

LOCAL GOVERNMENT PENSION SCHEME

2011 budget could herald the end of the LGPS

The Local Government Pension Scheme (LGPS) has been substantially reformed over the last few years resulting in falling employer contributions for current service and a member contribution and benefit structure that is sustainable and affordable for members, employers and taxpayers. The scheme itself consistently has a £4bn annual cash flow surplus and in the last year has seen its market value increase to £6bn held in locally managed funds. Members contribute almost £2.5bn a year to the scheme while the average pension in payment is around £4,500 a year and only £2,870 for women who make up around 75% of the scheme's membership.

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CSR

The Chancellor's Comprehensive Spending Review on 20th October announced a 3% increase in employee contribution rates to public sector pension schemes in order to generate a £1.8bn saving to the Treasury. This saving comes from the increased member contributions to the 'unfunded' public section schemes: NHS, Teachers and Civil Service etc, whose benefits are paid from the Treasury.

The LGPS is different. It is funded and benefits are paid from the £150bn pension scheme, not the Treasury. Despite this, the 3% member contribution increase is also to be applied to the LGPS in order to generate £900m from the England & Wales scheme and a similar proportion from the Scottish and Northern Irish schemes.

New tax

LGPS funds will not see any benefit to the increase in yield from member contributions. Instead the settlement grant to councils will be reduced by the equivalent cash amount, resulting in employers reducing their contribution to the scheme. The 3% increase in employee contributions is therefore nothing more than a tax on pension saving for those working in local government.

Impact

The CSR stated that the increase should be introduced progressively ensuring protection for the low paid. In the LGPS the vast majority of members are low paid: 87% earn less than £30,000 while 68% earn less than £22,000 (full time equivalent earnings, members' actual income is considerably lower as 75% work part time). This means that to generate the 3% increase in yield from 6.4% to 9.4% while protecting the low paid, the increase in the contribution rates of those on moderate earnings will be far in excess of 3%.

We estimate that if, for example, just those whose full time equivalent earnings are less than £18,900 are protected, the contribution rates of those earning more will have to increase hugely:

Contribution Band – Whole Time Earnings	Current Contribution Rate	Likely CSR Contribution Rate	Increase In Annual Pension Contribution
£18,900 - £31,500	6.5%	12%	£1,100 for a member earning £20,000
£31,501 - £42,000	6.8%	12.5%	£2,052 for a member earning £36,000
£42,001 - £78,700	7.2%	13.4%	£3,100 for a member earning £50,000
Over £78,700	7.5%	14%	£6,500 for a member earning £100,000

We believe these increases at a time of pay freezes and pay cuts are untenable and will lead to large numbers of moderate and high earners leaving the LGPS either to make their own provision or to stop saving for their retirement altogether. As a result it will be more difficult to generate the revenue required by the CSR through the scheme and contributions may have to increase further.

Unaffordable and unnecessary

A blunt 3% increase, whether progressively introduced or not, is simply unaffordable for scheme members. It is also unnecessary for a funded scheme that is well managed by elected Councillors. The LGPS has a programme of reforms in place that are set to reduce the employer contribution rate to less than 12%. To risk the sustainability of the scheme with an unnecessary £billion tax on pension saving is reckless.

Consequences

Scheme Distortion – large-scale withdrawal from the scheme by specific groups will change the nature of the scheme that has held onto a principle of one scheme for the whole local government workforce throughout all recent reforms. A GMB survey of 2,000 members showed that 39% of current contributing members would leave the scheme if a flat rate 3% rise was imposed. This figure rose to 52% if the moderate and higher paid alone were forced to increase contributions to cover their 3% and the 3% from lower earners.

Obstacle To Reform – the Hutton Commission is due to publish its recommendations on public service pension reform early next year. Options for reform in the context of a 3% LGPS tax and increased opt outs are very different to those available when the Commission was launched.

Reduced Pension Saving – as a result of the CSR many fewer workers will be saving for their retirement. The result will be a greater reliance on state benefits and increased poverty leading to greater demand for public services.

Next steps

The Chancellor is mistaken in demanding a 3% increase in employee contributions from the LGPS, it simply cannot be done. However, if savings are to be made this can be achieved through other means that will enable members to stay in the scheme rather than pricing them out through higher contributions. The LGPS is a very different scheme to others in the public sector and we urge all those who value it to make it clear to the Chancellor and the Hutton Commission that LGPS reform must reflect the fact that it is a well run scheme with a large, diverse membership for whom LGPS provision is the only barrier to a retirement reliant on state benefits.

