



A new LGPS by 2015: Reality or Aspiration?

A Green Paper by LPFA

Practical proposals for a new LGPS and its implementation by early 2015

August 2011

A new LGPS by 2015: Reality or Aspiration?

A Green Paper by LPFA

Proposals for a new LGPS and its implementation by early 2015

1. Introduction

This 'Green paper' sets out proposals for a new Local Government Pension Scheme (LGPS) together with proposals intended to better enable an implementation date of 2015. The paper is not intended as a single blueprint for success, rather it attempts to stimulate debate concerning the key ingredients of a new LGPS and the practicalities necessary for its successful implementation.

Whilst focusing the aim of this paper on the 2015 implementation, we are acutely aware of the short term pressures on the LGPS particularly with regard to Government savings requirements. In that respect we welcome the acceptance (and the resulting separate negotiations) that the LGPS, as a funded scheme, has a greater range of options for meeting those requirements than other public sector schemes.

We have addressed the options for short term Government savings in our response to Lord Hutton's final report <http://www.affordable-lgps.org.uk/Docs/LPFAFinalResponse.pdf> and would fully support a combination of options (including reduced accrual rates) designed to meet the Government's requirements whilst retaining employee contributions at a level that ensures the LGPS remains attractive to members.

The Government's short term saving requirements are additional to but not central to the fundamental long term issue facing the LGPS, that of ever increasing longevity in the midst of a rapidly changing working environment. Addressing this issue is the primary purpose of this Green Paper. Our objectives are to preserve the adequacy and fairness of benefits paid to scheme members whilst ensuring a greater level of affordability and simplicity for employers.

In drawing up proposals for the design of a new LGPS, we have taken account of the recommendations of Lord Hutton's interim and final reports together with the significant post report contribution to the debate from a number of sources. Our proposals for the cost mechanism have attempted to provide a level of cost certainty going forward with the aim of ensuring that the scheme remains sustainable and will not require revisiting in the foreseeable future.

The governance structure proposed aims to provide transparency and accountability whilst ensuring a consistently high level of expertise is maintained by scheme trustees and their advisors.

When considering implementation the aim has been to achieve a level of simplicity which ensures that the benefits of membership are clearly understood by all stakeholders and that administration is as cost effective as possible.

1.1 Objectives

- To propose a core scheme design affordable within a cost envelope set by government
- To propose a mechanism to maintain costs within the envelope in future
- To propose a governance structure appropriate for the new scheme
- To make proposals for an effective implementation of the new scheme, mechanism and structure by early 2015

1.2 Outline timetable

- Sept 2011 – Government to set out cost envelope and cost ceilings for the new scheme
- October 2011- Key principles of new scheme published
- October 2011- March 2012 – Work up proposals ready for consultation process, project scoped, costed and planned and central resourcing put in place
- April 2012 – March 2013 – Consultation on scheme design, mechanism and structures completed, integration with auto enrolment and tax scoped, drafted and legislated, systems scoped and tendered for, primary legislation if required
- April 2013-March 2014 – Secondary legislation drafted, consulted on and agreed, system design finalised, interim valuation completed,
- April 2014-March 2015 - Communications with members and employers, training for employers and administrators, new systems rolled out, new structures implemented in mirror
- April 2015 - New scheme is live

2. Summary of proposals

Scheme design

Proposal 1: That the new scheme use the Career Average Revalued Earnings (CARE) method of calculating pension benefits

Proposal 2: That pensionable pay in the new scheme be simply defined as: Pay upon which pension contributions have been deducted in the relevant tax year

Proposal 3: That the average earnings assumptions used for revaluation purposes accurately reflect both the ability to afford increases and movements in Local Government pay

Proposal 4: That a 1/70th accrual rate is used for the CARE benefits

Proposal 5: That the ability to commute annual pension to lump sum at a 12:1 ratio be retained in the new scheme and be subject to regular review

Proposal 6: The introduction of a low start scheme with benefits on pay below the forthcoming auto enrolment lower limit (£7495 p.a.) accrued at 1/200th and free of employee contributions

Proposal 7: That the Normal Pension Age (NPA) of the LGPS be linked to the State Pension Age (SPA) but with a mechanism to alter the link should increases in longevity not be reflected in SPA

Proposal 8: That scheme members should be able to take reduced/increased benefits across a range of ages subject to maximum and minimum limits

Proposal 9: A clear and simple method for calculating the cost of purchasing additional pension be introduced

Cost Mechanism

Proposal 10: That employer contribution cost ceilings be set for both total and future service

Proposal 11: That the cost mechanism used to maintain contribution rates below the ceilings include variable employee contributions, revaluation and accrual rates and pension ages

