



**Amicus Response to the new look  
Local Government Pensions for  
England and Wales**

**26 September 2006**

# Options for a New Look LGPS

## Introduction and Summary

Amicus on behalf of its Local Authority members welcomes the opportunity to respond to the Consultation on the design of the New LGPS.

The main points in our submission are as follows:-

- We are strongly opposed to the proposals on ill health and while prepared to consider better targeting of benefits we reject the proposed reduction in the level of ill health provision.
- We support the proposed increase in death in service lump sum and the introduction of partners pensions and give these higher priority than any increase in the general level of dependants pensions.
- Whilst maintaining our opposition to the abolition of the Rule of 85 and our support for improved early retirement factors, we do support the measures to facilitate flexible early retirement.
- We reject any move to reduce the general level of employer contributions below the established level of 14.5%.
- We are prepared to accept a modest increase in employee contributions provided this is associated with designated improvements in benefits in the New Scheme.
- We support the introduction of tiered employee contribution rates and their final shape should be related to which Option for the New Scheme design is adopted.
- If a final salary Option is maintained then we believe it has to be on the basis of Option B rather than Option A.
- Of the CARE options, we prefer Option C.2 and believe that a modified version of this would be attractive to the majority of our members
- We are opposed to the hybrid Option D, which would create more problems than it resolves.
- We believe that members past service benefits should be maintained on current terms rather than transferred into the New Scheme.

## Ill Health

Amicus is strongly opposed to the proposed reduction in the overall level of ill health pension to be provided by the Scheme.

Whilst we are not opposed to some consideration of better targeting of ill health benefits, we believe that as in Teaching and Health the terms of reference for the ill health discussions should be based on a cost-neutral outcome.

The description of the ill health proposals under the heading 'Secondary benefit improvements' amounts to a blatant miss-selling of the proposals advanced.

Given the increase in Normal Pension Age we anticipate there will be increased pressure on ill health pensions particularly from groups like craft-workers for some of whom capability will be a major issue.

In respect of the top-tier, in overall terms the level of benefit provided to those who will qualify offers little net improvement over current terms. While some younger members will receive higher benefits, some older members will receive a reduced level of benefit.

The qualifying requirement for this top-tier benefit is made much more restrictive with the substitution of 'unlikely to secure any other regular job' for 'any comparable job with your employer'. This lets the employer off the hook, in respect of providing alternative work, as well as denying pension when an employee can be deemed capable in theory of working at a hugely reduced level, even if their chances of actually obtaining employment may in practice be poor. We believe that this definition is unreasonably restrictive.

We do not consider the current level of ill health benefit to be at all generous and if proposals are to be considered for restricting access by better targeting we would have expected them to be associated reasonably with a substantially increased level of pension for all those who qualify- e.g. full prospective service.

We are concerned that under present arrangements there are substantial numbers of members who are sacked for incapability but who do not qualify for ill health pensions. A two tier approach might help in addressing this problem especially if the concept of permanency did not figure in the qualifying definition.

In the event of reviews of benefits being introduced then it is important that such provisions would extend to benefits being increased where subsequent events demonstrate that incapability is permanent.

In any revised arrangement it is important that definitions and procedures are clearly defined and that a focus on keeping people in work is maintained with employers remaining under an obligation to provide alternative work.

### **Dependants' benefits**

The Review proposals provide for an increased death in service lump-sum, an extension of spouses pensions to unmarried partners and a general increase in dependants pensions in respect of Options B, C and D.

We welcome the proposed increase in the death in service lump sum and believe that increasing this benefit should take precedence over any increase in the level of dependants' pensions.

A higher lump sum will also help in making any increase in member contributions more acceptable. With new tax flexibilities a shift in the balance of dependants' benefits towards lump sums will be popular.

The increase in the general level of dependants' pensions arises automatically out of the improvement in the members' pension derived through higher accrual under Options B-D (from the 50% provision). While we do strongly support improved pension accrual in the New Scheme we do not believe that increasing the spouses benefit should have the same priority. The two proposals should be separated and doing this will make improved accrual more affordable.

