

P/6/12  
31 May 2012

## LGPS 2014

# THE PROPOSED NEW LOCAL GOVERNMENT PENSION SCHEME

After long and difficult negotiations between GMB, Unison, Unite and the Local Government Association (LGA); and further negotiation with government, I can now outline the proposed benefit and contribution structure for the reformed LGPS. These proposals replace government's previous plans which would have seriously damaged the LGPS. The new scheme, LGPS 2014, is to start on 1<sup>st</sup> April 2014 and apply to all service from that point. There will not be any changes to benefits or contribution rates before that date.

### Key Points

1. All pension built up before and up to 1<sup>st</sup> April 2014 will remain linked to your final salary and current normal pension age.
2. Most members will pay the same contributions in the new scheme as they do now.
3. The LGPS 2014 will be a career average scheme with a 1/49<sup>th</sup> accrual revalued by CPI (instead of the current final salary scheme with a lower 1/60<sup>th</sup> accrual).
4. Each member will have an individual normal pension age in the LGPS 2014 that matches their state pension age (whatever that is when they reach it).
5. Members who are outsourced will be able to stay in the LGPS and not have to move to a broadly comparable scheme.
6. Members who cannot afford to participate in the main scheme can opt for a 50/50 option and pay half their contribution rate and build up half as much pension as in the main LGPS 2014 while still being covered by full death in service, ill health cover and survivor benefits.
7. All other benefits stay the same as now.

### Member Contributions

It was a key GMB priority to ensure the vast majority of members of the LGPS did not have their contributions increased as a result of these changes. We have achieved this and also addressed some of the other issues that members have in the current scheme. In LGPS 2014 contributions will be set on the basis of actual pensionable pay which, for

the first time will include non-contractual overtime. This means that part timers will not have to work out their full or whole time equivalent earnings, both contributions and benefits will be based on actual pay. The impact of tax relief means that basic rate taxpayers effectively get a 20% discount on their headline contribution rate while higher rate taxpayers get a 40% discount. The changes to the contribution bands shown in the table below mean some differences for some individuals but overall the average member contribution remains at 6.5% as it is in the current scheme.

<b>Actual Annual Pay</b>	<b>Headline/Gross Contribution</b>	<b>'Real' Contribution After Tax Relief</b>
<b>Less than £13,501</b>	<b>5.5%</b>	<b>4.40%</b>
<b>£13,501 - £21,000</b>	<b>5.8%</b>	<b>4.64%</b>
<b>£21,001 - £34,000</b>	<b>6.5%</b>	<b>5.20%</b>
<b>£34,001 - £43,000</b>	<b>6.8%</b>	<b>5.44%</b>
<b>£43,001 - £60,000</b>	<b>8.5%</b>	<b>5.10%</b>
<b>£60,001 - £85,000</b>	<b>9.9%</b>	<b>5.94%</b>
<b>£85,001 - £100,000</b>	<b>10.5%</b>	<b>6.30%</b>
<b>£100,001 - £150,000</b>	<b>11.4%</b>	<b>6.84%</b>
<b>More than £150,000</b>	<b>12.5%</b>	<b>6.88%</b>

### **Scheme Benefits**

There are a number of changes to the benefit structure in the LGPS 2014. The good news is that the pension you build up should be higher than in the LGPS 2008 because the accrual rate is significantly better (1/49<sup>th</sup> instead of 1/60<sup>th</sup>). The bad news is that your pension age for service in the LGPS 2014 (but not your past service) will be the same as whatever your ultimate state pension age is. For older members this may still be 65 but for younger members it could be 66, 67 or 68. Over time it is likely that your state pension age will increase further, when it does, your LGPS 2014 pension age will also increase for all your service after 1<sup>st</sup> April 2014.

GMB will be sending out much more briefing material as the consultation continues but in summary, the benefits of the LGPS 2014 compared with the current LGPS 2008 are set out below. More detail can be found on the LGPS 2014 website at [www.lgps.org.uk](http://www.lgps.org.uk)

	<b>LGPS 2014</b>	<b>LGPS 2008</b>
<b>Basis of Pension</b>	Average pay over your career revalued by inflation	Final Salary
<b>Accrual Rate</b>	1/49 <sup>th</sup>	1/60 <sup>th</sup>
<b>Revaluation Rate</b>	CPI	Not applicable, pension linked to salary on retirement
<b>Employee Contribution Rate - Average 6.5%  (based on whole time pensionable pay for LGPS 2008 &amp; actual pensionable pay for LGPS 2014)</b>	Up to £13,500 5.5% £13,500 - £21,000 5.8% £21,001 - £34,000 6.5% £34,001 - £43,000 6.8% £43,001 - £60,000 8.5% £60,001 - £85,000 9.9% £85,001 - £100,000 10.5% £100,001 - £150,000 11.4% Over £150,000 12.5%	Up to £13,500 5.5% £13,501 - £15,800 5.8% £15,801 - £20,400 5.9% £20,401 - £34,000 6.5% £34,001 - £45,500 6.8% £45,501 - £85,300 7.2% Over £85,300 7.5%
<b>Contribution Flexibility</b>	Yes, members can pay 50% contributions for 50% of the pension benefit	No
<b>Pension Age</b>	Equal to the member's individual state pension age (minimum 65)	65

<b>Lump Sum Trade Off</b>	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
<b>Death in Service</b>	3 x pay	3 x pay
<b>Survivor Benefits</b>	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement	1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement
<b>Ill Health Provision</b>	Tier 1 - immediate payment with service enhanced to pension age Tier 2 - immediate payment of pension with 25% service enhancement to pension age Tier 3 - temporary payment of pension for up to 3 years	Tier 1 - immediate payment with service enhanced to 65 Tier 2 - immediate payment of pension with 25% service enhancement to 65 Tier 3 - temporary payment of pension for up to 3 years
<b>Indexation of Pension in Payment</b>	CPI	CPI
<b>Vesting Period*</b>	2 years	3 months
<b>Outsourcing - compulsory transfers out of LGPS employment</b>	Members stay in the LGPS	Members either stay in the LGPS or move to a broadly comparable scheme

\*The vesting period is the window of service when members can get a refund on their contributions if they leave instead of having a very small pension tied up in the scheme until retirement

## Protections

There are a number of protections that will apply, some affect all members while others are targeted at specific groups.

**Past service** - all pension built up before 1<sup>st</sup> April 2014 will be calculated on the basis of your final pay on retirement and your current normal pension age

**Rule of 85** - if you currently qualify for Rule of 85 protection you will continue to have that protection in the LGPS 2014

**Underpin** - if you are aged 57-59 when the new scheme starts, your pension on retirement will be calculated by both LGPS 2008 and LGPS 2014 scheme rules and you will get whichever calculation is better. This is to reflect protection for

those closest to retirement who would otherwise be affected by a new pension age and is a general feature of the new public sector pension schemes.

**Fair Deal** - members compulsorily transferred out of LGPS employment will be able to stay in the LGPS instead of being transferred to a new employer's broadly comparable pension scheme (currently this is up to the new employer).

### **Next Steps**

There will now be a period of time for GMB to brief members on the proposals for the new scheme. We will then proceed to an individual member ballot so every GMB member covered by the LGPS will get a say on whether the LGPS 2014 is acceptable or not.

Undoubtedly, the proposed new scheme will have a bigger positive or negative impact on some members than others. We remain very concerned about the link between individual scheme and state pension age but at the same time we have managed to improve the accrual rate and ensure that the vast majority of members will not see their contribution rates increased. Overall, I believe it is a fair outcome.

I will be sending out more information on the proposals in due course and I urge you to take the time to have a look at the terms of the new scheme, what it'll mean to you and what it will mean to the future LGPS workforce.

Other unions will also be consulting members and the LGA will be consulting employers on the proposals. If accepted then we expect DCLG to start the regulatory process later this year.

Thank you to all GMB members for supporting last year's industrial action and our wider campaign to defend the LGPS. Your support enabled us to re-negotiate the original proposals from government which would have been disastrous.

*Brian Strutton*

Brian Strutton

National Secretary - Public Services Section

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