LOCAL GOVERNMENT
bulletin
OF THE PUBLIC SERVICES SECTION

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WHY THE LGPS PENSION TAX MUST BE STOPPED

The Local Government Association (LGA) have now written to George Osborne echoing GMB's campaign to stop the needless 3% hike in member contributions to the LGPS announced in the Chancellor's Comprehensive Spending Review on 20th October 2010. Since the Chancellor's announcement DCLG has announced that £900m is to be raised from increasing members' contributions by 3.2% in England & Wales with a further £140m to be raised from members of the LGPS (Scotland).

Where this leaves the LGPS…

- No Extra Funding For The Scheme

The £1bn is not being used to improve the funding of the scheme, the central government grant to councils and devolved institutions is being reduced by the same amount as the contribution increase is intended to generate. The result is that local authorities will reduce their employer contributions to the LGPS by 3.2%, so the net effect on the scheme's funding level would be zero.

- Members Paying More For Less

The change in the indexation of LGPS benefits from RPI to CPI has reduced the value of members' pension savings. The employers will reduce their future service contributions to 9% (from the current 12.2%) while member contributions will on average rise to 9.6%.

- Exodus Of Scheme Members

Survey data compiled by LGPS trade unions shows that 40-50% of current scheme members will opt out when this policy is implemented. Treasury assume that the equivalent of 1% of paybill will opt out as a result of this policy, unions, actuaries, employers and local government treasurers all agree that this is a major underestimate.

- Limiting Opt Outs

The Chancellor stated that opt outs should be minimised but this is impossible in the LGPS because of the high proportion of low paid workers in the scheme (68% earn less than £22,000). In order to protect the low paid those above an arbitrary definition of low pay will see their contributions increase significantly more in order to generate the required level of savings. DCLG have indicated that if only those earning under £18,000 are protected from the new tax, other members will see their contributions more than double to 15%.

Why unions, employers, funds and LGPS experts oppose this policy…

- Policy Is Not Necessary For The LGPS

The LGPS was reformed in 2008 and members increased their contributions as part of a new scheme. The recent scheme valuation shows that the cost of the scheme to the taxpayer is falling. As a funded scheme, LGPS pensions are not paid by Treasury but out of pension funds, as in the private sector.

- Policy Doomed To Fail

The high number of opt outs from a scheme with the lowest participation rate in the public sector will mean that there are fewer and fewer members left to pay this new tax. The contribution rates of those remaining in the scheme will then have to be increased further in order to generate the £1bn the Chancellor has demanded. All indications from members, employers and fund administrators are that the higher employee contributions rise, the more people will opt out.

- Policy Threatens The Scheme's Sustainability

Increases in opt out rates will distort the scheme's funding plans with the 101 funds in the UK having to rebalance the £150bn of assets they have invested. Assets invested in UK companies for example will have to be sold and exchanged for the more secure income return provided by government bonds. This will lead to less income for the scheme from investments as well as from contributions which will wipe out the scheme's current £4bn annual cash flow surplus.

- Policy Threatens The Economy

The LGPS is by far the biggest pension scheme in the country and is heavily invested in UK businesses and property, a dramatic withdrawal from these investments resulting from a fall in participation levels would be devastating for the economy as a whole. In the long term the fall in pension saving resulting from this policy will increase the pressure on state benefits and public services as members who are now retiring with an average £4,000 a year pension are replaced by retirees with no pension income at all.

- Taxing Pension Saving Sends Out The Wrong Message To The Public

DWP claims that the promotion of quality occupational pension saving is one of its objectives yet across Whitehall the Treasury is introducing a levy on pension savers. This actively discourages saving for retirement and penalises those who have decided to take responsibility for pension saving.

This is vital. GMB wants everyone to know the truth about this policy – please hold meetings etc, we can provide speakers where necessary

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