



Amicus response to DCLG consultation on the new Local Government Pension Scheme - the LGPS (Benefits, Membership and Contributions) Regulations

1. