NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority
Policy and Strategy Committee

PENSIONS CONSULTATION

Report of the Chief Fire Officer

Agenda Item No:

Date: 28 October 2011

Purpose of Report:

To advise the Fire Authority on two current consultation processes relating to the Fire Fighters Pension Scheme and the Local Government Pension Scheme.

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1. BACKGROUND

1.1 The government commissioned Lord Hutton to chair an independent pensions' commission to review public service pensions and make recommendations on future affordability. An interim report was published on 7 October 2010, which recommended that an increase in employee contributions would be the most effective way to make short term savings.

1.2 Within the current spending review, the government announced the intention to increase employee contributions by 3.2% on average to be phased in over three years to 2014/2015. The Chief Secretary to the Treasury announcement on 19 July 2011 indicated formal consultation would begin on the increase in employee contribution rates for 2012/2013.

1.3 Three pension schemes in place for Nottinghamshire Fire and Rescue Service employees are affected by these proposals. These are:

- The Fire Fighters Pension Scheme (1992);
- The New Fire Fighters Pension Scheme (2006);
- The Local Government Pension Scheme.

1.4 This paper lays out all the salient details of these consultations for the Fire Authority and identifies the potential implications arising from them.

2. REPORT

The Fire Fighters Pension Scheme (1992) and
The New Fire Fighters Pension Scheme (2006)

2.1 Consultation on these two schemes commenced on 9 September 2011 and will run for 12 weeks, concluding on 2 December 2011. Proposals for changes to contribution rates are different within each scheme, as the current arrangements see members of the 1992 scheme paying less than 30% of the total cost of the scheme, whilst members of the 2006 scheme pay 37%.

2.2 In summary the proposals can be presented as follows:

Firefighters' Pension Scheme in England		
Pensionable pay band	**Proposed additional rate 2012-13** **percentage**	**Revised contribution 2012-13** **percentage**
Up to and including £15,000	0.0	11.0
More than £15,000 and up to and including £21,000	0.6	11.6
More than £21,000 and up to and including £30,000	1.3	12.3
More than £30,000 and up to and including £40,000	1.4	12.4
More than £40,000 and up to and including £50,000	1.6	12.6
More than £50,000 and up to and including £60,000	1.8	12.8
More than £60,000 and up to and including £100,000	2.0	13.0
More than £100,000 and up to and including £120,000	2.1	13.1
More than £120,000	2.3	13.3

New Firefighters' Pension Scheme in England		
Pensionable pay band	**Proposed additional rate 2012-13** **percentage**	**Revised contribution 2012-13** **percentage**
Up to and including £15,000	0.0	8.5
More than £15,000 and up to and including £30,000	0.6	9.1
More than £30,000 and up to and including £40,000	0.8	9.3
More than £40,000 and up to and including £50,000	0.9	9.4
More than £50,000 and up to and including £60,000	1.0	9.5
More than £60,000 and up to and including £100,000	1.1	9.6
More than £100,000 and up to and including £120,000	1.2	9.7
More than £120,000	1.3	9.8

2.3 The government has assessed the opt-out rate of the public sector schemes by 2014/2015 at 1%

2.4 This consultation is different to the current consultation being carried out on changes to the schemes which was considered by the Fire Authority at its meeting of 16 September 2011. This considered another draft amendment order which includes a proposal to amend the definition of pensionable pay amongst other changes. A response has been submitted to this consultation on behalf of the Fire Authority and this consultation closed on 26 October 2011.

2.5 The consultation poses five questions in relation to this process, these are:

- Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review? ;
- Are there any consequences of the proposed contribution tiers that you consider have not been addressed? ;
- Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contributions tiers? If so, what do you consider to be the nature and scale of that disproportionate effect? ;
- Is there a tariff which you think will help to further minimise any opt outs from the fire fighters' pension scheme? ;
- Is the treatment under the proposals of part time workers and retained fire fighters clear?

2.6 In respect of the impact on the Fire Authority, keeping the current employer rates as present and increasing the employee contribution rates brings no additional financial implications for the Service. However, the Clerk to the Fire Authority has been notified by the Fire Brigades Union of their trade dispute over pensions reform. This could lead to industrial action taking place on 30 November 2011.

The Local Government Pension Scheme

2.7 Consultation on proposed changes to the Local Government Pension Scheme was notified on 7 October 2011 and runs until 6 January 2012. The intention is that amendments will take place with effect from 1 April 2012.

2.8 For the Local Government Pension Scheme the government believe there are a wide range of measures that can be considered to achieve the necessary savings. It is also inviting alternative proposals and has received a submission from the Local Government Group.

2.9 In summary the proposals are as follows:

- Option 1 – this proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements:

i) An increase in the employees' contribution tariff from April 2012, to raise an additional £450m (1.5 per cent of pensionable paybill); and

ii) A change in the scheme's accrual rate from April 2013, to raise an additional £450m (1.5 per cent of pensionable paybill).

- Option 2 – this proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements. It differs from Option 1 due to a lower contribution rate increase which is offset by a greater reduction in the accrual rate:

  i) An increase in employees' contribution tariff from April 2012, to raise an additional £300m (1 per cent of pensionable paybill), and

  ii) A change in scheme's accrual rate from April 2014, to raise an additional £600m (2 per cent of pensionable paybill)

2.10 The consultation document also references the recommendation contained within Lord Hutton's report that the pension age in public sector schemes could be linked to the state pension age. Additionally, the consultation draws reference to part-time workers and the impact on them as employees.

2.11 The consultation process also poses five questions in relation to the proposals. These are:

- Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS? ;
- Are there any consequences or aspects of the proposals that have not been fully addressed? ;
- Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme? ;
- Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest? ;
- Within the consultation period, consultees' views are invited on the prospect of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

2.12 Like the consultation process on the fire fighters pension schemes amendments, increasing employee contribution rates does not bring any additional financial burden to the Authority. The only contributions made to the Local Government Pension Scheme are those made by employers and as the scheme is fully funded, any additional contribution made by employees will generate a corresponding reduction in employers' contributions unless the fund itself decides to increase its funding level.

2.13 When the new rates are determined the actuary will revalue the fund and determine new employer rates. These will take account of the new employee rates and other actuarial changes, such as the accrual rate. A view will then be taken as to what level of funding for the fund itself shall be and then determine the new employer rate. In summary, the Fire Authority could be in receipt of a reduction of employer contribution rates, but this is unlikely to be as high as 3.2%.

2.14 In respect of these proposals the Chief Fire Officer has received formal notice from Unison on 28 September 2011 of their intention to ballot for industrial action. This ballot is in relation to a trade dispute over changes to local government pensions.

2.15 For Members' information both of the consultation documents are appended to this report.

2.16 In respect of any response it is difficult for Officers to advise the Fire Authority in any particular way. All of the Officers employed as advisors to the Fire Authority have a declarable interest in these consultation processes and it could be considered inappropriate for a steer to be given as there is no direct impact on the Fire Authority. It is for this purpose that no draft response to either of the consultations is proposed, although the Policy and Strategy Committee may consider that it wishes to respond.

3. FINANCIAL IMPLICATIONS

As discussed within this report, there are no direct financial implications for the Fire Authority other than to identify that there are no proposed increases to employer contributions from these consultations.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

The human resources implications are predominantly based around the impact on employees of the increase in contribution rates, and potentially the increase in retirement age. These aspects will have to be formally assessed as and when any revisions are taken over the pension scheme amendments. These will be reported to the Fire Authority through normal reporting processes.

5. EQUALITIES IMPLICATIONS

An equality impact assessment has not been undertaken with regard to this report as both of the consultation processes affect these implications which may affect part-time workers, and other equalities issues.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

Both of the consultation processes refer to amending pension schemes and therefore require amendment orders to be put in place.

8. RISK MANAGEMENT IMPLICATIONS

The main risk from these current consultation processes is the risk of industrial action as a consequence. The Service is already taking steps to implement business continuity arrangements should this be the case.

9. RECOMMENDATIONS

It is recommended that Members:

9.1 Note the two consultation processes taking place;

9.2 Advise on whether they wish for a response to be submitted on behalf of the Fire Authority and what that response should be;

9.3 Note the potential impact of industrial action which is linked to these two consultation processes.

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER

Communities and Local Government

Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)

Proposed increases to employee contribution rates, effective from 1 April 2012 – consultation

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Communities
and Local Government

Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006)

Proposed increases to employee contribution rates, effective from 1 April 2012 – consultation

September 2011
Department for Communities and Local Government

This document/publication is also available on our website at www.communities.gov.uk

If you require this publication in an alternative format please email: alternativeformats@communities.gsi.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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The consultation process and how to respond

Scope of the consultation

Topic of this consultation:	This consultation seeks views on the proposed increase in employee contribution rates from 1 April 2012 for members of the Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006).
Scope of this consultation:	This consultation seeks views on the following key proposed changes to the firefighters' pension schemes in England: • Increased levels of employee contribution rates, effective from 1 April 2012 • The introduction of tiered contribution levels, so that higher earners will pay a higher rate of contribution • Different levels of increase for the Firefighters' Pension Scheme (1992) and New Firefighters' Pension Scheme (2006) • The specific handling of contributions for retained and part-time firefighters.
Geographical scope:	This consultation applies to England only.
Impact Assessment:	An Impact Assessment has not been completed for this consultation. The Department intends to use the evidence and views provided by the consultation to fully inform all Impact Assessments. These Assessments will inform any final decisions, and will be published on the Department's website.

