

TO: LOCAL GOVERNMENT PENSION
SCHEME INTERESTS IN ENGLAND
AND WALES

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LOCAL GOVERNMENT PENSION SCHEME RULE OF 85 EXTENDED PROTECTIONS

With the agreement of Ministers, I am writing to advise Local Government Pension Scheme (LGPS) interests in England and Wales of the position about proposals to extend the protections in the Scheme involving the rule of 85, following the statutory exercise conducted between 5 July and 1 October 2007.

The responses to the consultation exercise have been considered carefully by Ministers and the wide range of comments received has been analysed against the criteria set out in the department's consultation letter of 5 July 2007. A summary of the responses received so far will be placed on the department's website as soon as possible.

The principles underlying the statutory consultation exercise were set out in the department's letter of 5 July, and those particularly relating to affordability were based on costed estimates provided by the Government's Actuary Department (GAD) which in turn were sourced on data extracted from the 2004 LGPS actuarial valuation exercise.

In terms of affordability, the consultation letter indicated that the capital cost of removing the current level of tapered protections between 2016 and 2020 was some £0.35 billion - £0.4 billion. In payroll terms, this figure equates to some 0.1% of payroll or, in total, about £25 million annually, for 20 years.

Responses to recent consultation exercises have broadly confirmed that order of magnitude, with some local variations associated with the number of Scheme members in the workforce able to qualify, and their specific age and service characteristics.

It was made clear also, as an integral part of the consultation package, to comply with the well-established principles regarding the Government's position to ensure that no additional costs arising from Scheme reforms or amendments should pass on to taxpayers and that the costs of implementing any amendments to improve the current level of protections needed to be provided from within the Scheme and its existing cost-envelope. It was also emphasised that adjusting assumptions, or forecasts of data change, would not be regarded as satisfactory ways to deal with the costs incurred of introducing the rule of 85 additional protection benefit, as this could be seen as foregoing a saving which would otherwise be available to employers.

No final or immediate decision has yet been made by Ministers regarding the outcome of the statutory consultation exercise. Their intention, as confirmed by John Healey in a Ministerial Written Statement to Parliament on 13 December, is to consider a fresh assessment of costs and experience, using the 2007 actuarial valuation data, which will shortly start to become available, and to take into account any other relevant information and experience which emerge from that process.

Ministers are aware from the responses to the consultation exercise and other sources that there are strong views among stakeholders about the rule of 85 and its associated protections, and its affordability. If interested parties now wish to make any further representations, at the same time as the assessment work is undertaken, they are invited to contact the department in the usual way.

Ministers have requested, to take the new assessment forward, that the LGPS Policy Review Group, involving the Government Actuary's Department, the Association of Consulting Actuaries, the LGA / LGE and trades union interests are invited to assist in the consideration of fresh data from the 2007 valuation. Ministers have requested that the results of the exercise should be available as soon as possible in the new year. The necessary arrangements for an initial meeting of stakeholders, in January, are now being made.

T B J Crossley

Written Ministerial Statement

COMMUNITIES AND LOCAL GOVERNMENT

Local Government Pension Scheme

The Minister for Local Government (Mr. John Healey): The Government's commitment to provide decent final salary pensions for those employed by local authorities and other organisations associated with local government is matched by the need to ensure that Members' pensions are secure, affordable and viable, and fair to taxpayers who guarantee their security.

The Government see it as critical to maintain stability of costs in the Scheme over the years ahead, particularly in the new-look Local Government Pension Scheme (LGPS) in England and Wales from 1 April 2008. The intention remains to ensure that no additional costs are imposed on taxpayers or employers. This objective is central to any considerations involving amendments to the Scheme's regulatory framework.

A statutory consultation with all Scheme stakeholders in England and Wales on proposals to extend the current levels of protection

in the Scheme for older employees began on 5 July 2007 and ended on 1 October 2007. The protections were originally introduced by the local Government Pension Scheme (Amendment) and (Amendment No. 2) Regulations 2006 and took effect from 1 October 2006. The draft proposals would involve amending the regulations to provide a full, rather than a tapered, protection for the period 2016 to 2020, together with appropriate offsetting savings for the estimated cost of this benefit improvement.

To ensure the continuing solvency of the Scheme and to meet the Government's standing policy on ensuring no adverse effects on taxpayers, the costs of implementing any Scheme amendments to improve the level of protections would need to be provided from within the Scheme.

The costings for the additional rule of 85 protections were provided by the Government Actuary's Department (GAD), based on the data provided for the 2004 LGPS actuarial valuation exercise. GAD estimated that the capital cost of removing the current tapered protections between 2016 and 2020 was some £0.35 billion - £0.4 billion. In payroll terms, this equates to about 0.1% or some £25 million annually for 20 years.

If no agreed means of providing the necessary resources to extend the proposed level of protection emerge from the consultation, then it will be necessary to retain the present level of protection.

The responses received to the recent consultation exercise have been considered carefully and analysed against agreed criteria regarding affordability and legality, as set out in the department's consultation letter of 5 July.

The consultation has demonstrated strong views from all stakeholders in terms both of the level of protections and affordability. I wish, however, to be clear about the most recent position in the Scheme regarding costs, the likely numbers of potentially affected older Scheme members, and the range of other cost-influencing variables.

In the light of these representations, I have taken no final decision on the outcome of the statutory consultation exercise and, in view of the data from the 2007 LGPS actuarial valuations which are due to become available early in the New Year, I have decided to ask the Local Government Pension Scheme Policy Review Group, with the assistance of GAD, to undertake a fresh costings exercise

using emerging data from the 2007 LGPS actuarial valuations. This will allow a new assessment of the current cost position and also provide an opportunity for all the interested stakeholders to engage fully in the review process.

The exercise for updating of costs is expected to be completed early in the New Year. A final decision on the proposed amendment and within the policy parameters of affordability and legality will then be made, taking full account of any further representations which may be made by stakeholders.