The extension of spouses' pensions to common-law and same sex partners is a long overdue measure which will reduce the most blatant area of discrimination in the benefits of the Scheme. We say reduce as the proposal made only extends to future service benefit rights and we would have preferred to see a proposal which had some retrospective effect i.e. covering at least back service pension rights at least to 1988 (the applicable date for widowers benefits and the proposal tabled for the NHS Scheme)

## **Flexible and Early Retirement**

In principle we welcome these types of flexibility, though there are some practical problems

We would support the three proposals to extend the scope of flexible retirement. Measures of this sort are exactly what are needed to help and encourage members to extend their careers in Local Authority service on a basis which they feel they can cope with.

In particular the proposal to remove the requirement for employer consent as it puts the members needs to the fore rather than their being subjugated unreasonably to the employer's requirements.

The proposal to allow extra contributions to be paid to offset early retirement reductions is in the short term problematic given the fact that neither the level of actuarial reductions nor the position of the Rule off 85 is fully or finally resolved, in our eyes.

We do recognise that this option will be an expensive one and because of that of doubtful attraction to many of our members. The arrangements for ensuring members get value for the extra contributions should they go beyond their anticipated retirement date will need to be clarified.

## **Employee and employer costs**

Amicus does not accept that there is any justification for the consideration of any level of Employer contribution for future service below the level of 14.5%, the benchmark level in the 2004 valuation cycle (20.3% minus the 5.8% yield from current member contributions). We are surprised, given the circumstances, that this option has even been mooted.

Any move to reduce this level of contribution would be a fundamental repudiation of the agreement and understanding that 50% of the savings from the adoption of the Rule of 85 and from the extension of commutation would be available to fund scheme improvements.

It would also represent, in effect, a move to get Members to pay a part of the deficit contributions which the LGPS schemes currently require, which is unacceptable to us.

We can accept that the allocation of the extra cost burden of 0.8% required to fund a benefit package in line with the revised total benchmark cost of 21.1% is a legitimate concern for Employers, as also are increases in the cost of future service benefits at future valuations.

In the context of an Option for future benefits which leads to higher accrual of benefits in the future, we are prepared to consider some increase in the overall level of member contributions to the Scheme. We are confident members will accept a modest increase in contributions provided that it is associated with some clear benefit improvements. In this context the limit of 'modest' would be something of the order of an increase in overall yield of less than 1%

We would support the introduction of tiered member contributions. We recognise that tiering could help the lower-paid to afford membership of the Scheme and shield them, partly or wholly, against any increased cost associated with an increase in the overall level of member contributions.

Of the two-tier structures illustrated in the Consultation Document we would prefer the model with the £12,000 dividing line between Upper and Lower bands, though we would not endorse that without reference to the overall design of a tiered contribution and the nature of the benefits provided..

If a final salary structure is preferred for the future then we believe that this would justify greater differentiation, than would a CARE basis, between the contribution rates for the Upper and Lower bands, and/or also possibly a third or fourth contribution band.

This differentiation would produce a fairer outcome as the higher return on contributions in a final salary framework obtained by those members whose pay rises faster and higher can be offset in some measure by higher

contribution rates. We have supported a framework based on this principle in the negotiations on the NHS Scheme.

While we can understand the wish of employers to construct some framework for the sharing of future increases in the cost of pensions, we remain to be convinced that the mechanism outlined in the Consultation document provides a practical framework to achieve that objective.

The difficulties of devising an appropriate basis are legion in the context of the separate funding arrangements for each of the LGPS schemes.

It is not clear that devising some mechanistic formula for precipitating a change and then responding to that change in the future would be appropriate as compared to reaching an understanding that certain developments might precipitate a new consultation about change. This would allow a wider range of factors to be taken into account, than say mortality alone, and a wider range of solutions to be considered, as distinct from solely the employee contribution.