Basic information

To:	This consultation is primarily aimed at fire and rescue authorities, members of the firefighters' pension schemes, and key employer and employee representative bodies.
Body/bodies responsible for the consultation:	The Department for Communities and Local Government.
Duration:	This consultation will run for 12 weeks, from **9 September 2011 to 5pm on 2 December 2011**.

Enquiries:	For any enquiries, please contact the Firefighters' Pension Team: firepensions@communities.gsi.gov.uk Alternatively, please call: Vickie Edwards: 0303 444 4057 Andrew Cornelius: 0303 444 2171 Any complaints about the way this consultation is being handled should be addressed to: consultationcoordinator@communities.gsi.gov.uk
How to respond:	Please respond by email to: firepensions@communities.gsi.gov.uk Alternatively, please send postal responses to: Firefighters' Pension Team Zone 5/F6, Eland House Bressenden Place London SW1E 5DU
Additional ways to become involved:	Key interest groups, including the fire and rescue authorities and relevant unions, will be engaged directly.
After the consultation:	A summary of responses to the consultation will be published on the Department's website within three months of the end of the consultation period.
Compliance with the Code of Practice on Consultation:	The consultation complies with the Code of Practice on Consultation, with the exception of the concurrent publication of the Impact Assessment. The Impact Assessment will be published following the consultation, so that respondents' views may inform the Assessments made.

Background

Getting to this stage:	The Government commissioned Lord Hutton to review public service pension schemes to make them affordable and sustainable in the long-term. In his interim report, Lord Hutton recommended that, if the Government wanted to make short term savings, then raising employee contributions would be the most effective way. The Government accepted Lord Hutton's rationale and announced at the Spending Review the intention to raise employee contributions in public service pension schemes equivalent to 3.2 per cent of pensionable pay, to be phased in over three years from April 2012. On 19 July 2011, the Chief Secretary to the Treasury announced that scheme specific consultations should begin on contribution increases for 2012-13. This consultation sets out the proposed increase for the firefighters' schemes.
Previous engagement:	Prior to publishing this consultation, the Department has engaged with key stakeholders including Employer and Union representatives through the Firefighters' Pension Committee, as well as other interested parties, where contribution increases have been discussed.

Contents

Section 1

Introduction

1.1 This document sets out the Government's proposed new employee contribution tariffs for the Firefighters' Pension Scheme and New Firefighters' Pension Scheme in England. Draft amending regulations which set out this proposal are included at **Annex A** and **Annex B** and are intended to take effect from 1 April 2012. Your comments on these proposed amendments are now invited and should preferably be sent by email to firepensions@communities.gsi.gov.uk. Alternatively, postal replies may be sent to:

The Firefighters' Pension Team
5/F6,
Eland House,
Bressenden Place
London
SW1E 5DU

1.2 The closing date for responses is 2 December 2011.

1.3 Consultees are reminded that the proposed amendments will be discussed at forthcoming meetings of the Firefighters' Pension Committee for England, and at other meetings arranged separately by the department with business partners.

1.4 The details of the proposed amendments are explained in paragraphs 4.1 to 4.7 below.

Section 2

Policy context

2.1 The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long-term, and fair to both public sector workers and the taxpayer.

2.2 Lord Hutton published his interim report on 7 October 2010, in which he set out that the value and cost of public service pensions have increased by around a third because of longer life expectancy over the last fifty years, and that these costs had generally fallen to the taxpayer. Lord Hutton therefore recommended that if the Government wished to make short term savings, then raising contribution rates would be the most effective way to achieve that objective. This would also make for a fairer balance between what employees pay and what other taxpayers have to pay.

2.3 At the Spending Review the Government accepted Lord Hutton's rationale and announced the intention to increase employee contributions by 3.2 percentage points on average, to be phased in over the three years to 2014-15. The Chief Secretary to the Treasury's announcement on 19 July 2011 indicated that schemes would shortly begin formal consultations on the proposed increases in employee contribution rates for 2012-13. This document sets out the proposed increase in employee contributions for the Firefighters' Pension Scheme and New Firefighters' Pension Scheme in England, with effect from 1 April 2012.

2.4 The Government has made clear that the proposed changes to public service pension schemes should ensure that public service pensions remain among the very best, providing a guaranteed pension level for all employees. The Chief Secretary's statement confirmed that following the wider proposals for reform of public service pension schemes, the pensions individuals receive at normal pension age will be broadly as generous for low and middle income earners as it is now. Pension benefits already earned through years of service – accrued rights – will be honoured in full. For those close to retirement, this will mean little, if any, change to the pension they expect to receive.

Section 3

The case for increasing contributions

3.1 In Chapter 8 of his interim report, Lord Hutton considered different options for delivering savings, including reducing the level of benefits being paid out and/or increasing the contributions being paid by active scheme members. The Commission reached the conclusion that, "If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure".

3.2 Lord Hutton's interim report then set out a clear rationale for increasing member contributions to public service pension schemes:

- People are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people's lives are now being spent in retirement – between 40 to 45 per cent of adult life compared with around 30 per cent for pensioners in the 1950s
- As people are living longer in retirement, the cost of providing pensions is increasing; annual expenditure on public service pensions over the last decade has increased by a third to £32bn. Lord Hutton said in his report, "these costs have generally fallen to the taxpayer"
- But taxpayers can't be expected to bear all the cost of increased longevity. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

3.3 Based on this clear rationale, the Government announced in the 2010 Spending Review that public sector workers would be asked to contribute more for their pensions. In particular, the Spending Review set out plans for savings of £2.8bn per year to be realised by 2014-15. To deliver these savings the firefighters' pension schemes, like other public service schemes, should deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions by 2014-15.

3.4 These savings are intended to rebalance the contributions made by employers and staff. The proposed increase for 2012-13 does not change the benefits provided by either of the firefighters' pension schemes, which remain among the best available. Longer-term reform of the firefighter schemes from April 2015 will be discussed with trade unions and employer representatives before being consulted on in due course.

3.5 At present, members of the Firefighters' Pension Scheme contribute 11 per cent of pensionable pay, compared with 21.3 per cent contributions from employers (excluding the ill-health charge)[1]. For members of the New Firefighters' Pension Scheme the balance is closer, with members contributing 8.5 per cent of pensionable pay, and employers 11 per cent. The Valuation of the Firefighters' Pension Schemes in 2007 showed that the cost to taxpayers of the 1992 scheme has continued to rise, even taking into account the savings made from a fall in the number of ill-health retirements.

3.6 Lord Hutton's report is available via the HM Treasury website at: www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Delivery of the Spending Review savings

3.7 At the Spending Review, the Chancellor announced that public service pension schemes would deliver annual savings of £2.8bn by 2014-15. In his statement of 19 July, the Chief Secretary set out that for 2012-13, the savings required would be £1.2bn. For the firefighters' pension schemes, this means 2012-13 savings of £13.2m.

3.8 The Chief Secretary's statement also made it clear that the Government remains committed to securing the full overall savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, as announced at Spending Review 2010. This requires each scheme to find savings equivalent to a 3.2 percentage point increase by 2014-15. The Department has entered into scheme specific discussions with unions and employers' representatives about how to deliver these savings.

Design principles

3.9 The Government believes that any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July. These parameters, outlined below, are reflected in the tariff proposed in this paper:

- There should be no increase in employee contributions for those earning less than £15,000

1 The ill-health charge for employers varies per authority and is dependent on the number of ill-health retirements in a given year. The percentage shown represents the one-off charge paid by the authority per retirement.

- There should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis
- High earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis.

Section 4

Proposals for the Firefighters' Pension Scheme and New Firefighters' Pension Scheme

Proposed Tariff

4.1 The proposals seek to apply a lower rate of increase to the New Firefighters' Pension Scheme compared to the Firefighters' Pension Scheme. The proposed increase in employee contribution rates will help to provide a fairer balance between what employees pay and what employers, or the taxpayer, pays. The existing levels of employee and employer contributions, excluding ill-health charges, are as follows:

	Firefighters' Pension Scheme percentage	**New Firefighters' Pension Scheme percentage**
Employer	21.3	11.0
Employee	11.0	8.5
Ill-health	5.2	3.2
Total	**37.5**	**22.7**

4.2 Currently, members of the Firefighters' Pension Scheme pay less than 30 per cent of the total cost of the Scheme. For the New Firefighters' Pension Scheme, members contribute 37 per cent of the total cost. As the imbalance between employee and employer contributions is less for the New Firefighters' Pension Scheme, a lower increase for its members compared to the Firefighters' Pension Scheme seems more appropriate.