Proposal 12: That costs should be reviewed against both ceilings using a total scheme valuation timed to coincide with those of individual LGPS funds

Proposal 13: That adjustments to contributions, accrual and valuation rates should be made at national (i.e. scheme) level

Proposal 14: That adjustments to NPA should be made by the Secretary of State taking into account the SPA and the NPA's of other public sector schemes

Structure

Proposal 15: The formation of an LGPS pensions chamber combining the roles of the scheme board and policy group into one unit

Proposal 16: The introduction of individual statutory fund boards with an equal split between stakeholder and independent voting members

Proposal 17: The introduction of a set of governance and administration principles which funds would be required to report against on a comply or explain basis

Proposal 18: That access to central government funding be available to assist with the set up costs of joint working initiatives

Implementation

Proposal 19: That government reviews the need for primary legislation in order to provide sufficient time for an ordered and well managed implementation of a new scheme

Proposal 20: That changes to the scheme mirror the requirements of other statutory requirements and guidance applying to members and funds

Proposal 21: That the 2013 LGPS valuation be on an interim basis or postponed to ensure the focus remains on implementing the new scheme.

Proposal 22: A consultation on simplifying the scheme particularly in respect of non core benefits and provisions

Proposal 23: The formation of a central Local Government Group (LGG) based implementation project team funded via the existing administering authority subscription

Proposal 24: That the LGG team provide a central communication and training service to LGPS funds for the implementation of the new scheme

Proposal 25: Support the joint procurement and implementation of a single computerised administration system capable of managing both the legacy and new schemes

Proposal 26: Propose that DCLG consult with HR and payroll providers when formulating regulations with the aim of using pre existing source data where possible

Proposal 27: The formation of a central working group (reporting to the pensions chamber) to investigate, plan for and advise on best practice governance and administration for the new scheme

3. Scheme design

3.1 Summary

LPFA believe a fair, adequate and affordable scheme would consist of:

- A Career Average Revalued Earnings (CARE) core benefit
- Simplified pensionable pay based on actual earnings
- Revaluation based on average earnings for sector
- A standard 70th accrual rate
- Increasing the appeal to low paid/younger staff through a low start scheme
- A Pension age linked to SPA
- Options for early access/late receipt of benefits

3.2 CARE core benefit

Final Salary schemes provide a disproportionate benefit to members who have already benefited from above average pay increases over their careers. Career Average Revalued Earnings (CARE) schemes provide a fairer method for accruing benefits. We are therefore content that CARE should be adopted by the new scheme for all members and for all membership going forward.

Proposal 1: That the new scheme use the Career Average Revalued Earnings (CARE) method of calculating pension benefits

3.3 Simplified pensionable pay based on actual earnings

The current method of calculating pensionable pay (using a notional figure assuming that the member has had no breaks or payments relating to other periods) is complex, confusing and requires payroll systems to store data not necessary for their primary function. A simplification of the approach for calculating pensionable pay will reap benefits in terms of:

- Understanding amongst members
- Ability of employers to meet data requirements
- Lower administration costs

The pensionable pay to be used should be based on a figure easily grasped by employees, easily stored in payroll systems and easily obtained for use in pension processes. Simply the benefit earned in the year would be directly related to the contributions paid in the year

There would be no adjustments to pensionable pay in terms of periods of lowered or nil pay nor any for pay in relation to other years (although protection for parental leave would be maintained). Nor would there be any comparisons between the last three or 10 years.

For example, pensionable pay could be based on adjusted taxable pay. Taxable pay is already calculated, stored and reported by all payroll systems and with a few minor adjustments could easily become the base figure for pensions.

Proposal 2: That pensionable pay in the new scheme be simply defined as: Pay upon which pension contributions have been deducted in the relevant tax year

3.4 Revaluation based on average earnings for sector

Average earning increases of LGPS members are currently below CPI and may remain so in the near future. Whilst this is a 'blip' (in the long term average earnings have been higher than CPI historically by around 2% per annum) it may make the scheme a 'harder sell' to employees than it would have been at other times in the economic cycle.

