by any of the policy options set out in this consultation, why were their pensions originally designed to mirror official pensions?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.

7. Question 7: Should the government take action to avoid any read across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.

8. Question 8: What considerations should the government take into account when deciding whether to take such action? In particular, why should government act so that the members of these schemes do not receive the benefits which they would otherwise receive under the scheme rules?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.

9. Question 9: Are there actions the government could lawfully take to avoid any read- across, from its decision following this consultation in respect of public service schemes, to any wider public sector or private sector schemes that are not delivering 'official pensions' under the PIA 1971?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.

10. Question 10: Are there wider issues relating to the GMP that are not mentioned here and which should be considered when the government decides its policy?

Not applicable - the LGPS provides official pension as defined in schedule 2 of the Pensions Increase Act 1971.