4.3 Consistent with the policy principles outlined in paragraph 3.9, the proposed employee contribution rates to apply from 1 April 2012 are as follows:

Firefighters' Pension Scheme in England		
Pensionable pay band	**Proposed additional rate 2012-13** **percentage**	**Revised contribution 2012-13** **percentage**
Up to and including £15,000	0.0	11.0
More than £15,000 and up to and including £21,000	0.6	11.6
More than £21,000 and up to and including £30,000	1.3	12.3
More than £30,000 and up to and including £40,000	1.4	12.4
More than £40,000 and up to and including £50,000	1.6	12.6
More than £50,000 and up to and including £60,000	1.8	12.8
More than £60,000 and up to and including £100,000	2.0	13.0
More than £100,000 and up to and including £120,000	2.1	13.1
More than £120,000	2.3	13.3

EXAMPLE: A firefighter in the Firefighters' Pension Scheme earning £28,200 would pay an additional 1.3 per cent in contributions – a revised rate of 12.3 per cent. However, with tax relief, the effective increase in the contribution rate is 1.0 per cent.

New Firefighters' Pension Scheme in England		
Pensionable pay band	**Proposed additional rate 2012-13 percentage**	**Revised contribution 2012-13 percentage**
Up to and including £15,000	0.0	8.5
More than £15,000 and up to and including £30,000	0.6	9.1
More than £30,000 and up to and including £40,000	0.8	9.3
More than £40,000 and up to and including £50,000	0.9	9.4
More than £50,000 and up to and including £60,000	1.0	9.5
More than £60,000 and up to and including £100,000	1.1	9.6
More than £100,000 and up to and including £120,000	1.2	9.7
More than £120,000	1.3	9.8

EXAMPLE: A firefighter in the New Firefighters' Pension Scheme earning £28,200 would pay an additional 0.6 per cent in contributions – a revised rate of 9.1 per cent. However, with tax relief, the effective increase in the contribution rate is 0.5 per cent.

Opt-out assumptions

4.4 It has been assumed that one per cent of the total salary within the unfunded public service schemes will opt out by 2014-15. This assumption has been scrutinised by the Office for Budget Responsibility. In developing the proposed tariffs, the Department has given consideration to the existing balance of employee and employer contribution rates and included protection for low earners, in order to minimise the level of opt out from the firefighters' pension schemes.

Retained members

4.5 Paragraph 3(c) of the New Firefighters' Pension Scheme draft Order outlines the proposed approach to determining the rate of contributions payable by retained firefighters. The Department proposes that the rate of contributions paid by retained firefighters' is based on their reference pay. The rate is then applied to their actual pensionable pay. A retained firefighters' reference pay is the whole-time equivalent pensionable pay for that period of a regular firefighter employed in a similar role and with an equivalent qualifying service.

EXAMPLE: If a retained firefighter has three years qualifying service, then the contribution increase is likely to be based on the full time equivalent pensionable pay of a firefighter who has been employed for three years in a similar role.

Part time members

4.6 Paragraph 3(c) of the Firefighters' Pension Scheme draft Order and paragraph 3(d) of the New Firefighters' Pension Scheme draft Order set out the Department's proposal for part time staff. It is proposed that, for part time members, the rate of contributions payable will be determined based upon the full time equivalent salary for that member. The amount payable will then be based on the individual's pensionable (part time) pay.

EXAMPLE: A firefighter in the Firefighters' Pension Scheme works part time, doing 60 per cent of full time hours and earning £16,920. The full time equivalent salary is £28,200:

The increase in contribution rate would be 1.3 per cent – the rate which applies to the full time salary of £28,200. However, the increase would just be paid on the firefighters' actual pensionable pay of £16,920.

Pensionable pay

4.7 The Department's proposed treatment of pensionable pay is set out in Paragraph 3(e) in the draft Order for the Firefighters' Pension Scheme and paragraph 3(f) in the draft Order for the New Firefighters' Pension Scheme. The Department proposes that, for the purpose of determining which of the contribution tariffs apply to a member, temporary allowances subject to additional pension benefit arrangements such as continual professional development allowance should be excluded. The contributions would then be paid on all aspects pensionable pay.

EXAMPLE: A member of the Firefighters' Pension Scheme receives a temporary allowance which is subject to additional pension benefit arrangements. Their current salary is less than £30,000 but with the allowance comes to £31,000. The rate would be based on their original pensionable pay – 1.3 per cent, as the allowance is temporary. However, the increase would be applied to their full pensionable pay – £31,000.

4.8 The Department is currently consulting on another draft Amendment Order for the Firefighters' Pension Scheme, which includes a proposal to amend the definition of pensionable pay. This consultation, open until 26 October 2011, is available at: http://www.communities.gov.uk/publications/fire/consultationfirefighterspension.

4.9 As part of this consultation, the Department proposes to create rule B5C (5) (additional pension benefit), which is referred to in paragraph 3(e) of the draft Order for the Firefighters' Pension Scheme accompanying this consultation on employee contribution tariffs. A copy of this proposed rule is provided in **Annex C**. If implemented, the proposed rule B5C (5) will amend the definition of pensionable allowances. If the changes to pensionable pay are not implemented following the consultation, then it is expected that the existing definition will remain. An explanation of the implications of this is provided in **Annex C**.

Section 5

Next steps

5.1 The Department invites consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following key questions:

Question 1

Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Question 2

Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Question 3

Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contribution tiers? If so, what do you consider to be the nature and scale of that disproportionate effect?

Question 4

Is there a tariff which you think will help to further minimise any opt outs from the firefighters' pension schemes?

Question 5

Is the treatment under the proposals of part time workers and retained firefighters clear?

5.2 As indicated in paragraph 4.8, the Department is also consulting on another set of proposed changes to the Firefighters' Pension Scheme. As the draft Order accompanying that consultation and the draft Order to amend the employee contribution rates are both intended to come into force on 1 April, the Department may consider laying one amendment Order incorporating all agreed changes to the Firefighters' Pension Scheme, rather than laying two separate Statutory Instruments.

5.3 Responses to this consultation should preferably be sent to: firepensions@communities.gsi.gov.uk. Alternatively, responses can be posted to:

Firefighters' Pension Scheme
5/F6, Eland House
Bressenden Place
London, SW1E 5DU

5.4 The closing date for responses is **2 December 2011**.

Annex A

Draft Amendment Order for the Firefighters' Pension Scheme (1992) (England)

STATUTORY INSTRUMENTS

2012 No.

FIRE AND RESCUE SERVICES, ENGLAND

PENSIONS, ENGLAND

The Firefighters' Pension Scheme (Contributions) (Amendment) (England) Order 2012

Made - - - -	***
Laid before Parliament	***
Coming into force - -	*1st April 2012*

The Secretary of State, in exercise of the powers conferred by sections 26(1) of the Fire Services Act 1947(**a**), makes the following Order:

Citation and commencement

1.— (1) This Order may be cited as the Firefighters' Pension Scheme (Amendment) (England) Order 2012.

(2) This Order shall come into force on 1st April 2012.

Amendment of the Firemen's Pension Scheme Order 1992

2. Schedule 2 to the Firemen's Pension Scheme Order 1992(**b**) (in which the Firefighters' Pension Scheme is set out), as it has effect in England(**c**), shall be amended in accordance with article 3 of this Order.

(**a**) 1947 c.41, repealed by section 52 of, and Schedule 2 to, the Fire and Rescue Services Act 2004 (c.21). Subsections (1) to (5) of section 26 continue to have effect, in relation to England and Scotland, for the purposes of the scheme established under that section as the Firemen's Pension Scheme and set out in the Firemen's Pension Scheme Order 1992 (S.I. 1992/129), by article 3 of S.I. 2004/2306. The name of the scheme was changed to the Firefighters' Pension Scheme, by article 4(1) of S.I. 2004/2306. Section 26 of the 1947 Act was amended by section 1 of the Fire Services Act 1951 (c.27), section 42 of the Reserve and Auxiliary Forces (Protection of Civil Interests) Act 1951 (c.65), section 33 of, and Schedule 3 to, the Theft Act 1968 (c.60), sections 16 and 29 of, and Schedule 8 to, the Superannuation Act 1972 (c.11), section 100 of, and Schedule 27 to, the Social Security Act 1973 (c.38), section 1 of, and Schedule 1 to, the Social Security (Consequential Provisions) Act 1975 (c.18), section 32 of the Magistrates' Courts Act 1980 (c.43), section 1 of the Police and Firemen's Pensions Act 1997 (c.52), and Schedule 25 to the Civil Partnership Act 2004 (c.33), and article 2 of the Social Security (Modification of Fire Services Act 1947) Order 1976 (S.I. 1976/551).