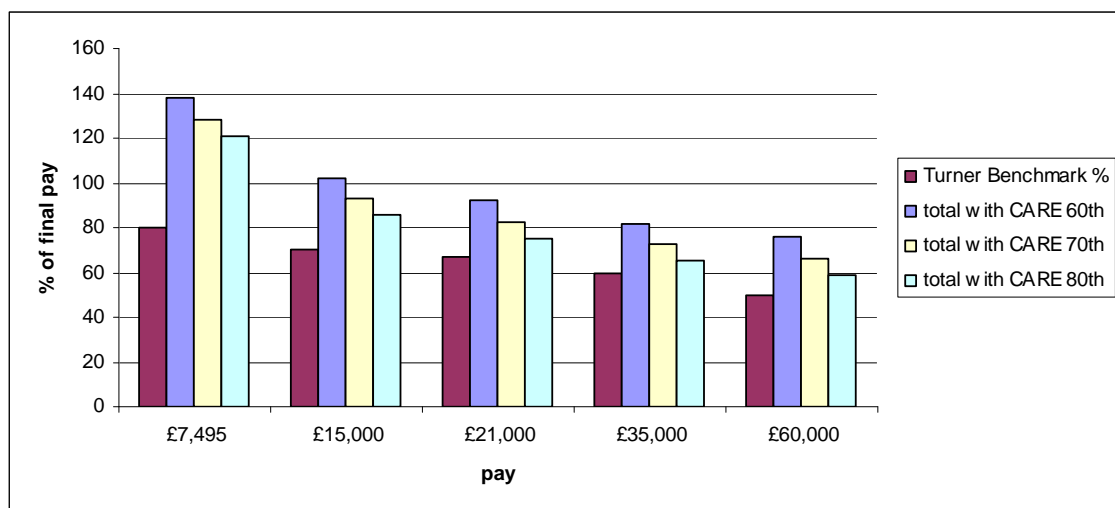
There are two important considerations in selecting the methodology for calculating the average earnings figure used for revaluation of benefits. The first consideration must be the ability to pay (in the case of the LGPS the ability of employers to meet contributions). Any figure used for revaluation purposes should be capped at overall GDP growth in the relevant year. Secondly if a broad 'public sector average pay' figure is used, it may not take reflect the actual experience within Local Government and therefore could quickly skew the costs of benefits being accrued. Movements in local government pay would be a more appropriate basis.

Proposal 3: That the average earnings assumptions used for revaluation purposes accurately reflect both the ability to afford increases and movements in Local Government pay

3.5 Standard 70th accrual rate

Lord Hutton has made no recommendations as to the accrual rate to be used in the new scheme (the current scheme has a 1/60th accrual rate) but has left it to Government to. However he does recommend that Lord Turner’s definition of adequacy of pension payments across income bands be used when considering the level of benefits to be paid. This definition consists of a range of benchmark percentages of final pay to be met by the total of both State and Occupational pensions.

The chart below shows the total of the current state pension and a CARE LGPS pension as a percentage of final pay for a 60th, 70th and 80th accrual rate scheme compared to the Turner benchmarks.

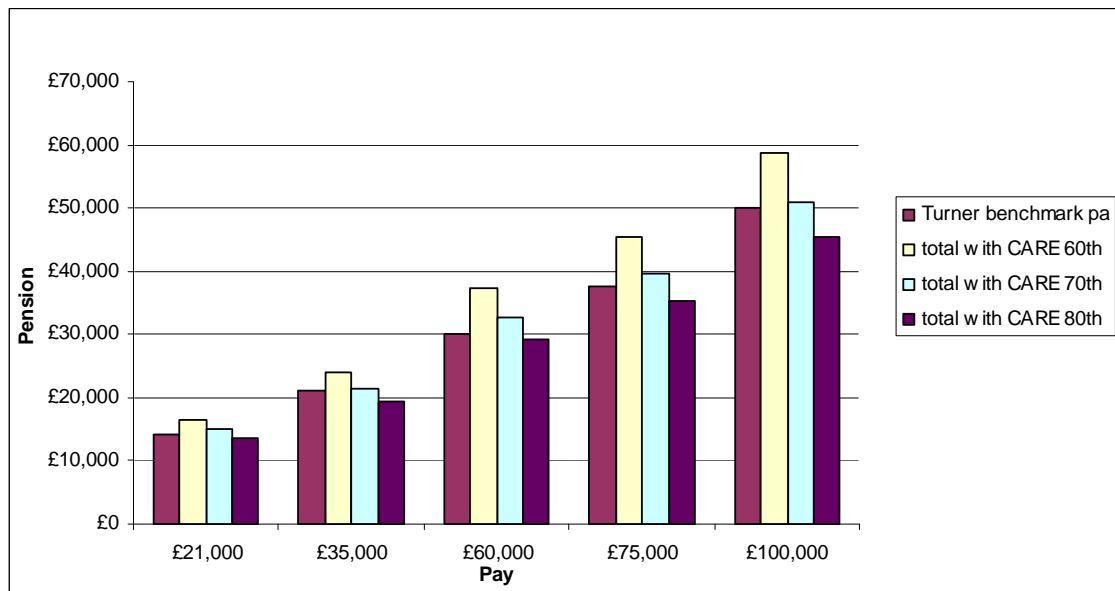


Source LPFA: Assuming 40 years membership with average increases in earnings.

