Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	**Consultation on Proposed Scheme Design for the Local Government Pension Scheme (Northern Ireland) 2014**
Date:	24 May 2013
Reporting Officer:	Ronan Cregan, Director of Finance and Resources
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1	**Relevant Background Information**
1.1	On the 11 April 2013, the Department of the Environment issued the above consultation document on the design of the new Local Government Pension Scheme. It is proposed that the new scheme is introduced from 1 April 2014.
1.2	Separate consultations are awaited on the Scheme administration, governance and cost sharing and the transitional arrangements to move members forward from the 2009 Scheme. This paper provides a summary of the new scheme and presents a draft response for the consideration of Members. The contents of this paper and the draft response are based guidance issued by the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) and the draft response to the consultation prepared by NILGOSC.
2	**Key Issues**
	The 2014 Scheme
2.1	The main provisions of the proposed new Scheme are as follows: • Career average revalued earnings (CARE) Scheme • $1/49^{th}$ accrual rate • Revaluation rate is assumed to be the Consumer Price Index (CPI) • Normal pension age is equal to the member's state pension age (minimum of age 65) • Definition of pensionable pay now includes non-contractual overtime and additional hours • Contribution rates are set on actual pensionable pay, the number of contribution bands decrease and the ranges change • 50/50 option where members can pay 50% contributions and receive half the pension accrual rate (i.e. 1/98th) • Vesting period is two years

- Ill-health retirements as current i.e. a two tier system
- Death in service lump sum is 3 X pensionable pay
- Survivor benefits as current
- Commutation rate as current i.e. £1 of pension for every £12 of lump sum given up

The Differences Between the Proposed 2014 and the current 2009 Schemes

2.2 Table 1 below describes the main differences between the proposed 2014 and current 2009 Schemes.

Table 1
Key Differences Between Proposed 2014 Scheme and Current 2009 Scheme

<table>
<tr><th></th><th>LGPS (NI) 2014</th><th>LGPS (NI) 2009</th></tr>
<tr><td>Type of Scheme</td><td>Defined Benefit Career Average Revalued Earnings (CARE)</td><td>Defined Benefit Final Salary Scheme</td></tr>
<tr><td>Accrual Rate</td><td>1/49th</td><td>1/60th</td></tr>
<tr><td>Revaluation Rate</td><td>The index by which pension built up each year is increased in order to retain its value – revaluation adjustment assumed to be Consumer Price Index (CPI)</td><td>Final pension normally based on final salary</td></tr>
<tr><td>Normal Pension Age</td><td>The member’s State Pension Age (minimum 65)</td><td>Age 65</td></tr>
<tr><td>Minimum Pension Age</td><td>Age 55</td><td>Age 55</td></tr>
<tr><td>Definition of pensionable pay</td><td>Now includes non-contractual overtime and additional hours</td><td>Excludes non-contractual overtime and non-pensionable additional hours</td></tr>
<tr><td>Members’ contribution rates and banding</td><td>Contribution rates are calculated on actual pay received
<table>
<tr><td>Range</td><td>Contribution Rate</td></tr>
<tr><td>Up to £13,500</td><td>5.5%</td></tr>
<tr><td>£13,501 – £21,000</td><td>5.8%</td></tr>
<tr><td>£21,001 – £34,000</td><td>6.5%</td></tr>
<tr><td>£34,001 – £43,000</td><td>6.8%</td></tr>
<tr><td>£43,001 – £85,000</td><td>8.5%</td></tr>
<tr><td>More than £85,000</td><td>10.5%</td></tr>
</table></td><td>Contribution rates are calculated on full-time equivalent pay
<table>
<tr><td>Range</td><td>Contribution Rate</td></tr>
<tr><td>Up to £13,500</td><td>5.5%</td></tr>
<tr><td>£13,501 – £15,800</td><td>5.8%</td></tr>
<tr><td>£15,801 – £20,400</td><td>5.9%</td></tr>
<tr><td>£20,401 – £34,000</td><td>6.5%</td></tr>
<tr><td>£34,001 – £45,500</td><td>6.8%</td></tr>
<tr><td>£45,501 - £85,300</td><td>7.2%</td></tr>
<tr><td>More than £85,300</td><td>7.5%</td></tr>
</table></td></tr>
<tr><td>Contribution flexibility</td><td>50/50 option where members can elect to pay 50% contributions and accrue 50% of the pensionable benefits</td><td>None</td></tr>
</table>

	LGPS (NI) 2014	LGPS (NI) 2009
Vesting period	Two years period of service when members can get a refund of their contributions if they leave the Scheme	Three months period of service when members can get a refund of their contributions if they leave the Scheme
Ill-health retirements	Need two years service to qualify Tier 1 – immediate payment of benefits with membership enhanced by period to Normal Pension Age (state pension age or age 65 if higher) Tier 2 – immediate payment of benefits with membership enhanced by 25% of pension to Normal Pension Age (state pension age or 65 if higher)	Need one year service to qualify Tier 1 – immediate payment of benefits with membership enhanced by period to Normal Pension Age (age 65) Tier 2 – immediate payment of benefits with membership enhanced by 25% of pension to Normal Pension Age (age 65)
Death in service lump sum	3 x pensionable pay	3 x pensionable pay
Death in service survivor benefit	1/160th accrual based on tier 1 ill-health enhancement	1/160th accrual based on tier 1 ill-health enhancement
Commutation Rate	£12 lump sum for every £1 of pension given up	£12 lump sum for every £1 of pension given up
Indexation of pension payment	Consumer Price Index (CPI)	Consumer Price Index (CPI)

