

**Report by:** Head of Human Resources

**To:** Joint Staff Employer Forum – 10 January 2006

**Wards:** None affected

**LOCAL GOVERNMENT PENSION SCHEME – UPATE ON PROPOSED CHANGES**

**1.0 PURPOSE AND BACKGROUND**

- 1.1 To outline the current national position and timetable in relation to the proposed changes to the local government pension scheme from 1 April 2006 onwards.
- 1.2 To outline the UNISON and GMB position in relation to these changes

**2.0 DECISION TO BE MADE**

- 2.1 No decisions are required.

**3.0 RECOMMENDATIONS**

- 3.1 JSEF are asked to: -
- Note the current proposals and timetable for changes to the pension scheme;
  - Note the position of the Trades Unions at **Appendix 1**.

**4.0 BACKGROUND**

- 4.1 The April 2005 Regulations were revoked to prevent industrial action in early 2005. Since then a national tri-partite committee has been discussing the issues and trying to reach agreement on draft regulations for further consultation of a phased modernisation to the scheme
- 4.2 The phasing of the changes to the scheme take account of the long term costs to the pension scheme, taxation changes and age discrimination legislation due to come into force on 1 October 2006.

## **5.0 TIMETABLE**

- 5.1 The current consultation period ends on **28<sup>th</sup> February 2006**. The final Regulations will be laid in mid March 2006 for implementation from **1 April 2006** (see section 6.0 below).
- 5.2 Ongoing national discussions about the modernisation and development of the Scheme will continue with a view to producing a national policy paper for discussion no later than June 2006 on a new look LGPS. This would lead to draft Amendments Regulations in the autumn of 2006 for final regulations in **April 2007**.
- 5.3 It is intended that a new look local government pension scheme would come into operation from **April 2008**.

## **6.0 PROPOSED CHANGES TO THE PENSION SCHEME (SUBJECT TO CONSULTATION)**

6.1 The proposed changes are summarised as:

- No changes to the basis for calculating pension.
- No changes to contribution rates.
- No change to the age 65-retirement age.
- Provision for flexible retirement at age 60 with conditions (further details are still required on this from the scheme)
- Tax changes for high earners above £151K (not applicable for City Council staff)
- Tax changes to allow staff to stay in the scheme after age 65 to age 70.
- New assessment of lifetime maximum in pension scheme i.e. pension from all sources (awaiting scheme clarification on details and options for individuals)
- No mention as yet of early retirement eligibility being increased from age 50 to 55 (may be added to 2008 Regulations)
- From 1 October 2006 the 85-year rule to cease with protection for those aged 60 by 2013.

## **7.0 CITY COUNCIL POSITION**

- 7.1 The final changes to the scheme are still not finalised at this stage and, according to the pension section at Shire Hall, there are still omissions in the proposed scheme that need clarification before the Regulations are finalized and able to be operated. There is a further consultation period on the most recent proposals to 28 February 2006 – see 6.1 above.
- 7.2 The City Council is already facing additional costs based on the existing scheme totaling £2.2million by 2010/11 (included in the MTS at page 90). The Cambridgeshire Scheme is intending to reassess the cost projections for employers given the new regulations when these are

finalised agreed after the current consultation period. The Council already tries to manage cost for early retirements (due to ill health and redundancy) and no longer uses the discretion for paying 'added years'. Redeployment is used wherever possible to retain skills and manage costs.

- 7.3 The City Council, along with other local LG employers will need to review the discretions within the scheme to determine local policy, e.g. for Early Retirement, once the County has sought actuarial advice on these. A briefing session for all Cambridgeshire employers is planned for March/April 2006.
- 7.4 The Council will need to send in a formal response to the consultation by the end of February 2006. This will be agreed with the Chief Executive, the Leader and the Executive Councillor for CS&R to reflect our views as an employer and taking into account long-term affordability for the Council. The Trades Unions will receive a copy of the response and will, of course, be able to respond via their own consultation channels about the perceived impact for their members.

## 8.0 TRADES UNION POSITION

- 8.1 The local Trades Unions branch secretaries have confirmed that they will be using the consultation period to 28<sup>th</sup> February to lobby for support to NOT abolish the 85-year rule. Local TU officers are also being asked to prepare to ballot their members, possibly for industrial action, in case they wish to pursue this after the final regulations are announced in March 2006. A statement from the Trades Unions is attached at **Appendix 1**.

## 9.0 CONCLUSION

- 9.1 The long awaited changes to the pension scheme are still not finalised and the City Council must consider the impact for affordability and for employment policies before making a response to the consultation period.

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## UNION RESPONSE TO DRAFT REGULATIONS ON THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO.3)

Further to our letter to Councillors on Joint Staff Employer Forum of 7<sup>th</sup> October 2005, Union response to latest draft regulations is as follows:

### 85 year Rule

Despite positive proposals from the Trade Union Side to the employers and Government, which would have provided for negotiations up to June on the whole future of the LGPS, they have decided to reinstate the key proposals of the Amendment Regulations (2) and remove the 85-Rule without a fair replacement with very limited protection, up to 2013 only.

This is a major reduction to our members' pension rights, for which they have contributed 6% of their earnings, with legitimate expectations of retiring at 60 if they fulfil 85 Rule requirements and therefore is entirely unacceptable to UNISON and the whole Trade Union side, which is made up of GMB, TGWU, UCATT, Amicus, FBU, Napo, and CYWU.

The ending of the 85-year rule is proposed under age discrimination regulations (yet to be published). The TU side met on 5<sup>th</sup> December and agreed to explore a possible legal challenge to the draft regulations (which specifically excludes pensions). Initial legal advice confirms the 85-year rule can be justified under European Legislation. Age discrimination doesn't appear to be a problem for the government in the pension deal for the NHS, teachers and civil servants.

It is a myth that all Local Government workers retire at 60. The average retirement age for LG workers is 64.5 years. 22% of LG workers who retire early do so as a result of ill health brought on by physical or mental wear and tear.

Tax and revenue changes arising from the Finance Act 2004, to be introduced on 1 April 2006.

These include:

- Ability of LGPS members to take up to 25% of their pension as a lump sum – on a voluntary basis.
- A new upper limit for contributions, with a salary cut-off point of £130,000.
- Flexible retirement provisions with the right to retire with a pension, reduce hours and continue working and contributing to the LGPS
- LGPS members will be able to opt to retire before 65 and pay additional contributions to receive an un-reduced pension.

The TU side has received a detailed report from our actuary on the proposal to allow for 25% commutation of the pension into a lump sum. His research shows that this will generate up to £6 billion in savings on benefits to date, with a 1% saving in the future. This is enough to cover the cost of revoking the 85-rule from 1 April 2005 to 1 October

2006, lifetime protection for existing members and provide a 1% of pensionable payroll for improvements to the scheme.

What are the Unions going to do?

In addition to a legal challenge, the Trade Union side will be instigating a campaign involving our members, to change the Government's and the LGA's mind and make them see sense.

Although the 85-year rule is seldom used for early retirement at Cambridge City Council, it is a useful benefit to retain, especially where there is an older workforce and in an environment of change and restructure which the authority will possibly be undertaking as a result of the Customer Access Strategy.

The TU side have also discussed industrial action, each of the unions is committed to hold an industrial action ballot if the Government and the employers pursue these proposals after the end of the consultation period. UNISON's Local Government and Higher Education Sections have already decided to ballot for industrial action.

Please do not hesitate to contact us if you require further information from the Trade Union side.

**Liz Brennan**  
**Unison Branch Secretary**

**Kevin Roberts**  
**GMB Branch Secretary**

3<sup>rd</sup> January 2006