(**b**) S.I. 1992/129; amended by 1997/2309 and 2851, and 1998/1010, 2001/3649 and 3691, 2004/1912, 2006/1810 and 3433 and 2008/214. The Scheme was made under section 26 of the Fire Services Act 1947 (c.41). That Act was repealed by section 52 of, and Schedule 2 to, the Fire and Rescue Services Act 2004 (c.21). Subsections (1) to (5) of section 26 were continued in force, for the purposes of the scheme established under that section as the Firemen's Pension Scheme, by S.I. 2004/2306. The name of the scheme was changed, in relation to England and Scotland, by article 4(1) of S.I. 2004/2306.

(**c**) The Secretary of State's functions under section 26 of the Fire Services Act 1947, in so far as they were exercisable in relation to Scotland, were devolved to Scottish Ministers by section 63 of the Scotland Act 1998 (c.46) and article 2 of, and Schedule 1 to, the Scotland Act 1998 (Transfer of Functions to Scottish Ministers etc) Order 1999 (S.I. 1999/1750). The Secretary of State's functions under section 3(5) of the Fire Services Act 1947 are now vested in the Welsh Ministers so far as they are exercisable in relation to Wales. They were previously vested in the National Assembly for Wales by the National Assembly for Wales (Transfer of Functions) Order 1999 (S.I.

3. In Part G (pensionable pay and contributions) in rule G2 (pension contributions) for paragraph (1A) substitute-

"(1A) (a) Subject to sub-paragraph (c), the rate is determined by the authority on the basis of the pensionable pay of a regular firefighter in accordance with the following table:

Pensionable pay band	Contribution rate from 1st April 2012
Up to and including £15,000	11.0%
More than £15,000 and up to and including £21,000	11.6%
More than £21,000 and up to and including £30,000	12.3%
More than £30,000 and up to and including £40,000	12.4%
More than £40,000 and up to and including £50,000	12.6%
More than £50,000 and up to and including £60,000	12.8%
More than £60,000 and up to and including £100,000	13.0%
More than £100,000 and up to and including £120,000	13.1%
More than £120,000	13.3%

(b) The authority shall determine the contribution rate payable by a regular firefighter on 1st April [for each year] [and notify the regular firefighter of that rate within [30] days].

(c) Where the determination under sub-paragraph (b) relates to a part-time regular firefighter, the contribution rate which applies to him or her shall be determined in accordance with sub-paragraph (a) on the basis of the pensionable pay of a whole-time regular firefighter.

(d) Where following a determination, there has been a permanent material change to the terms and conditions of a regular firefighter's employment which affects his or her pensionable pay during the year in relation to which the determination was made the authority may determine that the contribution rate notified in sub-paragraph (b) above shall cease to apply and the authority shall inform that regular firefighter of the revised contribution rate and the date from which the revised contribution rate will apply.

(e) For the purposes of determining the appropriate pensionable pay band in the table set out in paragraph (1A)(a), pensionable pay does not include any pensionable benefits paid to a regular firefighter by his or her employing authority under rule B5C(5) but those payments will be included in pensionable pay for the purposes of calculating the pension contribution to be paid.".

Signed by authority of the Secretary of State for Communities and Local Government

Name

Address — Parliamentary Under Secretary of State

Date — Department for Communities and Local Government

1999/672); see the entry for the Fire Services Act 1947 in Schedule 1 to that Order. By virtue of paragraphs 30 and 32 of Schedule 11 to the Government of Wales Act 2006 (c.32), they were transferred to the Welsh Ministers.

EXPLANATORY NOTE

(This note is not part of the Order)

Annex B

Draft Amendment Order for the New Firefighters' Pension Scheme (2006) (England)

STATUTORY INSTRUMENTS

2012 No.

FIRE AND RESCUE SERVICES, ENGLAND

PENSIONS, ENGLAND

The Firefighters' Pension Scheme (Contributions) (England) (Amendment) Order 2012

Made - - - -	***
Laid before Parliament	***
Coming into force - -	*1st April 2012*

This Order is made in exercise of the powers conferred by sections 34 and 60 of the Fire and Rescue Services Act 2004(**a**).

As required by section 34(5) of that Act, the Secretary of State consulted such persons as he considered appropriate before making the Order.

The Secretary of State makes the following Order:

Citation, commencement and application

1.—(1) This Order may be cited as the Firefighters' Pension Scheme (Contributions)(England)(Amendment) Order 2012.

(2) This Order applies in relation to England only(**b**).

(3) This Order shall come into force on 1st April 2012.

Amendment of the Firefighters' Pension Scheme (England) Order 2006

2. Schedule 1 to the Firefighters' Pension Scheme (England) Order 2006(**c**) (in which the New Firefighters' Pension Scheme (England) is set out) is amended in accordance with article 3 of this Order.

(**a**) 2004 c.21.

(**b**) Powers under sections 34 and 60 of the Fire and Rescue Services Act 2004 are now vested in the Welsh Ministers so far as they are exercisable in relation to Wales. They were previously vested in the National Assembly for Wales by section 62 of the Fire and Rescue Services Act 2004. By virtue of paragraphs 30 and 32 of Schedule 11 to the Government of Wales Act 2006 (c.32), they were transferred to the Welsh Ministers.

(**c**) S.I. 2006/3432; amended by 2008/213.

3. In chapter 1 of Part 11 (pensionable pay, pension contributions and purchase of additional service), in rule 3 (pension contributions) for paragraph (1) substitute—

"1. (a) Subject to paragraph (d), a firefighter member shall pay pension contributions to the authority at the rate determined on the basis of his pensionable pay in accordance with the following table.

Pensionable Pay Band	Contribution rate from 1st April 2012
Up to and including £15,000	8.5%
More than £15,000 and up to and including £30,000	9.1%
More than £30,000 and up to and including £40,000	9.3%
More than £40,000 and up to and including £50,000	9.4%
More than £50,000 and up to and including £60,000	9.5%
More than £60,000 and up to and including £100,000	9.6%
More than £100,000 and up to and including £120,000	9.7%
More than £120,000	9.8%

(b) The authority shall determine the contribution rate payable by the firefighter member on 1st April [for each year] [and notify the firefighter member of that rate within [30] days].

(c) Where the determination under sub-paragraph (b) relates to a retained or volunteer firefighter authority shall determine the contribution rate for that firefighter on the basis of the firefighter's reference pay.

(d) Where the determination under sub-paragraph (b) relates to a part-time regular firefighter, the contribution rate which applies to that firefighter shall be determined in accordance with sub-paragraph (a) on the basis of the pensionable pay of a whole-time regular firefighter.

(e) Where, following a determination under sub-paragraph (b), there is a permanent material change to the terms and conditions of a firefighter member's employment which affects his pensionable pay during the year in relation to which the determination was made, the authority may determine that the annual contribution rate notified under that sub-paragraph shall cease to apply and the authority shall inform that firefighter member of the revised contribution rate [determined in accordance with sub-paragraph (b) on the basis of the firefighter's pay following the material change], and the date from which the revised contribution rate will apply.

(f) For the purposes of determining the appropriate pensionable pay band in the table set out in paragraph (1)(a), pensionable pay does not include payments made to a firefighter member by his employing authority in respect of his continual professional development, but those payments will be included in pensionable pay for the purposes of calculating the pension contribution to be paid.".

Signed by authority of the Secretary of State for Communities and Local Government

Name

Address — Parliamentary Under Secretary of State

Date — Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Order)

Annex C

Pensionable Pay, Firefighters' Pension Scheme

Background

The Department is currently consulting on a series of proposed changes to the Firefighters' Pension Scheme, including the definition of pensionable pay and the treatment of temporary allowances. This consultation is available at http://www.communities.gov.uk/publications/fire/consultationfirefighterspension.

On pages 13-16 of that consultation, the Department sets out its proposal to adopt additional pension benefit arrangements for temporary allowances and emoluments, at the fire and rescue authority's discretion, similar to those introduced in 2007 for continual professional development. There is no proposal to apply this retrospectively, so any allowances currently in payment will continue to be treated as they currently are.

If you would like to comment on the proposed change to temporary allowances, please visit the webpage given above, and respond to the consultation proposing the change. The deadline for responses is 26 October 2011.

Impact on this consultation

If the Scheme rules remain unchanged, then all pensionable pay, excluding the allowance paid for continual professional development, will be used to determine the increase in contributions to be applied. The increase will then be paid on all pensionable pay, including continual professional development allowances.

If, following consultation, the revised rule for additional pension benefit is implemented, then a wider range of allowances will be treated under additional pension benefit; the current arrangement for continual professional development. Consequently, if a fire and rescue authority determines that any of the benefits listed in paragraph B5C(5) shown below are pensionable, then the allowance will be excluded from pensionable pay for the purposes of determining the contribution tier to apply. However, as with the allowance for continual professional development; the increase in contributions will be paid on full pensionable pay, including these allowances.

Proposed additional pension benefit rule

This sets out the proposed revised rule B5C (Additional pension benefit), which includes the new rule B5C(5) referred to in paragraph 3(e) of the Firefighters' Pension Scheme draft Order. It details those allowances to be treated under additional pension benefit arrangements similar to those for continual professional development, rather than final salary arrangements.

