



# UPDATE ON LGPS NEGOTIATIONS – ENGLAND AND WALES

## OSBORNE'S DEVASTATING PENSION RAID

The three NJC unions – GMB, UNISON and UNITE- met with the political leaders of the Local Government Group (LGG) – once the LGA – on Friday 2 September. This was the third meeting called to respond to the letter sent to the LGG by Secretary of State Eric Pickles, asking them to meet the unions with a view to making joint proposals for ways of 'saving' £900 million from the Local Government Pension Scheme (LGPS).

**This newsletter outlines the arguments that the unions have made to the employers. We have demonstrated that there is no need for further savings to the LGPS.**

### Background

In October 2010, the Chancellor, George Osborne, announced that he intended to apply the 3.2% tax on public sector pensions to the LGPS. As unions we believe that this tax is unnecessary and has been imposed to keep Council Tax down, rather than make the LGPS sustainable for the future.

### Facts

The LGPS is funded, has £165 billion in assets and currently takes in over £4 billion a year more than it pays out. George Osborne's new tax – which is apparently intended to keep Council Tax down - threatens to bring the 90-year old scheme crashing to the ground as hundreds of thousands of scheme members face being priced out of their pension scheme. This in turn would cause LGPS income to dry up, putting unsustainable pressure on council tax and local authority budgets. As unions we have repeatedly called on the Coalition government to change its approach. The employers and LGPS funds have also joined with us in doing so and share our concern that opt-outs from the LGPS could result in damaging pressure on the scheme.

Instead of defending the LGPS, the Secretary of State for Local Government, Eric Pickles, has gone even further, insisting that the £900 million to be taken from the LGPS in England and Wales must be in addition to the savings already being generated by the scheme.

## **The Unions' Arguments**

Both government and independent assessments demonstrate that the current savings in the LGPS far exceed the 3.2% savings the government is seeking. In the separate discussions with the government and the Local Government Employers, the unions have been highlighting the fact that the cost of the LGPS is already reducing as a result of:

### **The Falling Cost of the LGPS 2008**

A number of changes were made to the LGPS in 2008. When introduced, the future service cost (the cost of pensions currently being built up) of the LGPS 2008 was 20% of payroll. Over time, the Treasury's own Actuary expects this to fall to less than 18%. The employers will enjoy the entire benefit from the reduction in cost - in cash terms a £600 million reduction.

### **Benefit Indexation Change - RPI-CPI**

The cut in the indexation of LGPS benefits from the Retail Price Index (RPI) to the Consumer Price Index (CPI) results in two savings for the LGPS (as it does for all funded pension schemes). Firstly, the average annual cost of pensions being built up reduces by 1.23%. In cash terms this reduces the annual cost of the LGPS by £375 million. Secondly, the cheaper indexation reduces the cost of the pensions already built up to an average of 2% for the next 20 years. In cash terms this has reduced the employer contributions to the LGPS from April 2011 by £600 million.

### **Pay Freeze**

Unlike the rest of the public sector, local government pay has been frozen for two years and the freeze has been absolute - with no £250 increase for the lowest paid. In fact, many council workers have had reductions in pay. This means there are savings for the LGPS which are equivalent to around 1% of payroll - £300 million in cash terms.

### **Job Losses**

Thousands of people have already lost their jobs in local government and redundancies are likely to continue. A conservative assumption is that there will be a 10% reduction in the workforce covered by the LGPS. This will further reduce the employers' annual pension costs by 1.4% or £420 million.

## **Nearly £2 billion Already Saved**

Without any further change to the LGPS, the cost of the scheme is reducing from 20% to 16.4% for future service now and will drop further to 14.4% in a few years time. All these savings have benefited employers. Members are actually contributing more than was predicted when the LGPS 2008 was introduced - 6.5% on average instead of the 6.3% that was expected. The employer cost of today's LGPS for future service is therefore heading towards 7.9%.

The reduction in cost for the employers outlined above generates immediate cash savings for them of £1.7 billion as the total employer contribution to the LGPS is reduced.

If the Osborne-Pickles LGPS tax goes ahead and scheme members are forced to generate another 3.2% of savings, the employer contribution to the scheme will fall further to less than 7% for future service (6.7%). The total cash savings will be £2.6 billion, almost three times as much as the Chancellor stated in October, with a further £600 million further savings generated in the future as the LGPS 2008 cost falls as designed.

## **Next Steps**

The LGPS trade unions believe that these excessive cuts will cause many people currently saving for retirement to leave the scheme. This will lead to poverty in retirement for them, higher Council Tax to plug the shortfall in income to the funds and bring a once sustainable scheme to the brink of collapse.

There will be a further meeting of the CLG Policy Review Group and a meeting with the LGG this week, and all public sector unions will be meeting the Government via the TUC for further talks. We will continue to argue that the LGPS is already making more savings than the Government requires and that there should be no further 'raids' on the scheme.

All LGPS unions are working together to protect the scheme. Members need to make sure that they and their colleagues understand the threat their pension faces and the arguments that we as unions are making.

**Please circulate this newsletter to members in your workplace**