In all of the above scenarios a member with 40 years service and average pay increases will exceed the relevant Turner benchmark. We would therefore be content with any of the accrual rates shown for the purpose of ensuring the adequacy of pension benefits. Further consideration should however be given to affordability and fairness.

With regard to affordability there is an opportunity to reduce costs (and therefore employer contribution rates) by opting for a 70th or 80th accrual rate. However these figures are based on the member receiving pay increases in line with average earnings. What if the member had received pay increases of above average

earnings increases in their career as a result of promotion? The chart below compares again compares the total of state and CARE pension with the Turner benchmarks but this time assuming pay increases of just 1% above average.



Source LPFA: Assuming 40 years membership with increases in earnings 1% above average.

In these scenarios the 80th scheme no longer meets the Turner benchmark at any pay level whereas the 70th scheme continues to do so. This is because the further the member's pay increases are above the average the smaller the percentage of final pay results from using the CARE accrual methodology.

Proposal 4: That a 1/70th accrual rate is used for the CARE benefits

The current scheme allows members to give up (commute) multiples of £1 of annual pension in order to receive £12 of lump sum (up to predefined limits). In the unfunded schemes, lump sums are a drain on cash flows in any one year as they are effectively pension in advance. It would therefore be understandable if accrual rates were adjusted downwards in order to 'pay for' lump sums in those schemes.

In the funded LGPS the situation is reversed. Lump sums far from a problem are a benefit in that they extinguish future long term (and index linked) liabilities in exchange for a immediate payment. The current 12:1 commutation rate is currently biased in that the fund benefits over the member in the majority of cases. The rate should be regularly reviewed to ensure it remains fair and affordable.

Proposal 5: That the ability to commute annual pension to lump sum at a 12:1 ratio be retained in the new scheme and be subject to regular review

3.6 Increasing the appeal to low paid and younger employees

We propose that the opportunity of a new LGPS is taken to review its composition and packaging in order to increase the attraction for low paid/younger employee groups. Such a review could include:

- A targeted rebranding of the LGPS to minimize the pensions element whilst enhancing the benefits of employer contributions and tax relief
- Introducing a requirement for total reward statements to emphasise the context and value of the LGPS within the employee's whole remuneration package
- Introducing a low start scheme to encourage the habit of pension savings.
- Exploring 'blue sky' ideas such as an LGPS lottery, the ability to pay extra for limited early access to part of the lump sum or enhanced health cover and other ways to broaden the appeal for those some way off retirement.

The standard of adequacy set by Lord Hutton (the Turner Commission benchmark replacement rates derived from both state and occupational pension) is a pension equivalent to 80% of final pay for those earning less than £11,000 per annum. For those at or below the DWP proposed lower limit for auto enrolment (£7,475) the current flat rate state pension of £102 per week provides over 70% of that amount without any additions required by the occupational scheme.

Using a 70th accrual rate across all pay ranges, the Turner benchmark is exceeded when state and occupational benefits are added together. However the differences in the proportion of 'excess' varies with the lowest earners getting a total state and LGPS pension of almost 130% of final salary whilst those on average earnings (£21K) getting only 82.5%. It seems counterintuitive for a taxpayer backed pension scheme to provide for a total income on retirement (when added to the taxpayer funded state pension) of anything over 100% of salary.

So what happens if we introduce a low start scheme using the auto enrolment salary floor? In this scenario no employee contributions are paid on earnings up to the auto enrolment limit (£7495) but a 1/200th accrual rate is used for pay up to that level. As the chart below shows all members on the rates shown can still meet

or exceed the benchmark at the 70th accrual level but the differences in the proportion of excess is very much smaller.



Source LPFA:

The 1/200th accrual rate would apply to all members no matter their pay level for the first £7,495 of their pensionable pay. The pivotal point for the LGPS is the average member salary of £21,000. Introducing a low start scheme with an 200th + 70th accrual rate gives someone at this level an income of retirement of 69% of final pay (Turner benchmark 67%).

Introducing such a low start scheme for all current and new members would result in a rebalancing of liabilities and a reduction in both total employee contributions and employer contributions. It would also result in a slight reduction in total pension for most, in return for the ability to encourage greater participation for those most in need of a future income and currently most likely to opt out. As an aside it is estimated that such a scheme could result in savings of £200m - £400m per annum across the LGPS.

Proposal 6: The introduction of a low start scheme with benefits on pay below the forthcoming auto enrolment lower limit (£7495 p.a.) accrued at 1/200th and free of employee contributions

3.7 Pension age linked to SPA

We are supportive of the move to link the scheme's Normal Pension Age (NPA) to State Pension Age (SPA), however the SPA will need to effectively track increases in longevity. If it does not then a mechanism for the LGPS to determine its own NPA independent from SPA should be developed as part of the cost control mechanism.