"Additional pension benefit

B5C.—(1) Where a fire and rescue authority determines that the benefits listed in paragraph (5) are pensionable, and in any financial year pays any such pensionable benefits to a regular firefighter, the authority shall credit the firefighter with an amount of additional pension benefit in respect of that year.

(2) Subject to paragraph (3), the amount of additional pension benefit in respect of that year shall be determined in accordance with guidance and tables provided by the Scheme Actuary.

(3) The amount of additional pension benefit accrued at the end of any financial year shall be increased by any increase under the Pensions (Increase) Act 1971.

(4) Any increase in accordance with paragraph (3) shall be applied with effect from the first Monday of the relevant tax year.

(5) Paragraph (1) applies where a fire and rescue authority determines that any of the benefits listed in this paragraph are pensionable—

(a) any allowance or supplement to reward additional skills and responsibilities that are applied and maintained outside the requirements of the firefighter's day to day role but are within the wider functions of the job;

(b) the amount (if any) paid in respect of a firefighter's continual professional development;

(c) the difference between the firefighter's basic pay in their day to day role and any pay received whilst on temporary promotion or where he or she is temporarily required to undertake the duties of a higher role;

(d) any performance related payment.

(6) In this rule—

"relevant tax year" means a tax year in relation to which—

(a) the amount of a firefighter's pension benefits is calculated for the purposes of this Scheme, and

(b) the firefighter is not in receipt of a pension under this scheme or entitled to a deferred pension under rule B3;

"tax year" means the period of 12 months beginning with 6th April.";

About this consultation

This consultation document and consultation process have been planned to adhere to the Code of Practice on Consultation issued by the Department for Business Enterprise and Regulatory Reform and is in line with the seven consultation criteria, which are:

1. Formal consultation should take place at a stage when there is scope to influence the policy outcome;

2. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible;

3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals:

4. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach;

5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained;

6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation;

7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

Representative groups are asked to give a summary of the people and organisations the; represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA). the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please contact:

CLG Consultation Co-ordinator
Zone 6/H10
Eland House
London SW1E 5 DU

or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

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To Local Government Pension Scheme interests in England and Wales (see list below)

TBJ Crossley
Deputy Director
Workforce, Pay and Pensions
Zone 5/F5 Eland House
Bressenden Place
London SW1E 5DU

Telephone: 0303 44 42168

Website: www.communities.gov.uk

7 October 2011

Dear Colleagues,

Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 (SI 2007/1166) (as amended)

Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239) (as amended)

Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012 in England and Wales

Introduction

1.1 With ministers' agreement, this consultation paper sets out the Government's draft proposals to achieve short term savings of £900m within the Local Government Pension Scheme ('LGPS') by 2014-15, equivalent to the 3.2 percentage point contribution increases in the unfunded public service pension schemes.

1.2 This consultation exercise marks the start of the formal statutory consultation process for proposed amendments to the LGPS Regulations (mentioned above), as required by section 7(5) of the Superannuation Act 1972.

1.3 Your comments are now invited on the proposed amendments, described in paragraphs 4.1 to 4.5 and Annex A, and should be sent preferably by email to Richard.mcdonagh@communities.gsi.gov.uk

Alternatively, postal responses may be sent to:

The LGPS Pension Team
5/G6,
Department for Communities and Local Government
Eland House,
Bressenden Place
London SW1E 5DU

1.4 **The closing date for responses is 6 January 2012**.

1.5 The intention is that the proposed amendments to the scheme's regulatory framework will take effect from 1 April 2012, subject to the outcome of this consultation exercise.

1.6 Consultees are reminded that the proposed amendments, and any others brought forward, will continue to be discussed at forthcoming meetings of the Policy Review Group, and at other meetings being arranged by the Department with LGPS business partners within the statutory consultation period.

1.7 The details of the possible amendments to the existing LGPS regulatory framework are explained in paragraphs 4.1 to 4.8.

Policy context

2.1 In June 2010 the Government commissioned former Work and Pensions Secretary, Lord Hutton, to chair the Independent Public Service Pensions Commission's review into the long term future of public service pensions. In his final report Lord Hutton set out his recommendations on how these can be made sustainable and affordable in the long-term, whilst at the same time being fair to both public sector workers and the taxpayer. Lord Hutton concluded that reform was needed.

The Government accepted his recommendations as a basis for consultation with public sector workers, trade unions and other interested parties about the need for long term reform. The Government intends to introduce changes from 2015 and has confirmed that all pension benefits earned up that point will be protected. The reforms will ensure that all public service pensions, including the LGPS, will continue to be amongst the best pensions available. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

Delivery of short term savings

3.1 Before making his recommendations for wider reform, Lord Hutton published his interim report. This recommended that if the Government wished to make short term savings to meet current cost pressures, then raising contribution rates would be the most effective way to achieve that objective. Lord Hutton's interim report is available via the HM Treasury website at:
www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

3.2 Lord Hutton set out the following rationale for increasing member contributions to public service pension schemes:

a. people are living much longer than previous generations – the average 60 year old is living ten years longer now than they did in the 1970s. More of people's lives are now being spent in retirement – between 40 per cent to 45 per cent of adult life compared with around 30 per cent for pensioners in the 1950s

b. as people are living longer in retirement, the cost of providing pensions is increasing; annual expenditure on public service pensions over the last decade has increased by a third to £32bn. And in the case of the LGPS, expenditure on benefits has increased from £1.8bn to £6bn since 1997

c. taxpayers can't be expected to bear all the cost of increased longevity. There needs to be a fairer balance between what employees pay and what other taxpayers contribute towards a public service pension.

3.3 At the Spending Review, the Chancellor acted upon the rationale Lord Hutton set out by announcing that employee contributions would be increased by an average of 3.2 percentage points in the unfunded public service pension schemes. This will make savings of £2.8bn a year by 2014-15, to be phased in from April 2012.

3.4 The Chief Secretary to the Treasury's statement to the House on 19 July 2011 confirmed that the unfunded schemes would begin formal consultations on the proposed increases in employee contribution rates for 2012-13. In recognition of the funded nature of the LGPS, the Government accepted that separate discussions should take place to see whether alternative ways to deliver some or all of the savings could be found. The equivalent savings in the LGPS are £900m in England and Wales. The Chief Secretary to the Treasury's statement can be found at www.hm-treasury.gov.uk/press_83_11.htm

3.5 On 20 July, the Secretary of State for Communities and Local Government wrote to Sir Merrick Cockell, Chair of the Local Government Group, inviting him to discuss with the local authority trades unions a package of measures to secure the required short-term savings of £900m by 2014-15. The Group was asked to report the outcome of its discussions to the Secretary of State by 9 September.

3.6 Neither the Local Government Group nor the local authority trades unions were in a position to submit proposals as requested by 9 September. Subsequently, on 21 September, the Local Government Group wrote to the Secretary of State with their proposals to achieve the savings requested These are summarised at paragraph 4.7 and a full copy attached at Annex **B** and related costings are at Annex **C.**

3.7 The Local Government Group's proposals can be considered fully within the statutory consultation framework. If discussions between the Local Government Group and local authority trades unions continue, and any other proposals eventually come forward, either separately or jointly, these can also feed into the statutory consultation process alongside any other comments or proposals submitted by other consultees. The Scheme's Policy Review Group provides an expert forum for analysis and discussion to take place. The Government would welcome this discussion continuing and will fully explore any new proposals that are put forward.

Parameters for member contribution increases

3.8 The Government believes that any proposed increases in contribution rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

3.9 These parameters, outlined below, are reflected in the tariffs being proposed in this consultation document. All references are to full time equivalent salaries:

- there should be no increase in employee contributions for those earning less than £15,000

- there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis; and

- high earners in the LGPS should pay progressively more than those in lower salary bands more, but no more than 6 percentage points (before tax relief) more

Proposals for the Local Government Pension Scheme

4.1 For the LGPS in England and Wales, ministers believe there is an opportunity to consider a broad range of measures to secure appropriate levels of savings for scheme employers. This should enable the Government's priorities in implementing the £900m savings package to be met; protecting the high proportion of low paid, part-time members of the Scheme; and ensuring contribution increases are progressive.

4.3 **Option 1 -** The following approach fully meets the Government's priorities. This is the option on the basis of which we have set the cost ceiling[1] for wider reform of the Local Government Pension Scheme.

Option 1 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements:

i) An increase in the employees' contribution tariff from April 2012, to raise an additional £450m (1.5 per cent of pensionable paybill), and

ii) A change in the scheme's accrual rate from April 2013, to raise an additional £450m (1.5 per cent of pensionable paybill)

A more detailed analysis is shown at Annex A

1 The cost ceilings was set with reference to the scheme specific contribution rates required to provide the benefits for a 'Reference Scheme' design, based on Lord Hutton's recommendations for scheme reform. This will inform discussions at scheme level with local government trade unions. Should the outcome of this consultation process be that member contribution increases are not 1.5 pp, the cost ceiling will be amended appropriately.

4.4 The Government Actuary's Department confirms that the measures described at **Annex A** above can achieve the required savings of £900m by 2014-15.

