

<b>Body:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>14 May 2014</b>
<b>Subject:</b>	<b>The Local Government Pension Scheme 2014</b>
<b>Report of:</b>	<b>Deputy Chief Executive</b>
<b>Ward(s)</b>	All
<b>Purpose</b>	To appraise Cabinet of the key changes to the Local Government Pension Scheme 2014. To seek approval of the recommendation to Council for the policy in respect of the employer exercising discretions for the 2008 and 2014 schemes.
<b>Recommendation:</b>	The Cabinet is asked to approve, for recommendation to the full Council, the policy for the exercise of the employer's discretion within the Local Government Pension Scheme 2008 and 2014 as set out in Appendix 2 and 2a of this report.
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## **1.0 Background**

1.1 The Local Government Pension Scheme (Benefits, Membership and Contributions Regulations 2008) required member employers to publicise a statement of policy on a number of compulsory regulation discretions.

In 2010, the Government commissioned an independent review into public service pensions. The review chaired by Lord Hutton, published its final report in March 2011 and set out a number of recommendations for change to ensure that pension arrangements were sustainable and affordable in the long term.

Following extensive consultation on the proposed changes, regulations to amend the Local Government Pension Scheme (LGPS) were laid before Parliament on 19 September 2013 and will come into force on 1 April 2014.

## **2.0 The Local Government Pension Scheme (LGPS) 2014**

2.1 The regulations made a number of changes, in particular, the major changes are:

- (i) the basis of the pension which, going forward will now be based on a CARE (Career Average Revalued Earnings) scheme as opposed to the current final salary arrangement;
- (ii) More employee contribution bands;

- (iii) A new definition of pensionable pay, and
- (iv) A 50/50 option whereby members can choose to pay 50% contributions for 50% of the pension benefits.

Attached at Appendix 1 is a high level summary of the key changes.

## 2.2 **Employer Discretions**

In additions to the above changes, the regulations also require each Scheme employer to formulate and publish its policy in relation to how it will exercise its discretionary functions.

In the main, the employer discretions are very similar between the two schemes (ie the current LGPS and the amended 2014 scheme). Attached at Appendix 2 & 2a is a summary of the discretions and the proposed policy for the Council to adopt for both schemes.

The 2013 regulations introduce two new discretions in relation to 'Additional Pension Contributions' (APCs). Essentially APCs provide for additional pension to be purchased which will then enhance the final pension benefits payable. The discretions provide the opportunity for the employer to fund, either in whole or in part, the cost of this additional pension contribution.

In determining our policy on this, careful consideration needs to be given to both the circumstances in which such contributions will be made and the costs of doing this. In practice, there will be very few, if any, occasions when this would be appropriate as this is likely to be used as either a recruitment incentive or as part of a severance arrangement. The costs associated with this are considerable, for example, the maximum additional pension which can be purchased is £6,500. As a guide, the costs of purchasing this for a male aged 40 years is £55,926 and for a female aged 40 years is £59,826. These costs increase the older the individual, for example, rising to £78,208 for a female aged 50 years.

The level of cost is disproportionate to the potential benefit(s) that would be gained by the organisation in applying this discretion and as such, there is no business case for operating it. It is recommended that our policy in relations to APCs is to not exercise this discretion.

## 3.0 **Consultation**

- 3.1 Unison has been consulted on the recommended policy decision in respect of the employer discretions for both the 2008 and 2014 LGPS.

## 4.0 **Resource Implications**

- 4.1 None – other than those costs accrued in cases where discretion is exercised as detailed in the appendices.

## 5.0 **Conclusion and Recommendations**

- 5.1 In summary there are six employer discretions under each of the LGPS

Regulations 2007 and 2013 on which employers are required to formulate a policy. As noted in paragraph 2.2 above, these along with the proposed policy for both sets of regulations, are detailed in Appendix 2 & 2a.

It is worth noting that of the six discretions under the LGPS regulations 2013, three are existing ones and the policy as proposed has therefore been operating for the last five years. These have served us well during this time and we can be confident that the proposed policy is both reasonable and appropriate.

The Cabinet is therefore recommended to approve for recommendation to the Council, the policy for the employer discretions within the Local Government Pension Schemes 2008 and 2014, as set out in Appendix 2 & 2a of this report.

<b>Lead officer</b>	<b>Becky Cooke</b>
<b>Job Title</b>	<b>Strategic Organisational Development Manager</b>

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**Background Papers:**  
**None**