LOCAL GOVERNMENT
bulletin
OF THE PUBLIC SERVICES SECTION

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LGPS UPDATE

Since the publication of the Hutton review into public service pensions the government has introduced the Comprehensive Spending Review and proposed amendments to the tax relief that applies to pension contributions. In stark contrast to the cuts these policies impose, recent statistics from DCLG on the LGPS show a dramatic increase in the market value of the scheme.

Comprehensive Spending Review

In his speech, the Chancellor said that "from the perspective of filling the hole in the public finances, we will seek changes that deliver and additional £1.8bn of savings per year" from public service pensions in addition to the £1bn announced by the last government. The policy costings document however, costs this on the basis of the unfunded schemes (NHS, Civil Service and Teachers) yet states that the LGPS is covered by the policy. This is in spite of the fact that the LGPS does not contribute to the public finance deficit and savings from the scheme do not go into the Treasury and therefore can do nothing for the perceived hole in the public finances.

Previously savings from the scheme have been generated by a mixture of contribution increases and benefit changes. This is what led us to the new LGPS introduced in April 2008 for all members (2009 in Scotland and Northern Ireland). The new government has outlined the plan for making this saving in the Spending Review documentation (the 104 page document that outlines what the Treasury intend rather than what the Chancellor summarises in Parliament).

<u>Employee contributions will be increased by the equivalent of 3% from 2012</u>

This will take the average member contribution in the LGPS from around 6.5% to 9.5%.

The Spending Review states that there will be protection for the lower paid but does not identify who this is, around 84% of LGPS members earn less than £30,000 a year. This means that in order to generate the savings the government is demanding from the LGPS (not that it is clear how much this is) those whose full time equivalent pay is not considered 'low' will be hit significantly more.

The impact on part time workers, the majority in the scheme, will be particularly harsh. Even where actual pay is low due to the number of hours worked, if the full time equivalent salary is not deemed by the government to be low, they will not be protected. This will be the impact even where it is not possible to work full time hours, as is often the case in schools.

Tax Relief
At the other end of the income spectrum, the government have also announced changes to pensions tax relief – pension contributions are paid before you are taxed so it is tax efficient to contribute to pensions schemes (providing you pay income tax). The last government cut the tax relief that was available to those earning over around £130,000 a year, not a substantial proportion of the population. This government has dramatically increased the number of people who will pay more tax on their pension contributions. Those who get significant promotions or enhancements on redundancy (beyond receiving your pension early) and potentially those receiving Tier 1 or 2 ill health pensions could all find their pension value increasing beyond the new annual allowance of £50,000 (more information is available at www.gmb.org.uk/pensions) triggering a tax demand from HMRC.

LGPS Resurgence
The LGPS is a funded scheme just like any defined benefit scheme in the private sector and as such, does not contribute to any supposed black hole in the public finances. The collective value of the funds in England alone is £132billion having increased by 36% in the last 12 months. As in previous years the scheme still took in around £4billion more in income than it spent on benefits or other expenditure leaving the scheme's finances in a perfectly sustainable state. The average LGPS pension – £4,221, is still noticeably below the public sector average of £6,500.
The individual English and Welsh funds will be publishing their valuations soon. The increase in market value since the last valuation is around 8% and while life expectancy forecasts have increased the cut to indexation the government announced in June should mean the funds are not in the dire predicament that many, not least Nick Clegg during the general election campaign, have claimed. Even with the decimation of local government being conducted by Eric Pickles and George Osborne, there is no reason to believe that over the long term: many decades, local government cannot support the pensions being built up. For this reason GMB does not believe a slavish quest for 100% funding at all times is appropriate, this does not mean a return to the political manipulation of the scheme operated by the Tories in the early 1990s but a prudent funding framework reflecting the scheme's long term requirements.

Next Steps
GMB will continue to engage with the Hutton Commission on long term reforms to public service schemes and has written to both John Hutton and the Chancellor seeking clarity on their plans for the LGPS.

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