Proposal 7: That the Normal Pension Age (NPA) of the LGPS be linked to the State Pension Age (SPA) but with a mechanism to alter the link should increases in longevity not be reflected in SPA

3.8 Options for early/late receipt of benefits

In convincing members of the benefits of the new scheme, an important attraction is to provide them some control over when they can take their benefits. There should therefore be a wide range of ages from which members can choose with reductions for choices below NPA and increases for those beyond it.

An easily understood set of tables should be made available alongside web based 'slider' calculations enabling members to view the benefits payable across a range of ages. Members should not be allowed to take reduced benefits if such reductions take them below the relevant Turner benchmark. On the other hand late payment of pension should not result in benefits more than 150% of the Turner benchmarks.

In order to ease the financial penalty of taking benefits earlier members should be allowed to pay additional contributions to buy extra pension. Again a straightforward and easily understood formula (similar to 12:1 ratio used for lump sum commutation) should be used to enable members to be clear about the costs and benefits of such a choice.

Proposal 8: That scheme members should be able to take reduced/increased benefits across a range of ages subject to maximum and minimum limits

Proposal 9: A clear and simple method for calculating the cost of purchasing additional pension be introduced

4. Cost mechanism

4.1 Summary

In order to ensure future sustainability of the scheme LPFA believe any mechanism for controlling costs should include at least:

- A future cost ceiling (FC) for employers set as % of pensionable payroll
- A total cost ceiling (TC) for employers to include any past service deficit
- Adjustable employee contributions, accrual and revaluation rates
- The mechanism to be operated at scheme level

4.2 A future cost ceiling (FC) set as % of pensionable payroll

Government should set a future cost ceiling in order to monitor the costs of the scheme going forward and to ensure the ongoing sustainability of the LGPS. The ceiling should be set as a percentage of pensionable payroll, beyond which employer contributions should not increase.

The FC would take into account any deficits due to events after the implementation date of the new scheme. Any link between the FC and investment returns should be dependant on member representation on investment matters. The principle of cost follows responsibility should be enshrined in the operation of ceilings

4.3 A total cost ceiling (TC) to include any past service deficit

A total cost ceiling should also be set to include payments to cover deficits up to the closure of the existing LGPS. The purpose of this ceiling is to prevent such deficits rendering the future cost ceiling meaningless by adding unsustainable employer contributions over and above that ceiling.

As Government appears intent on maintaining the final salary and pension age link for past service, the opportunity has been lost to make any serious inroads into the past service deficit as part of the implementation of the new LGPS.

The TC will therefore need be set initially at a higher than ideal level in order to balance the need for cost control with those of adequacy of benefit. However the aim should be to reduce the ceiling over a number of valuation periods in line with current deficit recovery plans.

The FC and TC would be monitored centrally using a 'scheme valuation' performed by the Government Actuaries Department (GAD) similar to that currently performed for the cap and share process.

At the fund level contribution rates would continue to be set for individual or groups of employers based on experience over the valuation period and any deficit relating to the employer. This may well result in employers having rates significantly lower (or higher) than that for the scheme as a whole,

Proposal 10: That employer contribution cost ceilings be set for both total and future service

4.4 Adjustable employee contributions, accrual and revaluation rates

The tools available to those responsible for operating the cost control mechanism should include the ability to vary;

- Employee contribution rates
- Future accrual rates and
- Future revaluation rates for both benefits accruing and pensions in payment
- Normal pension age

The ability to make such variations will prevent costs exceeding the future or total cost ceilings due to:

- Increased longevity
- Above target increases in pay inflation
- Above target occurrences of ill health retirements
- Below target investment returns

For investment returns such an adjustment should only be possible in respect of decisions made in conjunction with member representatives and in regard to the FC.

Changes to the NPA should only be made if there is a strong case that the link to SPA no longer reflects increases in longevity.

When considering the action to be taken in respect of employee contribution rates, revaluation rates and pension ages the balance between them should be the one most likely to avoid a reduction in scheme membership at any given time.

Proposal 11: That the cost mechanism used to maintain contribution rates below the ceilings include variable employee contributions, revaluation and accrual rates and pension ages

Proposal 12: That costs should be reviewed against both ceilings using a total scheme valuation timed to coincide with those of individual LGPS funds

4.5 The cost control mechanism to be operated at scheme level

The correct forum for the monitoring and operation of the cost control mechanism is at the national (i.e. scheme) level. Subject to the agreement of the Secretary of State for Communities and Local Government the Scheme Board (as proposed by Hutton) could have the responsibility for taking the necessary action in the light of attempts by the Policy Group (also proposed by Hutton) to agree and recommend the necessary adjustments through negotiation with stakeholders.