4.5 **Option 2 -** A variation on that approach involving lower tariff increases, but offset by greater changes in accrual rate, or vice versa, could be chosen. One approach is set out below.

> Option 2 - This proposal to achieve the required £900m savings by 2014-15 (3 per cent of forecast pensionable paybill) comprises of two separate elements. It differs from Option 1 due to a lower contribution rate increase which is offset by a greater reduction in the accrual rate:
>
> **i) An increase in employees' contribution tariff from April 2012, to raise an additional £300m (1 per cent of pensionable paybill), and**
>
> **ii) A change in scheme's accrual rate from April 2014, to raise an additional £600m (2 per cent of pensionable paybill)**
>
> A more detailed analysis is shown at Annex A

4.6. **Normal Pension Age:** In his final report, Lord Hutton recommended that the pension age in public sector schemes could be linked to the State Pension Age.

> According to the Government Actuary's Department, setting the national pension age of the LGPS at the national State Pension Age would deliver annual savings in the region of £330m if implemented for future service accruals.
>
> Measures to achieve the remaining required savings could include a combination of changes to accrual rate and employees' contributions.

4.7 **Local Government Group:** In response to the Secretary of State's invitation of 20 July, the Local Government Group submitted a proposal to secure £900msavings by 2014-15. This consists of an increase to the normal pension age to 66, and a member choice of an increased contribution rate of change in the scheme's accrual rate.

4.8 The Local Government Group's submission (including detailed costings) to the Secretary of State for Communities and Local Government can be found in full in **Annex B** and **C** respectively.

Part time members

4.9 The current scheme regulations require that the appropriate contribution band for part time members is determined by their full time equivalent salary. The amount payable is then based on the individual's actual pay. This will continue to apply. For example, a scheme member currently working part time, doing 50 per cent of full time hours and earning £14,000 will have a full time equivalent salary of £28,000. The rate of 6.5 per cent is therefore applied to the actual earnings of £14,000. It is important to note that although the actual earnings fall within the protection threshold described at para 3.8 above, these protections, like the tariff bands, are based on full time equivalent salaries, in this example, £28,000.

Provision allowing scheme employers to benefit from savings

4.10 The additional income achieved from the scheme amendments following the Spending Review announcement will help to re-balance the costs of public service pension provision between scheme members on the one hand, and employers and taxpayers on the other. In the context of the funded, locally administered LGPS, this is achieved when employers' contributions are reduced as part of the scheme's statutory triennial actuarial valuation process. However, the current regulations do not allow a downward revision of employer contribution rates between three-yearly actuarial valuations.

4.11 To ensure LGPS employers and taxpayers benefit from the savings achieved by the statutory amendments finally introduced, we suggest that it would be necessary to provide a technical amendment, effective from April 2012, that enables scheme-appointed actuaries to vary rates and adjustment certificates both between valuation exercises (i.e. between the 2010 and 2013 valuations), and provide that the accrual rate changes proposed are reflected specifically in the 31 March 2013 valuation exercise to reflect the level of savings produced in scheme employers` contribution rates from April 2014. Views are invited on this particular proposal and how best it might be achieved in regulatory terms.

Summary

5.1 The Government Actuary's Department confirms that the introduction of the measures summarised in paragraphs 4.3 and 4.5 above and described in more detail at **Annex A**, can achieve the required savings of £900m by 2014-15.

Consultation responses

6.1 Consultees' views on the proposals outlined in section 4 are formally sought by 6 January 2012. However, as set out below, those may be subject to modification in response to submissions received from consultees in the course of the consultation period.

Other proposals

6.2 As referred to in paragraph 4.7, the Local Government Group has submitted their proposed package of savings to the Secretary of State. The Department intends to analyse and consider the details of the submission with advisers to the Group within the statutory consultation exercise period.

6.3 Any further alternative proposals which may be submitted should if possible:

- be actuarially costed and verifiable and be clearly explained to provide efficient assessment
- be capable of implementation within the legal powers which govern the regulatory framework of the scheme and
- not take account of the recent changes in indexation from RPI to CPI or the impact of projected workforce reductions which have already been factored into recent LGPS pension fund valuations

6.4 To assist the Department's considerations, consultees who may wish to submit alternative proposals:

- are invited to signal their intention to do so as soon as possible, please, and by **28 October** at the latest and
- are requested, please, to submit any specific costed options by no later than **25 November,** to allow an opportunity for discussion and appraisal

Next steps

7.1 The Department invites consultees' views and any evidence relating to all aspects of this statutory consultation, and in particular to the following questions:

- **Question 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?
- **Question 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?
- **Question 3** – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?
- **Question 4 -** Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?
- **Question 5 -** Within the consultation period, consultee's views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

Use of information

8.1 This consultation will be available for viewing on the LGFPS website at http://www.clg.heywood.co.uk/homepage. A summary of responses will be published within three months of the close of the consultation on this website.

8.2 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

8.3 If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

8.4 The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Yours sincerely,

TBJ Crossley

T B J CROSSLEY

The consultation is addressed to:

The Chief Executive of:
- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- Bradford Metropolitan City Council
- South Tyneside Metropolitan Borough Council
- Wolverhampton Metropolitan Borough Council
- London Pension Fund Authority
- Environment Agency

Town Clerk, City of London Corporation
Clerk, South Yorkshire PTA
Clerk, West Midlands PTA

Fire and Rescue Authorities in England and Wales
Police Authorities in England and Wales
Audit Commission
National Probation Service for England and Wales
New Towns Pension Fund

Local Government Association (LGA)

Employers' Organisation
LGPC

ALACE
PPMA
SOLACE
CIPFA
ALAMA

Association of Colleges
Association of Consulting Actuaries
Association of District Treasurers
Society of County Treasurers
Society of Welsh Treasurers
Society of Metropolitan Treasurers
Society of London Treasurers
Society of Chief Personnel Officers
Association of Educational Psychologists

NALC
Society of Local Council Clerks

Trades Union Congress
UNISON
NAEIAC
UNITE
UCATT
GMB
NAPO

Equal Opportunities Commission

Annex A: Local Government Pension Scheme in England and Wales

Government's proposals to achieve the required savings of £900m by 2014-15

Design principles

1. The Government believes that any proposed increases in contributions rates should protect low earners and be progressive, so that high earners pay proportionally higher increases to reflect their more generous pensions. The Government also set out its preferred parameters for scheme design to achieve the required savings in the Chief Secretary's Written Ministerial Statement of 19 July.

2. These parameters, outlined below, are reflected in the tariff proposed in this paper (all references are to full time equivalent salaries):

   - there should be no increase in employee contributions for those earning less than £15,000

   - there should be no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis

   - high earners will pay more, but no more than 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis

3. For the LGPS in England and Wales, ministers believe there is a case to consider a broader range of opportunities to secure appropriate levels of savings for employers within the scheme. The scheme's funded status lends itself to this approach which not only helps to protect the high proportion of low paid, part-time members of the scheme but it assists directly in the Government's objective to minimise opt-outs and contribute to the ongoing viability of the funded LGPS, itself a major policy component of the package given the national significance of LGPS pension funds by value.

Existing tariff

4. The existing levels of employee contributions as currently set out in regulation 3 of the Local Government Pension Scheme (Benefits, Contributions and Membership) regulations 2007 (the Benefits Regulations) are as follows:

£0 - £12,600	5.5%
£12,601 - £14,700	5.8%
£14,701 - £18,900	5.9%
£18,901 - £31,500	6.5%
£31,501 - £42,000	6.8%
£42,001 - £78,700	7.2%
£78,701 +	7.5%

Government proposals for the Local Government Pension Scheme

5. The Government proposes to achieve the required savings of £900m by 2014-15 from a combination of a proportionate increase in the rate of contribution paid by scheme members and a marginal change in the rate at which scheme benefits are accrued. The proportion of each element relative to the required £900m savings would therefore have different impacts on the extent to which scheme members bear additional costs now (increase in the contribution rate) or later, on retirement (change in the accrual rate).

6. Comments are therefore invited on two possible approaches, the first of which achieves most of the savings from the proposed change in accrual rate, thus impacting less on scheme members' disposable income and the second, weighting more of the required savings towards increases in scheme members' contribution with less impact on future accrual under the current scheme.

