

LGPS 2014 or how tight is my timescale?

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LGPS reform – more questions than answers

- Hutton report – did it understand the LGPS?
- Short term savings – how much?
- A new scheme for 2015?
- Two stages or just one?

A single process?

- One change not two (or three or four)
- Easier to explain and understand
- Easier to administer
- Easier to regulate for
- BUT difficult to do in the time

Principles agreed December 2011

- Principle 1. A single solution to both short and long term issues by the early introduction of the new scheme (regulations **by April 2013** and implementation from April 2014) negating the need for scheme changes prior to April 2014.
- Principle 2. That the single solution be designed around options that will be worked on the **basis of career average** and can include **zero increases in employee contributions** for all or the vast majority of members provided overall financial constraints are met (recognising that such constraints may change subject to further negotiations with Treasury on meeting the costs of protections – principle 7 - and that there will be no triple counting of recycled savings).
- Principle 3. That the new scheme incorporates some **elements of choice** designed to encourage both retention of existing membership and encourage new membership.
- Principle 4. That scheme costs are based on **actual experience** and the base numbers are provided by Government Actuary's Department (GAD) from the **model fund data**, can be independently verified and are supported by the Association of Consulting Actuaries (ACA).
- Principle 5. In order to encourage flexible retirement, the age at which benefits may be taken (the pension age) is to be **any time between 55 and 75**. Benefits are to be adjusted up or down relative to the proximity of the pension age to the Normal Pension Age (NPA) which is to be **linked to State Pension Age (SPA) or age 65 whichever is later**.

Principles agreed December 2011

- Principle 6. That access to the scheme be provided for a broad range of employees who deliver public services through the **continuation of current Admitted Body Status (ABS)** arrangements
- Principle 7. That the method of meeting the **cost of protections** (final salary and retirement age in the old scheme and the 10 year protection of pension and age into the new scheme), their value relative to other public sector schemes and their scope for recycling need to be confirmed by Treasury.
- Principle 8. That scheme **cost efficiencies be realised** through more effective procurement and provision of both administration and investment services
- Principle 9. That the LGPS **maintain its relative value** in terms of benefits in relation to other public sector schemes
- Principle 10. That the scheme design be subject to robust and **independent equality impact assessment** to ensure it meets all legislative equality requirements in both effect and intent

Principles agreed December 2011

- Principle 11. That the value of the ongoing scheme and the employer contribution cap within that value be **set by agreement between the principal stakeholders of the scheme.**
- Principle 12. That the employer contribution cap contains **both ceiling and floor values** (cap and collar)
- Principle 13. To ensure the long term sustainability of the scheme the mechanisms of management and governance necessary to maintain employer contributions within the cap and collar be set by scheme regulation, be **under the control of the principal stakeholders** of the scheme and use model fund data.
- Principle 14: The mechanisms shall include tools to vary liabilities and revenue (e.g. changes to the benefit structure and / or employee contribution rates). The mechanisms shall also **include a default position** should agreement not be reached within a preset timescale. However such a default position should not contain a predisposed and disproportionate disbenefit to either employees or employers
- Principle 15. That a clear and effective mechanism be put in place to **translate the effects of cap and collar** to individual employers in the LGPS. In particular the circumstances which will allow for individual employer rates to be set outside of the cap and collar.
- Principle 16. That within the cap and collar **individual funding levels are to be monitored** and constrained within an acceptable range.
- Principle 17. That the cap and collar mechanism be an **intrinsic part of the agreement** on the new scheme not a separate process.

Project 2014

- Timescale for agreement April 2012
- Regulations start to be drafted April 2012
- Consultation on regulations autumn 2012
- New regulations March 2013
- Sounds ok but.....

Project 2014 – workstream 1

By End Feb/Beginning of March

- **Objective 1:** Confirmation of the basis of the scheme design (e.g. CARE)
- **Objective 2:** Confirmation of the accrual rate for the scheme
- **Objective 3:** Confirmation of the revaluation rate
- **Objective 4:** Confirmation of the actuarial methodology for variation to benefits either side of the NPA (with the NPA being the later of age 65 or SPA)
- **Objective 5:** Confirmation of the value, distribution and phasing of any employee contribution increases
- **Objective 6:** Confirmation of the transitional protections

Project 2014 – workstream 2

By Mid/End of March

- **Objective 7:** Confirmation of the parameters of the employer cap and collar
- **Objective 8:** Confirmation of the mechanism for variation of the elements to maintain scheme costs within the cap and collar values
- **Objective 9:** Agree recommendations on best practice in governance and procurement

Project 2014 – make up

- **Working groups** – meet as required to consider and debate ideas to go to project team – provides for input from scheme stakeholders – two groups administration and governance
- **Project team** – meets weekly or more if required – considers options, works with GAD and fund actuaries to cost. Unions. LGA and DCLG
- **Project board** – meets fortnightly to consider the recommendations of project team, makes decisions. Unions LGA and DCLG

Project 2014 – working groups

- **Administration working group** – two stage process - looking at simplification issues for new scheme (eg pensionable pay) - then assisting in the drafting process
- **Governance working group** – considering ‘best practice rules’, demonstrating and policing compliance – also getting serious about savings in procurement and shared services

Project 2014 – progress

- **On target for workstream one subject to government view of progress** – confidential nature of discussions mean I cannot say anymore so please don't ask me
- **Workstream two** – commenced
- **Next steps** – watch this space or more specifically www.lgps.org.uk

Any questions?