However we believe the process would be smoother and more effective if the Scheme Board and Policy Group were consolidate into a single LGPS Pensions Chamber as outlined in the next section.

The vital task in terms of implementation is to ensure a clear process with the ability for speed of action. For that reason we would see an argument for allowing contributions, accrual rates and revaluation rates to be altered without recourse to secondary legislation but with the approval of the Secretary of State for Communities and Local Government. Changes to the NPA should be made by the Secretary of State in consultation with the Department of Work and Pensions and the Treasury to ensure a level of consistency across the public sector schemes.

Proposal 13: That adjustments to contributions, accrual and valuation rates should be made at national (i.e. scheme) level

Proposal 14: That adjustments to NPA should be made by the Secretary of State taking into account the SPA and the NPA's of other public sector schemes

5. Scheme Structure

5.1 Summary

In considering the governance structure of the scheme LPFA, we would wish to emphasise that the LGPS is a success story which is, to a great degree, due to both its funded nature and its legal and governance structure. There are however improvements which could be made to that structure and we would support:

- A Scheme Board and Policy Group or preferably a combined Chamber
- Independent fund level boards
- Incentives for innovative approaches to administrative cost reduction

5.2 A Pensions Chamber to take on the roles of the Scheme Board and Policy Group

Lord Hutton in his report recommended that each scheme have both a Scheme Board and a Policy Group.

The Scheme Board would consist of representatives from members and employers (nominated by employer representative groups and unions) together with independent experts and an independent chair following a process of open advertisement. Its role would be to ensure that fund level boards operate to best practice, to drive scheme wide initiatives in shared services and to take action in accordance with the cost mechanism. It would also be responsible for collating and publishing a range of scheme level data in the form of an LGPS Annual Report.

The Policy Group would consider and recommend all changes to scheme rules. This would include reviewing the link to State Pension Age, considering the results of the cost ceiling mechanism and making recommendations to the scheme board.

A simpler alternative to the above dual structure would be a single body constituted within and serviced by the Department of Communities and Local Government (DCLG). This pensions 'chamber' would have full responsibility for the policy and governance of the LGPS working within parameters set by the Secretary of State. The chamber would have an equal membership of stakeholders and independent experts with an independent chair (nominated by the Secretary of State for Communities and Local Government). We would not anticipate that secretarial and support costs would exceed those for the current range of bodies the chamber

would replace (e.g. the Policy Review Group, the Local Government Pensions Committee, and the Officer Advisory Group).

Proposal 15: The formation of an LGPS pensions chamber combining the roles of the scheme board and policy group into one unit

5.3 Independent fund level boards

LGPS administering authorities already have in place pensions committees which consider matters of investment, governance and administration at that level. In many ways these committees work very well (e.g. they provide a vital element of local accountability) and therefore should be the basis of any solution.

We believe however that there are issues with these committees with regards to consistency of expertise, potential for conflicts of interests and voting rights for lay members.

Therefore we would support the formation of local fund level boards, the membership and role of which would be defined in regulation. Such boards would have a mixture of members including councillors, member representatives and independent experts all with voting rights whose role would be to act as quasi trustees on behalf of the fund.

Proposal 16: The introduction of individual statutory fund boards with an equal split between stakeholder and independent voting members

5.4 Incentives for innovative approaches to administrative cost reduction

Although Lord Hutton's report came out against enforced mergers of funds and/or administration functions, it did encourage joint working and use of best practice where possible.

LPFA would support taking these aspirations a step further through the formation of administration standards to be met by all funds and government incentives to implement cost saving initiatives.

With regard to administration standards, the aim would be to promote good administration and to ensure accountability. We believe this is best achieved by putting in place a set of principles. Each fund would report against these principles on a 'comply or explain' basis in its Pension Fund Annual Report. In this way it would operate alongside the LGPS Governance Compliance statement already in place.

In particular the standards would ensure that funds consider carefully their responsibilities under the regulations when entering into any outsourcing or joint working arrangement.

Funds should also be incentivised to participate in shared service, mutualisation or other cost saving initiatives through access to the central government funding to assist with associated set up costs. For example funds could receive monies to assist with the formation of mutual companies jointly owned by employees, the funds themselves and possibly a private or third sector partner (the MyCSP model). It is envisaged that funding would be sourced from the monies referred to in the recent Open Public Services white paper.