Approach 1

7. Under this proposal, £450m (equivalent to 1.5 per cent) would be achieved from a phased increase in employees' contribution rate as shown in the table below:

Tariff Band (% of membership)	Current	2012/13	2013/14	2014/15
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.7% (0.2%)	7.2% (0.7%)	7.7% (1.2%)
£21,001- £32,400 (31.34%)	6.5%	7.2% (0.7%)	8.0% (1.5%)	8.3% (1.8%)
£32,401- £43,300 (11.16%)	6.8%	7.5% (0.7%)	8.3% (1.5%)	8.7% (1.9%)
£43,301- £60,000 (4.18%)	7.2%	8.2% (1.0%)	8.7% (1.5%)	9.0% (1.8%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	9.2% (2.0%)	10.0% (2.8%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	11.0% (3.5%)
£100,001- £150,000 (0.16%)	7.5%	9.5% (2.0%)	11.0% (3.5%)	12.0% (4.5%)
£150,001 + (0.05%)	7.5%	10.0% (2.5%)	12.0% (4.5%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	2012/2013		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.00%	0.56%	19
£80,000	4.32%	5.22%	0.90%	60

1:Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2013/2014		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.40%	1.20%	25
£40,000	5.44%	6.64%	1.20%	40
£80,000	4.32%	5.52%	1.20%	80

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2014/2015		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.64%	1.44%	30
£40,000	5.44%	6.96%	1.52%	51
£80,000	4.32%	6.00%	1.68%	112

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

8. The balance of £450m in this case would be achieved a by a stepped change in the scheme's accrual rate from the current rate of 1/60ths to 1/64ths with effect from April 2013 and to 1/65ths with effect from April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate from 60ths to 64ths in 2013-14 and to 65ths in 2014-15:

Final pensionable pay (31.03.2015)	1 year of service		
	1/64th	1/65th	% Change
£10,000	£156.25	£153.85	-1.54%
£25,000	£390.63	£384.62	-1.54%
£40,000	£625.00	£615.38	-1.54%
£80,000	£1,250.00	£1.230.77	-1.54%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	64ths and 65ths in last two years	% Change
£10,000	£833.33	£810.10	-2.79%
£25,000	£2,083.33	£2,025.25	-2.79%
£40,000	£3,333.33	£3,240.38	-2.79%
£80,000	£6,666.67	£6,480.77	-2.79%

In the above table, the member accrues 60ths for three years, 64ths for 1 year and 65ths for one year.

A member with final pensionable pay of £40,000 and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 64ths in 2013-14 and to 65ths in 2014-15, then the accrued pension at 31 March 2015 will be around 3 per cent lower at £3,240.38.

9. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£180m	£360m	£450m
Accrual Rate	£0	£360m	£450m
Total	**£180m**	**£720m**	**£900m**

10. In line with the Government’s preferred design, the overall savings achieved from the above proposed increases in employees’ contribution rates have been phased in over the Spending review period on a ratio of 40:40:20.

Approach 2

11. Under this proposal, £300m of the £900m required savings (equivalent to 1 per cent) would be achieved from a phased increase in employees’ contribution rate as shown in the table below:

Tariff Band (% of membership)	**Current**	**2012/13**	**2013/14**	**2014/15**
£0 - £12,900 (8.67%)	5.5%	5.5% (0.0%)	5.5% (0.0%)	5.5% (0.0%)
£12,901- £15,100 (10.61%)	5.8%	5.8% (0.0%)	5.8% (0.0%)	5.8% (0.0%)
£15,101- £19,400 (25.20%)	5.9%	5.9% (0.0%)	6.0% (0.1%)	6.0% (0.1%)
£19,401- £21,000 (7.47%)	6.5%	6.5% (0.0%)	6.8% (0.3%)	6.8% (0.3%)
£21,001- £32,400 (31.34%)	6.5%	6.8% (0.3%)	7.2% (0.7%)	7.5% (1.0%)
£32,401- £43,300 (11.16%)	6.8%	7.1% (0.3%)	7.8% (1.0%)	8.2% (1.4%)
£43,301- £60,000 (4.18%)	7.2%	7.8% (0.6%)	8.4% (1.2%)	8.8% (1.6%)
£60,001- £81,100 (0.91%)	7.2%	8.7% (1.5%)	8.8% (1.6%)	9.5% (2.3%)
£81,101- £100,000 (0.25%)	7.5%	9.0% (1.5%)	9.8% (2.3%)	10.5% (3.0%)
£100,001- £150,000 (0.16%)	7.5%	9.3% (1.8%)	10.8% (3.3%)	11.5% (4.0%)
£150,001 + (0.05%)	7.5%	9.5% (2.0%)	11.8% (4.3%)	12.5% (5.0%)

Local Government Pension Scheme employee contributions are deducted from gross pay before income tax. Therefore, they normally benefit from tax relief.

The tables below illustrate the effect of tax relief on the level of contributions members would pay if the proposed tariff above is adopted in 2012-13, 2013-14 and 2014-15.

	2011/12	2012/2013		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.44%	0.24%	5
£40,000	5.44%	5.68%	0.24%	8
£80,000	4.32%	5.22%	0.90%	60

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2013/2014		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	5.76%	0.56%	12
£40,000	5.44%	6.24%	0.80%	27
£80,000	4.32%	5.28%	0.96%	64

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

	2011/12	2014/2015		
Full-time pay	**Contribution rate net of tax relief[1]**	**Contribution rate net of tax relief**	**Increase in contribution rate net of tax relief**	**Additional cost (£ per month)**
£10,000	4.40%	4.40%	0.00%	0
£25,000	5.20%	6.00%	0.80%	17
£40,000	5.44%	6.56%	1.12%	37
£80,000	4.32%	5.70%	1.38%	92

1: Contribution rate net of tax relief is the percentage of your total pay by which your take-home pay is lower because of the proposed new tariff.

12. It is proposed that the balance of £600m (equivalent to 2 per cent) would be achieved by a change in the Scheme’s accrual rate from the current 1/60th to 1/67th with effect from 1 April 2014

Impact of benefits of change in accrual

The following tables show the effect on the pension of a change in accrual rate during the year 2014-15.

Final pensionable pay (31.03.2015)	One year of service		
	1/60th	1/67th	% Change
£10,000	£166.67	£149.25	-10.45%
£25,000	£416.67	£373.13	-10.45%
£40,000	£666.67	£597.01	-10.45%
£80,000	£1,333.33	£1.194.03	-10.45%

Final pensionable pay (31.03.2015)	Five years of service		
	1/60th	1/67th	% Change
£10,000	£833.33	£815.92	-2.09%
£25,000	£2,083.33	£2,039.80	-2.09%
£40,000	£3,333.33	£3,263.68	-2.09%
£80,000	£6,666.67	£6,527.36	-2.09%

A member with Final Pensionable Pay of £40,000 pa and service of five years at 31 March 2015 will have accrued a pension of £3,333.33 pa on an accrual of 60ths. If the accrual rate is lowered to 67ths in 2014-15, then the accrued pension at 31 March 2015 will be around 2 per cent lower at £3,263.68 pa.

13. On this basis, the total expected savings over the Spending review period would be:

	2012/13	**2013/14**	**2014/15**
Tariff Increase	£95m	£220m	£300m
Accrual Rate	£0	£0m	£600m
Total	**£120m**	**£240m**	**£900m**

Annex B: Local Government Group proposals, 21 September 2011

Local Government Pension Scheme – Proposed increase in employee contributions

As you will be aware, in the public sector Spending Review statement in October 2010 the Government announced its intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). The Government intended that the increases should be introduced progressively over the period 2012-13 to 2014-15. It was subsequently confirmed that the level of increase for members of the Local Government Pension Scheme (LGPS) would be 3.2 per cent, on average.

The Local Government Group made representations to the Government that the funded nature of the LGPS meant that income equivalent to a 3.2 per cent increase could be generated in ways other than wholly via an increase in employee contributions. As a result of those representations the Secretary of State for Communities and Local Government wrote to me on 20 July 2011 asking the Group to enter into discussions with the local government trade unions. This was with a view to establishing a package of measures to secure short term savings by 2014-15, equivalent to a 3.2 per cent increase in employee pension contribution rates, with any necessary legislation to be in place by 1 April 2012. The package could include alternative ways to deliver some or all of the savings, whilst providing protections from contribution increases for the lower paid.

The LG Group has been in discussions with the trade unions since then.

The Secretary of State's letter of 20 July 2011 initially required the Group to provide him with an update on the outcome of the discussions by 9 September but a short extension to this deadline was subsequently allowed. However, despite constructive discussions with the trade unions, it has not so far been possible to reach agreement on a joint proposal to put to the Secretary of State.

I have therefore written to the Secretary of State (on 21 September 2011) setting out the Group's proposals as to how the required 3.2 per cent savings can be achieved in a way which we believe is fair to employees and affordable for the taxpayer (as an alternative to the level of increases in employee contributions that DCLG might otherwise come forward with). The proposals minimise the impact on the lower paid whilst at the same time giving choice to individuals.

The key elements of the Group's proposals are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5 per cent and an increase of between 2 per cent and 2.5 per cent for those earning over £21,000

- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014

- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65

A full copy of my letter to the Secretary of State is available at http://www.lge.gov.uk/lge/core/page.do?pageId=1 under 'News and features' together with some worked examples of the effect the choice mentioned in the second bullet point above would have on individuals.

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)

- would help the low paid to stay in the scheme and reduce opt out rates

- give employees a choice, which they can exercise in the light of their own personal circumstances

- ensure that those employees earning above the £15,000 threshold who want to keep their current pension accrual rate will have to pay more to retain that accrual rate, and

- reduce the risk of industrial action

We understand that the Secretary of State will issue a statutory consultation document towards the end of September setting out the DCLG proposals for how the 3.2 per cent savings could be met. We would hope that consultation paper will make some reference to the LG Group proposals and it is our intention to continue discussions with the trade unions.

