

3% PENSION TAX THREATENS THE SUSTAINABILITY OF THE LOCAL GOVERNMENT PENSION SCHEME

As revealed in the last LGPS Update bulletin, the Chancellor announced in the Comprehensive Spending Review on 20th October an increase of 3% on employee contributions to all public sector pension schemes, including the LGPS. GMB has been seeking justification for the introduction of this pension levy on LGPS members but so far none has been provided. It seems therefore that the additional money scheme members will contribute to their LGPS funds will be deducted from the money central government (i.e. the Chancellor) provides to local government. With no benefit to members or LGPS funds from this increase it is nothing more than a tax on pension saving.

The impact on members could be severe. A flat rate 3% contribution increase would increase the contributions of a member earning £14,000 (full time equivalent) from £812 to £1,232 a year. In his statement the Chancellor said there would be protection for the low paid. In the LGPS two thirds of members earn less than £22,000 so any protection for the low paid will mean even greater increases in contributions for those earning above the protected amount.

GMB estimates that in order to generate a 3% increase in member contribution yield (from 6.4% to 9.4%) protection for those earning £18,900 or below would mean the contributions required of those earning over that amount would need to virtually double.

Full Time Equivalent Pay	Current	Flat Rate 3% Increase	3% & Protection for <£18,900
< £12,600	5.5%	8.5%	5.5%
£12,601 - £14,700	5.8%	8.8%	5.8%
£14,701 - £18,900	5.9%	8.9%	5.9%
£18,901 - £31,500	6.5%	9.5%	12.0%
£31,501 - £42,000	6.8%	9.8%	12.5%
£42,001 - £78,700	7.2%	10.2%	13.4%
> £78,700	7.5%	10.5%	14.0%
Average	6.4%	9.4%	9.4%

This would lead to members earning moderate salaries of £20,000 having to find a further £91.67 a month in order to continue membership of the scheme after 2014 (the deadline for achieving the 3% increase). The difference in cost of LGPS membership will have a major impact on members' capacity to remain in the scheme, the effect on part time workers could be even more devastating.

Full Time Equivalent Pay	Annual Difference in LGPS Contrib.	Monthly Difference in LGPS Contrib.	Weekly Difference in LGPS Contrib.
£20,000	£1,100	£91.67	£21.15
£22,000	£1,210	£100.83	£23.27
£25,000	£1,375	£114.58	£26.44
£27,000	£1,485	£123.75	£28.56
£30,000	£1,650	£137.50	£31.73
£33,000	£1,881	£156.75	£36.17
£36,000	£2,052	£171.00	£39.46
£40,000	£2,280	£190.00	£43.85
£45,000	£2,790	£232.50	£53.65
£50,000	£3,100	£258.33	£59.62
£65,000	£4,030	£335.83	£77.50
£75,000	£4,650	£387.50	£89.42
£100,000	£6,500	£541.67	£125.00

GMB believes this is unsustainable and would lead to tens of thousands of people opting out of pension saving. The result would mean contributions would have to increase further in order for the Chancellor to get the money he wants from this tax. Currently the LGPS has a very good record of encouraging pension saving with only 15% of potential members choosing to opt out. We believe that figure will soar as a result of this policy, it would make the LGPS unsustainable, putting everyone's retirement at risk.

GMB is bringing this issue to the attention of MPs, Councillors and the Hutton Commission. The LGPS is a healthy, funded scheme, reformed in 2008 to implement a range of changes that over time will decrease the cost to employers of providing pensions. All this is under threat by the Chancellor's new pension tax and makes the task of making further reforms impossible - if no one can afford to participate in the scheme there will be no scheme to reform, instead the local government workforce will be reliant on state benefits in retirement. That would be a disaster.

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