

## Update on The Local Government Pension Scheme

### *Public Service Pension Commission*

The Public Service Pension Commission headed by Lord Hutton and created by the Government to undertake a “fundamental, structural review of public service pensions”, including the Local Government Pension Scheme (LGPS), has issued its final report which includes recommendations to the Government for the future design of public service pension schemes.

The Commission is not proposing a single public service pension scheme, but that over time **public service pensions should move towards a common framework** for scheme design.

The report recommends that the Government should ensure that public service schemes – taken together with a full state pension – should **deliver a good pension in retirement** for scheme members (assuming they work for their full career in public service).

The report sets out “The Deal” for public service workers and taxpayers and stresses that **the pension promises that have been made must be honoured**. **Lord Hutton says:** “This is a balanced deal that will ensure public service workers continue to have good pensions and taxpayers can have confidence that the costs are controlled.”

The key design features contained in the report are intended to apply to all public service pension schemes including the LGPS. However, the Commission recommends that **the LGPS should continue to be a funded pension scheme**.

In this leaflet we take a brief look at how the recommendations made by the Commission may impact on members of the LGPS. **It is important to note, however, that these are only recommendations from the Commission. No actions will be taken until the Government has decided whether or not to accept the recommendations.**

#### **The LGPS now:**

- The current scheme is a **defined benefit final salary scheme**.
- The benefits you get when you retire are based on the length of your **membership** in the scheme and, normally, your **final year’s pay**. The pension you build up during your employment keeps pace with your pay rises. And after you retire, your pension keeps pace with cost of living increases.
- The scheme’s **Normal Pension Age** i.e. the age you can voluntarily leave and receive an unreduced pension, is age 65, although some protected scheme members may be able to retire on or after age 60 and before age 65 without a reduction.

## Recommendations for the future design of public sector pensions:

- **A defined benefit career average revalued earnings (CARE) scheme should be introduced.** This would give a pension based on your average salary indexed by average earnings over your career (rather than one based on your final salary). And after you retire, the pension would be indexed in line with prices to maintain its purchasing power during retirement. **The Commission says:** “The design should benefit the majority of members who do not have the high salary growth [that is]rewarded in a final salary scheme.”
- **The Normal Pension Age** in most public service schemes (including the LGPS) will be expected to keep in line with changes to life expectancy through a link to increases in state pension age.
- **The pension rights** that member’s have built up to the date of the scheme change should be honoured in full. The Commission recommends **maintaining the final salary link for past service** for current members. This would mean that the years you have already worked would provide a pension, payable at your current Normal Pension Age, and calculated on your final year’s pay. Only benefits for future service would be calculated on your career average revalued earnings and be payable from the new Normal Pension Age. **The Commission says:** “This will protect existing staff from the full impact of change in proportion to their age and career length.”
- **A single benefit design** should apply across the whole income range. In other words, the type of benefits you get would be the same regardless of whether you are a high or low earner. However, to recognise that high earners tend on average to live longer (and so draw a pension for longer), **the Commission says:** “The differing characteristics of higher and lower earners should be addressed through **tiered contribution rates.**”
- Members should have **greater choice** over when to start drawing their pension benefits, so they can choose to retire earlier or later than their Normal Pension Age and their pension would be adjusted accordingly. **Flexible retirement** should be encouraged and abatement (i.e. suspension or reduction) of pensions in its current form for those who return to work after drawing their pensions should be eliminated.

The Commission has not made recommendations on employee contribution rates, the rate that the pension builds up in a new scheme or the indexation level to be used between the date a member leaves the scheme and the date the pension is brought into payment. **The Commission says:** “These are matters for the Government as they impact on affordability.”

The Commission recommends that as soon as practical, members of the current defined benefit public service pension schemes should be moved to the new schemes for future service. The Commission’s view is that even allowing for the necessary processes it should be possible to introduce the new schemes before the end of this Parliament (i.e. by 2015).

### The Commission also recommends:

- The change should be the subject of **consultation with staff, employers and unions.**
- There should be **improved standards of pension scheme governance and administration** with staff involvement.
- The Government should establish a **fixed cost to the employer.** If cost grows beyond
- this level action should be taken to get costs back to this level.
- The current and future expected cost of public service pensions should be **published more regularly, consistently and transparently.**

The Commission also recommends that **future non-public service workers should not have access to public service pension schemes**, as this places increased long-term risks on the Government and taxpayers.

- **More Information**

**We hope you find this information helpful.** Further information is available from:

*<http://www.hm-treasury.gov.uk/>*

**Avon Pension Fund**

Floor 3 South  
Riverside  
Temple Street  
Bristol BS311LA

**Telephone: 01225 477000**

**Fax: 01225 395258**

**Website: [www.avonpensionfund.org.uk](http://www.avonpensionfund.org.uk)**

**April 2011**

This leaflet provides brief information on changes to the Local Government Pension Scheme (LGPS) for employees in England or Wales and on developments to pension provisions that may impact on members of the LGPS as announced by the Government. It is for general use only and does not cover every personal circumstance. In the event of any dispute as to benefits due under the LGPS the appropriate legislation will prevail. This leaflet does not confer any contractual or statutory rights and is provided for information purposes only. Changes to the LGPS can be made by the Government in the future after consultation with interested parties.