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Deputy Prime Minister

Creating sustainable communities

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Dear Colleague

The Local Government Pension Scheme (Amendment)(No 2) Regulations 2004 Consultation Draft

1. With the Minister's agreement, I enclose, for comment, draft regulations which will amend the Local Government Pension Scheme Regulations 1997, with effect from April 2005, subject to the outcome of this and the subsequent statutory processes. Your comments are invited by **30 June 2004**.

Background

2. As part of the ongoing development of the LGPS, a phased programme of changes was announced in a strategy statement issued on 23 July 2003. As part of the first phase of this programme, regulations were laid before Parliament on 10 March to take effect as from 1 April and 1 June 2004. This consultation exercise begins the formal aspect of the second phase of changes and is intended to take effect from 1 April 2005. It deals essentially with issues relevant to the affordability of the current Scheme. The amending regulations have been drafted in the light of the helpful and comprehensive comments made on the policy discussion document issued on 7 November 2003.

Proposed Scheme Amendments

3. Regulation 5(a) proposes that the earliest age at which Scheme benefits can be paid, other than on grounds of ill-health, is increased from 50 to 55 years. Regulation 5(b) proposes that the 85 year rule in respect of future accrual is withdrawn from the Scheme. These changes are programmed to take effect from 1 April 2005, but are subject to the transitional protections for existing Scheme members as set out below.

Transitional Protection

4. In the 7 November letter, consultees' views were sought on how best to introduce the increase in retirement age in the LGPS. Comments received on the propositions have reinforced the need to introduce change from April 2005 in order to stabilise costs, but

also identified a group of members where statutory transitional protection is desirable in recognition of their proximity to retirement.

5. Accordingly, the draft amendments ensure that those individuals who would attain age 60 and satisfy the current 85 year rule before 1 April 2013 will not be adversely affected by the change in regulation. And the increase of earliest age at which LGPS benefits may be paid, other than on grounds of ill-health, to 55 will not affect individuals who will be 50 years old as at 31 March 2005. These protections are effected by regulation 14.

Timing

6. These proposals introduce changes to the LGPS regulatory framework slightly in advance of the other public service pension schemes. This is done in order that they may be taken fully and constructively into account in the current valuation exercise and so help mitigate – along with other changes to the Scheme introduced recently – any cost impacts which may arise for Scheme employers with effect from April 2005. The protections are consistent in their effect with those being provided for other public servants.
7. A document which contains replies to frequently asked questions and examples of how the proposed changes could affect certain members is available at: www.xoq83.dial.pipex.com/policy.htm. If consultees see merit in this source of advice being expanded, could they please advise the Office.

Inland Revenue Changes

8. A number of the items in the 7 November 2003 letter relied on Inland Revenue finalising their proposals for simplifying the tax regime applicable to pension arrangements. The Chancellor, on 17 March, approved the simplification process, but put the operative date for introducing the new single tax regime to 1 April 2006. This enables scheme administrators sufficient time to manage any system changes which will need to be introduced.
9. A second statutory consultation exercise specifically on IR linked changes will start later this year, following the passage of the Finance Bill. These are intended primarily to be simplifying measures which will pave the way in due course for our longer term plans for the Scheme on which we intend to consult further this autumn. The significant changes to the tax regime mark the way to a smoother transition from employment to retirement, and permit greater flexibility in terms of contributing to and leaving pension schemes.

Liaison

10. The consultation period now beginning provides an extensive opportunity for all interested parties to discuss with the Office the details of the proposals and to ensure that sufficient levels of protection are built into the scope of the changes under consideration. We will also take advantage of this lead in time to further develop with interested parties how best this simplified tax regime could operate within the a changing local government employment culture and the LGPS. The Office is very willing to engage with any interested party about any aspect of the draft statutory instrument and, where appropriate, to consider what improvements can be developed in the consultation period and reported to Ministers.

Employee Contribution Rate

11. Ministers have concluded, following a careful assessment of the responses made to the 7 November consultation, not to amend the Scheme's regulatory framework in respect of employees' contributions. Consultees responded helpfully to the request for views on the merits and de-merits of the different propositions in the consultation.
12. The issues are presently finely balanced but it has been decided that specific policy proposals should be developed – taking on board the responses mentioned above – and circulated as part of the forthcoming discussion paper on the long term future of the LGPS due in the autumn. This will allow a comprehensive assessment of the scope of any propositions to adjust the employees' contribution rate, along with several other key policy changes emerging from the ongoing Stocktake exercise.

Actuarial Reductions

13. It has also been agreed that actuarial reductions will not apply to benefits coming into payment immediately following loss of employment on grounds of redundancy or efficiency. An actuarial reduction will only apply where an individual chooses to terminate employment before the Scheme's revised normal retirement age.

Responses

14. Responses to the draft regulations, and any requests for discussion on them, should be directed to Paul Kirk, Local Government Pensions Division, ODPM, Zone 2/E8, Ashdown House, 123 Victoria Street, London, SW1E 6DE (tel: 020 7944 6017). Electronic responses can be sent to the e-mail address given above.
15. The Department may wish to publish responses to this consultation in due course, or deposit them in the libraries of the Houses of Parliament or the Department's library, unless we are asked specifically to treat a response as confidential. Confidential responses will be included in any published statistical summary of comments received and views expressed.

Yours faithfully,

B Town

ADDRESSEES

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