HYMANS ROBERTSON
The Spirit of Independence

sixty seconds

news summary

January 2013

Consultation on draft Local Government Pension Scheme Regulations 2013

On 21 December 2012, the Department of Communities & Local Government (CLG) published its long awaited statutory consultation on draft Local Government Pension Scheme Regulations for the new scheme in England & Wales. This first set of draft Regulations covers membership, contributions and benefits and related administration issues and is due to come into force on 1 April 2014.

The Government is still discussing other aspects of the scheme design with employers and trades unions covering governance, cost control (some potential features of a proposed cost control mechanism are set out in an Appendix to the consultation document) and remaining scheme administration issues. As a result further, separate, consultations are expected in early 2013 covering these outstanding items, together with provisions on transitional protections and compatibility with the Public Service Pensions Bill ('the Bill'). While not specifically a consolidation exercise the Government is taking the opportunity to have one main set of Regulations in place for the new scheme.

General comment

As Fund actuaries we require the necessary new scheme regulations to be in place in sufficient time to allow us to carry out the 2013 actuarial valuations. The valuation should be based on scheme benefits defined in regulation rather than on possible or expected future changes. To help achieve this tight deadline the consultation period in respect of this first consultation exercise will only last 7 weeks with responses due back to CLG by 8 February 2013.

Unfortunately perhaps this does mean that a lot of useful and important detail for pension managers is missing at the present time, particularly in relation to definitions and the transitional arrangements between the current and the new scheme. With a number of new terms still to be defined (such as ‘index rate adjustment’, ‘pensions account’, ‘revaluation adjustment’ etc.), and at least one further consultation exercise to come, this may create difficulties for some in responding to the current consultation on incomplete draft regulations.

What do we have?

The high level features of the new scheme have been known for some time now and there is nothing in this first consultation that appears to change that.

- CARE scheme with a 49th accrual.
- Survivor benefits, on a similar CARE basis, based on a 160th accrual.
- the new contribution rate table is confirmed, although we believe this should be updated by 2014 to ensure the average employee contribution remains at 6.5% of payroll.
- Pensionable pay range to be increased in line with CPI each year (the effect of promotional increases could well push people into higher bands as a result, albeit that is also the case now).

- The creation of separate 'accounts' in respect of individual active, deferred and pensioner membership, as well as separate 'accounts' for survivor benefits.
- 50/50 option (presented as temporary reduction in contributions) will automatically cancel at auto-enrolment date (or re-enrolment date) or on sick leave. Employers will be obliged to inform members of the impact of this option on future pension accrual. CLG may also be keen to ensure that "high earners" do not use this option as a way of avoiding annual or lifetime allowance tax charges.
- The removal of the distinction between transferee and community admission bodies (although we expect such terminology to remain in common use for some time to come).
- The cost of the Rule of 85 to be re-invested into better scheme design at end of spreading period, although it appears unclear how this will impact the overall cost envelope of the scheme.

However, at a detailed level there appears much work is still required on the mechanics of how some of the CARE provisions will work in practice, much of which may well be part of the later consultation exercises.

Cost control

In order to keep the new scheme affordable and sustainable, a new cost control mechanism is being introduced. While not specifically included within the draft regulations this first consultation does include a separate document on an LGPS cost control mechanism that provides more detail on how discussions between the various stakeholders are developing. Formal consultation on cost control will be part of the consultation on the second set of draft regulations. From an actuarial perspective it will not be necessary to have this mechanism finalised before the 2013 actuarial valuations. In our view, there will be no impact until there are actual changes to benefits and/or contributions, which we would expect to be effective from future valuation exercises.

More detail on the cost control mechanism will follow in a separate briefing.

Conclusion

From an actuarial viewpoint we have had enough detail on the high level features to cost the new scheme already. In our view this consultation doesn't change that; what is important is that the regulations can be in place in sufficient time that we can base the 2013 valuation on the new scheme contribution, membership and benefit structure.

From a pension manager perspective we appreciate that a lot of important detail remains to be confirmed, not least the transitional arrangements between the current and new schemes. While the intention appears to be that there will be a single, consolidated set of LGPS Regulations, arriving at this point via two (if not three) separate consultation exercises may well be of concern to many. As a result it looks as if uncertainty on the detailed final design of the LGPS in its totality will remain for many months to come. This will make the implementation of the new scheme by April 2014 an even more challenging exercise for pension managers.