In principle we would expect any changes to be the subject of negotiation with the Trade Unions

## **The Four Options**

Amicus believes that the New Scheme should provide an improved level of accrual and a pension with complete choice in respect of lump sum.

We note that this has been a feature of the revised pension arrangements in other public service pension schemes and has been regarded as the principal compensation for a higher normal pension age.

Members are already upset about their worse treatment in the matter of their pension age, than members of other public service schemes, and the offer of a lesser benefit basis for the future than is available in those schemes would compound this sense of unfairness.

In order to facilitate this improvement our members are willing to contribute towards the cost of it through a limited increase in member contributions.

We therefore find Option A to be unacceptable, in that it fails to meet these reasonable aspirations.

If a Final Salary Scheme is to be maintained then we believe that Option B represents a suitable level of benefits in line with our members' general expectations

We are, however, open-minded about the alternative of a CARE Scheme and have considered Options C1 and C2 in relation to the prospective future earnings and pensions of our members.

A CARE pension using Revaluation on the basis of average earnings (inflation plus 1.5%) would be preferable to one based on inflation.

A key reason for this is that the system then clearly has a pivot implying that those whose earnings rise slower than average earnings get a better deal (relative to a final salary scheme based on the same overall cost/benefit) at the expense of those whose earnings rise faster than the average. It seems to offer potentially a larger improvement to members with slow earnings growth whilst at the same time limiting the extent of the reduction to those with fastest earnings growth.

While we definitely prefer Option C2 to Option C1, we are not convinced that the accrual rate of C2 is pitched at the right level.

We note that an accrual rate of 1.8% was offered in respect of the NHS scheme, on the basis that this was comparable overall to a 1/60 final salary scheme. We remain to be convinced that the difference between that and the 1.65% offered in C2 is explicable in terms of different expectations in respect of the pattern of future salary increases of members in the two schemes and the saving of 0.4% represented by Option C2 as compared to Option B.

The CARE Scheme offers an advantage to the employer in that it eliminates the risk that future pay rises, at a higher level than now anticipated, will inflate the cost of all past service benefits. This might be argued as meaning that a slightly better than cost-neutral rate might be offered in order to eliminate this risk and to help overcome the strong reservations members will have to a new basis of pension calculation

The attractions of CARE would be greatly increased if it were attached to a proposal to make all pay pensionable. The CARE system removes all the potential problems as can occur in a final salary system when variable items of pay are pensionable. We believe this change would amplify the 'fairness' argument often associated with CARE.

The introduction of a CARE pension would represent a major communications challenge, especially at a time when the general climate is that members natural presumption will be that change when proposed is likely to be bad, unless obviously otherwise. A significant premium accrual rate in a CARE option would make it much easier to sell than as in C2 where the accrual is marginally less and the overall benefit /cost is significantly lower.

We do believe that a CARE option could be attractive to the majority of our members and would definitely support an enhanced version of C2, though as currently tabled a perceived possible marginal attraction of C2 over Option B has to be weighed against the evident difficulty of selling the concept to members.

Option D is not an attractive option given the prospective pricing of the final salary opt-out from a CARE system. We believe this will create a difficult and

uncertain choice for members. The final salary option could draw in many people to a decision which may prove to be wrong for them. Otherwise it will be resented by members who feel they have been priced out of taking up something they perceive, whether wrongly or rightly, to be better for them.

In general, Option D is unlikely to offer any advantage to Amicus members.

### **Existing members in the New Scheme**

The issue of how to reconcile existing members past and future service benefits clearly depends a great deal on which Option for the New Scheme is adopted and the issue cannot fully be considered until that decision is made.

We are not attracted to Method A, an actuarial transfer with a 'no worse off guarantee', or to Method B, an actuarial transfer with a general uplift, because they both involve costs which would (as proposed) require a reduction in benefit or higher employee contribution in the New Scheme.

We believe Method C which maintains past service benefits on the current basis is the preferred alternative, most likely to maintain members' confidence in the overall package and the easiest to reconcile with the administration of Rule of 85 protections.

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