Annex C: Costings submitted with Local Government Proposals, 21 September 2011

1 Data

1.1.1 We have used national salary data to estimate the possible savings. We have assumed a £30bn payroll split as shown below.

	Low er Band	Upper Band	Current Rate	Actual Salary
Band 1	£0	£12,600	5.5%	£465,749,324
Band 2	£12,601	£14,700	5.8%	£903,561,303
Band 3	£14,701	£18,900	5.9%	£4,336,702,797
Band 4	£18,901	£31,500	6.5%	£12,996,837,271
Band 5	£31,501	£42,000	6.8%	£6,132,933,585
Band 6	£42,001	£78,700	7.2%	£4,433,984,527
Band 7	£78,701	plus	7.5%	£730,231,193
Total				£30,000,000,000

1.1.2 This is the best available national data we have and is available in summary form only.

1.1.3 We note that contribution bands have changed but the overall shape of the salary distribution is assumed to remain relevant for this exercise. Any further up to date data becoming available should be used to update the calculations.

1.2 Core element 1 - increasing normal retirement age

1.2.1 Increasing the retirement age for all by one year reduces the ongoing cost of the scheme by about 1 per cent to1.5 per cent of payroll though this will vary by fund. We have assumed that GAD may value this on detailed national data on an average set of fund valuation assumptions and have assumed that 1 per cent of payroll will be saved by adopting this change. This is equivalent to £300m per year on the data shown above.

1.3 Core element 2 - accrual or contribution rate changes

1.3.1 We have therefore considered how we can raise the further £600m being required by HM Treasury.

1.3.2 There are infinite combinations of contribution increases that will provide the £600m provided there are no opt outs, the data remains as estimated above and at this stage we are considering that 60ths accrual remains.

1.3.3 We have shown three examples below. These show the impact and make no allowance for any further options being proposed.

Table 1.3	Low er Band	Upper Band	Current contribution	a) same increase	b) same uplift	c) steeper increase
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	1.9%	1.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%	1.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%	2.0%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.2%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.3%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£605m	£605m

1.3.4 We have assumed that lower paid protection level is set at £15,000 and members with salaries below this level will not be required to increase their contribution levels going forward.

1.3.5 As can be seen, all these options will provide for the required income target. However, there is a higher risk of opt out for higher contribution increases, especially at lower salary levels. We consider that steeper patterns than option c) will effect much higher levels of opt out at higher salary bands, with the possible cascade effect as members follow behaviour patterns of their senior managers or directors.

1.3.6 Option c) also meets the patterns required for other public sector schemes in that a 1.5 per cent limit it set for those with salaries up to £21,000.

1.4 Core element 3 - reduce accrual option

1.4.1 This section shows the possible savings from providing a reduced accrual option.

1.4.2 These savings assume that all members opt for the reduced accrual option.

Table 1.4	Low er Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduce accrual (68ths)	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.4%	2.5%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%	2.5%
Band 5	£31,501	£42,000	6.8%	2.1%	2.4%	2.5%
Band 6	£42,001	£78,700	7.2%	2.1%	2.4%	2.5%
Band 7	£78,700	plus	7.5%	2.1%	2.4%	2.5%
Total raised				£600m	£675m	£715m

1.4.3 The accrual reduction that provides for £600m will depend upon both how the GAD value the reduced accrual change of the benefits on national detailed data.

1.4.4 It will also depend upon where the lower paid protection limit gets set and the above assumes that this is set at £15,000.

1.5 Core element 3 – the lower paid

1.5.1 The model suggested allows for lower paid members to pay reduced contributions if they choose the lower accrual route. We have used 68th accrual in the following table and assumed that a reduction in contributions of say 60/68 times the current rate would be a fair level of reduction.

Table 1.5	Lower Band	Upper Banc	Current contribution rate	Reduce accrual (67ths)	Reduced contributions	Net effect
Band 1	£0	£12,600	5.5%	2.4%	0.6%	1.7%
Band 2	£12,601	£14,700	5.8%	2.4%	0.7%	1.7%
Band 3	£14,701	£18,900	5.9%			
Band 4a	£18,901	£21,000	6.5%			
Band 4b	£21,001	£24,000	6.5%			
Band 4c	£24,001	£31,500	6.5%			
Band 5	£31,501	£42,000	6.8%			
Band 6	£42,001	£78,700	7.2%			
Band 7	£78,700	plus	7.5%			
Total raised				£32m	£10m	£22m

1.5.2 As can be seen above the saving will depend upon how much a reduction in contributions is offered to the lower paid members and how many of the lower paid opt for reducing accrual compared to the status quo.

1.5.3 However, we feel it remains equitable to offer this reduced cost option, setting the possible accrual level at the same level as the higher paid to provide the lower paid with a similar choice.

1.5.4 Any savings made from the above will depend on members choice so should not be included as certain in the total costs.

1.6 Core element 3 – the higher paid

1.6.1 The model suggested that higher paid members will retain their current 60th accrual by paying more into the scheme. However we recognise that this will not be attractive and perhaps unaffordable for some.

1.6.2 In this section therefore we have shown possible reduced accrual options that would provide these members with an alternative allowing their current contribution rates to remain.

1.6.3 We have shown three cases below corresponding to the tables of proposed contribution increase tariffs within section 1.4.

Table 1.6 a	Lower Band	Upper Band	Current contribution rate	a) same increase	Reduce accrual (67ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	2.1%	2.1%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.1%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.1%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.1%
Band 5	£31,501	£42,000	6.8%	2.1%	2.1%
Band 6	£42,001	£78,700	7.2%	2.1%	2.1%
Band 7	£78,700	plus	7.5%	2.1%	2.1%
Total raised				£600m	£600m

Table 1.6 b	Lower Band	Upper Band	Current contribution rate	b) same proportionate increase	Reduce accrual (68ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.9%	2.4%
Band 4a	£18,901	£21,000	6.5%	2.1%	2.4%
Band 4b	£21,001	£24,000	6.5%	2.1%	2.4%
Band 4c	£24,001	£31,500	6.5%	2.1%	2.4%
Band 5	£31,501	£42,000	6.8%	2.2%	2.4%
Band 6	£42,001	£78,700	7.2%	2.3%	2.4%
Band 7	£78,700	plus	7.5%	2.4%	2.4%
Total raised				£605m	£675m

Table 1.6 c	Lower Band	Upper Band	Current contribution rate	c) steeper increase	Reduce accrual (69ths)
Band 1	£0	£12,600	5.5%	0.0%	0.0%
Band 2	£12,601	£14,700	5.8%	0.0%	0.0%
Band 3	£14,701	£18,900	5.9%	1.5%	2.5%
Band 4a	£18,901	£21,000	6.5%	1.5%	2.5%
Band 4b	£21,001	£24,000	6.5%	2.0%	2.5%
Band 4c	£24,001	£31,500	6.5%	2.5%	2.5%
Band 5	£31,501	£42,000	6.8%	2.5%	2.5%
Band 6	£42,001	£78,700	7.2%	2.5%	2.5%
Band 7	£78,700	plus	7.5%	2.5%	2.5%
Total raised				£605m	£715m

1.6.4 Of course there is no way of telling which way members will opt and most will need some help and financial advice to make the correct decision but the above shows that we can design a scheme which meets the required target.

1.6.5 As there is a risk of members selecting the option that does not raise sufficient income the accrual rate for a steeper contribution increase pattern than 1.3 c) will mean the accrual that can be offered as an option will become very unattractive.

1.7 Stepping any changes

1.7.1 We understand that stepping any changes over the three year period may be acceptable. Administratively no changes will be very straightforward but stepping changes to the contribution patterns will be possible whereas stepping the reduction in accrual will not be feasible.

1.7.2 A possible spread of increase in step of 20 per cent/40 per cent/40 per cent will defer much of the change until the new scheme takes shape.

1.8 Summary

1.8.1 Therefore we have the following patterns or options.

- Steeper stepping patterns for contributions than we have considered in section 1.3 which incur very high opt out risk, especially at middle to high salary bands. We have rejected this option due to opt out risk at all levels that may cascade throughout the workforce in general.

- Contribution patterns considered like those in section 1.3, which also have the appeal of being more easily phased in over a three year period.

- Contribution patterns with a suitable accrual reduction depending upon the upper contribution bands to ensure the required savings are met. As accrual reduction cannot be phased in it would need to be accepted that this change would only be practical in say year 2014.

1.8.2 Due to administration simplicity and the ability to step the costs it seem that an option like 1.3 c) may be most favourable.

1.8.3 However if options and choice for members are consider a more key factor then 1.6 b) would appear to offer a good solution as the accrual reduction is minimised.

1.8.4 Alternatively, option 1.6 c) meets the contribution increase limits applying to other public sector funds, whereby the increases at lower salary bands are restricted. It also offers flexibility and choice for members, perhaps being an advantage outweighing the simplicity of 1.3c).