

DCLG CONSULTATION – 7th October 2011

The Department for Communities and Local Government issued a consultation on 7th October about changes to the LGPS. They set out two options, both involving higher contributions and worse accrual. The options are set out below with examples.

Option 1

1. Increase employees' contributions from April 2012 from average 6.5% to 8%; and
2. Cut the scheme accrual rate from 1/60th per year of service to 1/64th in April 2013 and cut it again to 1/65th in April 2014

1. Contribution Increases

Members should be aware that the bands below relate to full time equivalent earnings, so if you work less than full time hours the relevant band for you is the one that relates to the pay you would get if you worked full time (even if that is impossible), not your actual pay. This means in practice that very few are covered by the protection for the lowest paid that government promised.

The increase is staged as set out in this table with increases every year leading up to a new scheme that government intends to introduce in April 2015.

Earnings (full time)	Current Contribution Rate	Contribution Rate April 2012 – March 2013	Contribution Rate April 2013 – March 2014	Contribution Rate From April 2014
< £12,901	5.5%	5.5%	5.5%	5.5%
£12,901 - £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 - £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 - £21,000	6.5%	6.7%	7.2%	7.7%
£21,001 - £32,400	6.5%	7.2%	8%	8.3%
£32,401 - £43,300	6.8%	7.5%	8.3%	8.7%
£43,301 - £60,000	7.2%	8.2%	8.7%	9%

£60,001 - £81,100	7.2%	8.7%	9.2%	10%
£81,101 - £100,000	7.5%	9%	9.8%	11%
£100,001 - £150,000	7.5%	9.5%	11%	12%
> £150,000	7.5%	10%	12%	12.5%

Example

Michael earns £25,000 a year and currently contributes £1,625 a year to the LGPS. These increases mean that in April 2012 he will need to pay in £1,800 a year to stay in the scheme, in 2013 that will increase to £2,000 a year and from April 2014 he will need £2,075 to stay in a scheme that will be building up less pension than now.

Part timers beware!

If you earn £10,000 a year but work half hours (50% of a full timer's hours) your full time equivalent earnings in the table above are £20,000. This means your contribution over this period would increase by £120 a year from £650 (6.5%) to £770 (7.7%) but because of the cut in accrual rate you will be building up less pension.

2. Cut in Accrual Rate

In the LGPS at the moment you build up $1/60^{\text{th}}$ of your final salary for every year you are in the scheme. So if you have been a full time member of the LGPS for 20 years and retire on a salary of £14,000 your pension will be $20/60$ multiplied by £14,000 i.e. £4,667 a year.

CLG propose that in the year April 2013-4 you will only build up $1/64^{\text{th}}$ of your final salary and from April 2014 the rate will be $1/65^{\text{th}}$.

Example

Karina joined the LGPS in April 2010, she leaves the LGPS in April 2025 by which time her full time salary is £20,000 a year. Her pension from the LGPS 2008 would have been £5,000 a year. However, under this proposal her pension will be worth £4,697 a year which is calculated as follows:

LGPS 2008 Pension: 15 (years service) * $1/60^{\text{th}}$ (accrual rate) * £20,000 (final salary) = £5,000 [for a total member contribution on £19,500]

Reduced pension as a result of this consultation:

$3 \text{ (years service)} * 1/60^{\text{th}} \text{ (accrual rate)} * \text{£}20,000 \text{ (final salary)} + 1 * 1/64^{\text{th}} * \text{£}20,000 + 11 * 1/65^{\text{th}} * \text{£}20,000 = \text{£}4,697$ [for a total member contribution of £22,320]

Annual pension lost over total scheme membership = £303

Extra annual member contributions over scheme membership = £2,820

Option 2

1. Increase employees' contributions from April 2012 from average 6.5% to 7.5%; and
2. Cut the scheme accrual rate from $1/60^{\text{th}}$ per year of service to $1/67^{\text{th}}$ in April 2014

1. Contribution Increases

Members should be aware that the bands below relate to full time equivalent earnings, so if you work less than full time hours the relevant band for you is the one that relates to the pay you would get if you worked full time (even if that is impossible), not your actual pay. This means in practice that very few are covered by the protection for the lowest paid that government promised.

The increase is staged as set out in this table with increases every year leading up to a new scheme that government intends to introduce in April 2015.

Earnings (full time)	Current Contribution Rate	Contribution Rate April 2012 – March 2013	Contribution Rate April 2013 – March 2014	Contribution Rate From April 2014
< £12,901	5.5%	5.5%	5.5%	5.5%
£12,901 - £15,100	5.8%	5.8%	5.8%	5.8%
£15,101 - £19,400	5.9%	5.9%	6.0%	6.0%
£19,401 - £21,000	6.5%	6.5%	6.8%	6.8%
£21,001 - £32,400	6.5%	6.8%	7.2%	7.5%
£32,401 - £43,300	6.8%	7.1%	7.8%	8.2%
£43,301 - £60,000	7.2%	7.8%	8.4%	8.8%

£60,001 - £81,100	7.2%	8.7%	8.8%	9.5%
£81,101 - £100,000	7.5%	9%	9.8%	10.5%
£100,001 - £150,000	7.5%	9.3%	10.8%	11.5%
> £150,000	7.5%	9.5%	11.8%	12.5%

Example

Michael earns £25,000 a year and currently contributes £1,625 a year to the LGPS. These increases mean that in April 2012 he will need to pay in £1,700 a year to stay in the scheme, in 2013 that will increase to £1,800 a year and from April 2014 he will need £1,875 to stay in a scheme that will be building up less pension than now.

Part timers beware!

If you earn £10,000 a year but work half hours (50% of a full timer's hours) your full time equivalent earnings in the table above are £20,000. This means your contribution over this period would increase by £30 a year from £650 (6.5%) to £680 (6.8%) but because of the cut in accrual rate you will be building up less pension.

2. Cut in Accrual Rate

In the LGPS at the moment you build up 1/60th of your final salary for every year you are in the scheme. So if you have been a full time member of the LGPS for 20 years and retire on a salary of £14,000, your pension will be 20/60 multiplied by £14,000 i.e. £4,667 a year.

CLG propose that from April 2014 you will only build up 1/67th of your final salary.

Example

Karina joined the LGPS in April 2010, she leaves the LGPS in April 2025 by which time her full time salary is £20,000 a year. Her pension from the LGPS 2008 would have been £5,000 a year. However, under this proposal her pension will be worth £4,617 a year which is calculated as follows:

LGPS 2008 Pension: 15 (years service) * 1/60th (accrual rate) * £20,000 (final salary) = £5,000 [for a total member contribution on £19,500]

Reduced pension as a result of this alternative:

4 (years service) * 1/60th (accrual rate) * £20,000 (final salary) + 11 * 1/67th * £20,000 = £4,617 [for a total member contribution of £20,220]

Annual pension lost over total scheme membership = £383
Extra member contributions over scheme membership = £720

Summary

- In either 'option' LGPS members are being asked to pay more and get less pension.
- The money generated through increased contributions and benefit cuts will not be used to improve the financial state of the scheme.
- DCLG has not recognised the impact its proposals will have on the majority of members of the LGPS who are low paid, part time workers.
- DCLG has not considered the danger its proposals pose to the future sustainability of the LGPS.
- These proposals are not scheme reforms as discussed in the Hutton Report, they are a tax on the LGPS and its members to be used to mitigate government's cuts to local authority budgets.
- GMB has not been consulted over these proposals.