

LGPS UPDATE

As predicted in previous bulletins, the coalition government has lost no time in targeting public sector pensions. This update sets out what steps the government is taking and the challenges ahead.

Budget Announcement

The budget set out a change in the indexation (the amount pensions increase each year to keep up with the cost of living) of all public sector pensions. This includes all existing pensioners and deferred members as well as the past and future service of current contributing members. Historically pensions from the LGPS were increased each April in line with the previous September's RPI figure. This year, as RPI in Sep 2009 was negative, no increase was applied in April 2010. On average RPI is up to 1% higher than the new measure the government have decided to adopt for pension indexation: CPI. This means that over the course of a twenty year retirement an LGPS member could effectively lose a fifth of the pension they would have had if the Tories/Liberals had not made this change.

Hutton Review

The government has also announced that John Hutton, the former Labour Secretary of State for Pensions, is to conduct a review of all public sector pensions. In a very short timescale a request was circulated by this Independent Public Service Pension Commission for evidence to the first stage of Hutton's deliberations. GMB made a full written submission which is available online at www.gmb.org.uk/pspc and is participating in an ongoing dialogue with the Commission.

The first stage of the IPSPC's review on the potential for short term savings is due to be submitted to the government in September in time for the Spending Review in October. A second report on the longer term approach to public service pensions, including the LGPS, is due in Spring 2011.

Hutton Submissions

GMB's evidence reflected the ongoing discussions we have had with this and the previous government about reforms to the LGPS. As members will be aware we have consistently sought to retain the value of the scheme to members and make changes to ensure the continued viability of the scheme to members and taxpayers. In 2008/9 a new LGPS was introduced for all members with some key changes to benefits,

contributions and the outline of a cost sharing mechanism for the future. We have urged the IPSPC and government to acknowledge the impact of these still very recent reforms and allow the cost sharing mechanism to be introduced and tested before any radical changes to the scheme are force through.

We have always recognised the need for the LGPS to be adaptable, not least to the changing shape of the workforce in local government and related employment. In the GMB submission we reiterated our call for a new member contribution rate of 10% for those earning over £100,000. We also called for the IPSPC to examine retaining the current value of the LGPS but changing the final salary basis to a career average based scheme.

Career Average

Career average schemes are an alternative form of defined benefit pension scheme to final salary schemes. Instead of your pension being based on your last year's pensionable salary it is based on the average salary you have received over your period of membership revalued to take into account the effects of inflation. Final salary schemes are designed to benefit those who get promoted during their time in the scheme, the traditional management career model. Career average generally benefits those who stay in the same job and see their pay increase only as a result of annual pay rises. This now reflects the pattern of the majority of members of the LGPS and the majority of GMB members. It is also advantageous when pay rises are below the rate of revaluation (which is usually an index based on average earnings or inflation).

In considering this option for the LGPS there are two important factors to take into account. Firstly, any change would only apply to service after the date of any change, so current members would have all their service recorded on a final salary basis up to date X and on a career average basis afterwards (as the change in accrual rate is recorded since the new scheme was introduced). Secondly, GMB's consideration of career averaging is conditional on retaining the same overall value of the LGPS not as a means to reduce costs. We would also insist on consulting members over any such proposed change.

More information on career average is available in the GMB Guide to Pensions available to GMB members at www.gmb.org.uk/pensions

Next Steps

GMB continues to discuss LGPS reform in the official Policy Review Group and challenge the many unwarranted and inaccurate attacks levelled at the scheme and its members. Material is available on the website to assist members in challenging any attacks they see in the media or from local politicians. The cut to the LGPS announced in the budget will not be the end of the attacks from the government on members' retirements and we must all work together to make sure GMB members' voices are heard.

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