Commentary on some of the proposed changes

2.3 The proposed changes will impact on:-

- Members of the Scheme (in terms benefits, unless transitional protection applies)
- Council Resources (in terms of the Employers Contribution required to fund the Scheme)
- Payroll Operations (in terms of the administrative and systems impact of the proposed changes)

2.4 The following paragraphs provide commentary, which is again based mainly on correspondence and publications by NILGOSC, on the proposed changes.

<u>Type of Scheme</u>

2.5 In the proposed CARE Scheme pension benefits accrue during the period of membership relative to the actual earnings in each year. These benefits are then revalued each year to keep pace with inflation.

2.6 In simple terms, each year a member will have an opening balance, to which pension built up during the year and any additional pension purchased is added, the total amount of pension is then revalued (revaluation adjustment) to give a closing balance. This closing balance becomes the new opening balance for the next year.

2.7 This change to yearly accrual of pension amounts will require payroll departments to accurately calculate the pensionable pay each payroll run and deduct contributions at the correct rate. Payroll software will need to allow for possible variations in pay and contribution bands due to the effect of non-contractual hours and overtime now being pensionable. NILGOSC will have to be advised of the pensionable pays (under both the 2014 definition and the 2009 definition) and contributions paid on an annual basis.

2.8	NILGOSC have expressed the view that Members will need to have an appeal facility in respect of pensionable pay calculations as each year's pay is immediately used to determine their pension saving for that year. This is unlike the current final salary arrangement where it is the final pay at retirement that is the critical pay in determining pension benefits.
	<u>Normal Pension Age</u>
2.9	The new Scheme proposes that the normal pension age is linked to State Pension Age subject to a minimum of age 65.
2.10	State Pension Age is to reach age 65 for both men and women by November 2018. It is then to increase to age 66 from December 2018 to October 2020 and to age 67 between 2034 and 2036. The Coalition Government has recently announced plans to bring forward the rise to age 67 and then link future increases in State Pension Age to life expectancy.
2.11	This increase in State Pension Age and therefore Scheme normal pension age is likely to affect costings for ill-health retirement as the enhancement period is relative to normal pension age.
2.12	Early retirement provisions for redundancy and ill-health remain unchanged but employer capital costs on redundancy could also increase as Scheme normal pension age increases.
	<u>Pensionable Pay</u>
2.13	It is proposed that pensionable pay includes non-contractual payments such as overtime and additional hours.
2.14	This would mean an additional employers contribution cost to the Council. The current Employers contribution rate is 20%.
2.15	The inclusion of non contractual payments will require amendments to Payroll software and complex calculation of assumed pensionable pay for deduction purposes.
	<u>Members' Contribution Rates and Bandings</u>
2.16	Payroll software will need to be able to set contribution rates according to actual pay received and not full-time equivalent pay.
	<u>50/50 Option</u>
2.17	This option enables employees to elect to contribute half the contributions and receive half the pension. They will however retain the full value of other benefits including the death in service lump sum. Employer contributions remain at full level while a member is in the 50/50 Option.
2.18	The aim of this option is to prevent individuals opting out and not having any pension provision and it is suggested that individuals within the 50/50 option will be re-enrolled back into the main Scheme at regular intervals.
2.19	Payroll systems will need to be able to keep a separate pensionable pay relating to periods within the 50/50 option and any assumed pensionable pay relating to that period. These separate pays will need to be notified to NILGOSC on an annual basis.
	<u>Vesting Period</u>
2.20	The increase in vesting period to two years will mean that employers will need to differentiate between those members who are opting out under automatic enrolment and those opting out under Scheme rules.
	<u>Transitional Protections</u>
2.21	The consultation document (page 16) describes transitional protections as follows:

	• Members of the 2009 Scheme will retain the link to final salary and a normal pension age of 65 in respect of the pension built up to 1 April 2014. Pension built up to this date will be calculated separately when a member retires and added to the pension built up in the 2014 Scheme. • Members within ten years of retirement at 1 April 2012 will have an underpin i.e. they will receive a pension at least equal to that which they would have received under the pre-2014 Scheme. • Existing protections for 85 year rule benefits will be carried forward in to the 2014 Scheme.
2.22	The proposed transitional protections means that payroll software will have to continue to hold all the information that is currently required under the 2009 Scheme as well as the new requirements under the 2014 Scheme.
2.23	Further complications will arise if arrears are paid which relate to both pre and post 1 April 2014 membership as these arrears will have to be split out from 2014 pensionable pay and allocated to the correct year. This ensures that there is no double provision of pension benefits.

3	**Recommendations**
	Members are asked to consider the attached draft response to the consultation.
4	**Decision Tracker** The Director of Finance and Resources will submit the response by the consultation deadline if agreed by the Committee.

Attachments

Appendix A – Consultation Document

Appendix B – Draft Consultation Response