

## DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT

### LOCAL GOVERNMENT PENSION SCHEME

**The Minister for Local Government (Mr Phil Woolas):** The Government's objective for Local Government Pension Scheme in England and Wales is to ensure it is viable, affordable to both Scheme members and employers, and fair to the taxpayers who ultimately provide its security.

The local government workforce, and the other employees who are eligible for Scheme membership, need access to a good quality pension scheme to provide for their retirement. All stakeholders believe the Scheme is an essential component of the reward strategies for local government's and certain associated employers' workforces. The Scheme, therefore, should be as flexible and accessible as possible, for both employees and employers, and provide a modern, equality-proofed range of defined benefits both now and in the future. It must meet the challenge of being attractive to existing and future employees, and to their employers, in and around local government. However, in meeting these objectives, an equitable and proportionate balance must be struck between the level of pension benefits provided by the Scheme, and the actual cost of providing those benefits.

Principles and propositions for the long term reform of the Scheme were first circulated to all Scheme stakeholders in October 2004. Subsequent regulatory amendments were made to the Scheme to reflect changes in taxation legislation, to improve its governance and deficit management, to achieve cost- stability linked to the outcome of the 2004 actuarial valuation exercise and to further the Government's objective of ending employment discrimination on grounds of age. A number of lawful and affordable protections for existing Scheme members were also introduced, linked to the final removal of an age discriminatory provision, the rule of 85, with effect from 1 October 2006.

To begin the final stages towards introducing, from 1 April 2008, a new-look Local Government Pension Scheme, a national consultation exercise, *Where Next? – Options for a new-look Local Government Pension Scheme in England and Wales*, took place between 30 June and 29 September this year. It invited stakeholders' views on four costed options - an updated current scheme with benefit improvements; a new final salary scheme with an improved accrual rate; a new career average scheme; and a new hybrid scheme combining a career average core with a final salary top-up option. A range of benefit structure changes was proposed, along with several propositions to address future Scheme costs, levels of contributions by both members and employers, greater benefit flexibility, new early retirement provisions and targeted ill health benefits.

Careful consideration has now been given to the outcome of that consultation exercise; the responses received have been helpful and informative. Some Scheme administering authorities, in particular, conducted helpful, detailed costing assessments of their position in relation to the range of options put forward. An

analysis of the responses received to the consultation exercise has now been completed and is available at [www.communities.gov.uk/lgps](http://www.communities.gov.uk/lgps)

Against that background, I am announcing that the Government's regulatory intentions for the future structure of the Local Government Pension Scheme's benefit package will be shortly circulated to interested parties for detailed analysis and comment. The consultation package will propose that the Scheme remains as a final salary pension arrangement and be based on an accrual of 1/60<sup>th</sup> of salary for each year of membership. It will continue to have a normal pension age of 65, and will move towards providing, by 2010, for pensions to be paid no earlier than age 55, rather than the current minimum age of 50, except on grounds of ill-health. A revised and better targeted ill-health retirement package is to be proposed, and survivor benefits, which are available for spouses, civil partners, and children, will be extended to include other co-habiting partners. In order to help equality-proof the Scheme, tiered employee contribution rates, linked to salary, will be introduced, as well as more flexible retirement provisions. Arrangements will be included which protect the accrued rights of all existing Scheme members up to 31 March 2008. All present and future members of the Scheme will build up rights in the new-look Scheme from 1 April 2008. In addition, the protections already provided in the current Scheme for eligible members, at no cost to taxpayers, following the final removal of the rule of 85 from the Scheme, from 1 October 2006, will be retained.

The Government is mindful of the need to maintain stability of costs in the new-look Scheme and a fair and equitable balance in its long-term resourcing between members, employers and taxpayers. The Government's intention throughout this reform process has been to ensure that no additional costs are imposed on taxpayers. It is intended, therefore, to establish an appropriate mechanism for sharing future cost pressures and to have the arrangements in place by March 2009. These will both inform and take account of the 2010 actuarial valuation of the Scheme. The new arrangements can be taken into account when individual fund actuaries set new employer contribution rates in the valuations which will take effect from 1 April 2011. This important timetable will be reflected in the new Scheme regulatory framework programmed to take effect from 1 April 2008.

The package, as a whole, is both workable and affordable. Overall, it meets the balance of responses received to the recent consultation exercise and complies with the Government's central policy objectives for the Scheme's reform, particularly in terms of its viability, affordability and fairness to members and taxpayers.

To assist in the on-going monitoring of the Scheme's regulatory and policy development, Communities and Local Government will establish a policy review group of key interested parties. The group will focus on strategic issues, establish common ground between stakeholders and to monitor demographic experience in the Scheme as a basis for co-operative decision-making on Scheme developments, regulatory changes and Scheme cost-sharing. The work of the group will be reported regularly to Ministers and will complement the usual statutory and non-statutory consultation arrangements which already exist within the current regulatory framework of the Scheme.

For the new-look Scheme to be fully available and operational for all categories of members and prospective members, from 1 April 2008, the Government's timetable and programme of reform requires regulations to be in place for 1 April 2007. Accordingly, draft regulations which set out in detail the proposed benefit package for the new Scheme will be circulated next month to interested parties in England and Wales to reflect the terms of this statement, as well as setting out the actual regulatory framework necessary to give full effect to the new Scheme. This will allow the terms of the new arrangements to be taken into account as part of the 2007 actuarial valuation exercise. As a first step in the consultation process, further details of the proposed new-look Scheme regulatory framework and this statement are being circulated to interested parties in England and Wales today as part of the required statutory consultation process.

In addition, these regulations will be followed shortly by associated draft regulatory changes in a separate draft statutory instrument, dealing with the administration aspects of the new Scheme and to a similar implementation timetable.