Proposal 17: The introduction of a set of governance and administration principles which funds would be required to report against on a comply or explain basis

Proposal 18: That access to central government funding be available to assist with the set up costs of joint working initiatives

6. Implementation

6.1 Summary

In this section of the paper we consider the practicalities necessary for a successful implementation of the new scheme, cost mechanism and structure. In particular;

- The need for primary legislation
- Integration with other statutory requirements
- The 2013 valuation
- Simplification
- Project management
- Member communication
- Practitioner and Employer communication and training
- System requirements
- Data capture
- Changes to administration processes

6.2 The need for primary legislation

LPFA consider the LGPS to be a success story driven and led by a capable team at DCLG. We are confident that the vast majority of the recommendations contained in Lord Hutton's report can be implemented using existing legislation and are concerned that the centralisation inherent in the proposed primary legislation could be counter to the localism agenda.

Furthermore we are unconvinced that an implementation date of 2015 could be achieved if the regulations required for a new LGPS are to be derived from new primary legislation. The implementation timetable is short and any delay whilst awaiting such legislation receiving royal assent could be fatal to the process.

For that reason we would urge government to reconsider its actions in this respect taking the necessary advice as to the impact on the timetable.

Proposal 19: That government reviews the need for primary legislation in order to provide sufficient time for an ordered and well managed implementation of a new scheme

6.3 Integration with other statutory requirements

When considering the makeup of the new scheme, LPFA would urge that other statutory requirements and guidance applying to the LGPS are taken into account.

For example the introduction of auto enrolment in 2012 (the requirement for all employers to operate a qualifying pension scheme) with its five different categories of employee should work with, not despite the new scheme. Regulations should attempt to mirror the requirements where possible in order to ease the burden on employers and practitioners and minimise the potential confusion for scheme members.

Mirroring auto enrolment could be a great opportunity to consolidate scheme provisions rather than add complexity and our proposal to introduce a low cost scheme with the appropriate pay limits is a good example of this.

Similarly changes to tax allowances and tax bands should be considered to ensure that members do not face 'cliff edges' in net income which may encourage opting out of the scheme.

Proposal 20: That changes to the scheme mirror the requirements of other statutory requirements and guidance applying to members and funds

6.4 The 2013 valuation

The statutory 2013 valuation of LGPS funds will fall right in the middle of preparation for the new scheme dragging in resources that could be better used ensuring a successful implementation. The results of that valuation will be based on the current scheme and will therefore be a distraction from the task ahead.

Pension planning is a long term process and it is vital that changes to the LGPS are made in that light. A 'good' result in the 2013 valuation could re-open the debate around the need for significant change whilst a 'bad' one could derail a sensible approach to long term sustainability.

LPFA would encourage an open debate about the need for a valuation at that time and in particular how it may affect a successful implementation process.

Proposal 21: That the 2013 LGPS valuation be on an interim basis or postponed to ensure the focus remains on implementing the new scheme

6.5 Simplification

The retention of protected rights through the link to final salary, pension ages etc severely curtails the opportunity to simplify the scheme enabling a greater understanding amongst members and reducing costs of administration.

Having the new scheme as an 'add on' to the legacy provisions will complicate the requirement for regulations and will necessitate the introduction of transition regulations to ensure full protection of existing rights.

However this should not negate the potential for simplification of the new scheme where possible.

The formulation of regulations covering the operation of the scheme from 2015 onwards should be approached with the aim of introducing a greater level of simplification than is included in current provisions. This should include a careful consideration of any and all benefits provided over and above the individual retirement pension many of which were originally designed to reflect a single earner society. These include;

- Ill health provisions
- Survivors' benefits
- Early payment in the event of redundancy

All of which could be provided through optional group insurance arrangements.

The continued place of transfers between pension schemes should also be considered given the move to CARE and the at least partial harmonisation of public sector pensions.

Finally the contracted out status of the scheme should be revisited to determine if it remains appropriate given the proposed changes to a flat rate state pension.

The formulation of regulations covering only core benefits would be provide for a less complex, more transparent and easier to implement scheme.

LPFA would therefore support a process of consultation with stakeholders on the continued relevance of non core benefits in a modern workplace. The aim of such a consultation would be to provide DCLG with ideas and evidence on how best to simplify the scheme whilst retaining a robust set of regulations that meet the requirements of overriding employment and pension legislation and the needs of modern employers and their staff.

Proposal 22: A consultation on simplifying the scheme particularly in respect of non core benefits and provisions

6.6 Project management

In Lord Hutton's report he takes great store in ensuring that adequate resources are in place to enable a smooth transition to the new scheme whilst maintaining a high standard of day to day administration.

Given the fragmented nature of LGPS administration, the provision of such resources could easily lead to costly duplication of effort with each fund increasing its own resources or buying in expertise.

This is particularly relevant in the case of project management. Although the scheme will need to be implemented in each fund the implementation process will be very similar in each case. Also, as a good number of fund administration units do not contain dedicated project management resources, they may well have to call on council resources (who will no doubt be hard pressed coping with other more high profile programmes) or costly external expertise.

An alternative to each fund going it alone could be via access to centrally provided project management expertise. Currently each fund pays a subscription towards central provision of advice provided by the Local Government Group. It would seem a logical extension of that principle to extend the levy and the resource it buys to include project management.

This central project team could ensure that robust project management methodology is used for the implementation whilst providing a single point of liaison for stakeholders, DCLG and government.

Proposal 23: The formation of a central Local Government Group (LGG) based implementation project team funded via the existing administering authority subscription

6.7 Member communication and Practitioner and Employer communication and training

Similar arguments to those raised in the previous section apply when considering the significant amount of member, employer and practitioner re-education and training which will be required.

Experience of similar changes to schemes in the private and third sectors have emphasised the importance of effective communication in ensuring a smooth transition. Given the fragmentation present in LGPS administration there is a danger of at best the wheel being reinvented and at worst confusion caused by inconsistent or incomplete information.

No doubt many funds would do an excellent job of informing and training stakeholders but equally many funds may not have the resources available to perform the task whilst maintaining a high level of service for the current scheme.

The LGG team already have the infrastructure in place to provide this service on a national basis. The addition of extra resources to this team, again funded via subscription, would enable them to take on this task, ensuring an effective and consistent message throughout the implementation process.

Proposal 24: That the LGG team provide a central communication and training service to LGPS funds for the implementation of the new scheme

6.8 System requirements

Alongside effective communication another prerequisite to the successful implementation to a new scheme will be the transition to a new administration system.

The availability of a system able to manage the provisions of the new scheme is vital to its successful operation especially given the enhanced complexity inherent in having to provide for new regulations alongside existing provisions.

The retention of the legacy scheme for current service means that the prospect of a simpler more cost effective solution has been missed, however the opportunity for re-evaluating costs and solutions provided by the new scheme should be grasped.

The vast majority of in-house and outsourced LGPS administration units are members of the CLASS group. This group manages the relationship with the supplier of the system in use at all of those sites and is a prime example of authorities working together to provide a cost effective administration system.

A well managed and timely joint procurement by members of the CLASS group for a new system would provide the opportunity to secure an effective implementation of an innovative solution whilst ensuring best value.

Proposal 25: Support the joint procurement and implementation of a single computerised administration system capable of managing both the legacy and new schemes

6.9 Data capture

Effective pensions administration is almost totally dependant on the provision of external data from employers, members and other stakeholders. A significant proportion of costs, errors and complaints are down to incomplete, incorrect or late data.

The opportunity of a new scheme should be taken to review the causes of bad data and the potential solutions. In most cases the answer lies in simplification and/or compatibility.

Employer data is held in a myriad of HR and/or payroll systems which are designed for their primary purpose, not to capture and store data required by pensions. This situation is further complicated by the fact that most pensions data (unlike that for HMRC) is not a statutory requirement.

Compulsion is one answer and could be effective, however this could require re-engineering of employer systems and processes which would no doubt be costly. The alternative is to ensure that data required for pensions is either simple to derive from the source data or, even better, is held already for the primary purpose.

When formulating regulations for the new scheme DCLG should therefore consult with HR and payroll providers in respect of data readily available and where possible specify the use of that data in the scheme rules.

Proposal 26: Propose that DCLG consult with HR and payroll providers when formulating regulations with the aim of using pre existing source data where possible

6.10 Administration processes

The move to a CARE scheme will significantly change the emphasis and priority of administration from individual events to the end of year process. Under a CARE scheme the actual value of accrued benefit is calculated each year, not as at present upon the event which brings the benefit into payment.

This will require end of year processes to be significantly more accurate than are currently able to be achieved, mainly due to the data issues referred to in the previous section. Such a shift will require the re-engineering of processes, the introduction of increased automation and the rebalancing of skills away from traditional expertise to bulk data analysis and processing.

Adding to the mix advances in self service technology and improved data capture should result in administration units looking very different than they do today

Administration units will need to manage this shift whilst still retaining the necessary skills and processes to manage membership still subject to the legacy scheme. However individual administration units may not have the resources

available to plan or undertake the re-engineering required and take advantage of best practice in the new reality.

This may encourage joint initiatives which we would support especially if assistance was available as we propose at P18. However we can also see a role for some form of central working group to investigate, plan for and advise funds on best practice in new ways of working for the new scheme.

Such a group consisting of pension, HR and ICT experts working under the umbrella of the LGG could provide the support necessary for funds to ensure that the new scheme brings opportunities for more streamlined, cost effective administration not the uneasy and costly mix of old and new that could easily ensue.

Proposal 27: The formation of a central working group (reporting to the pensions chamber) to investigate, plan for and advise on best practice governance and administration for the new scheme

Version 1.7

LPFA

23rd August 2011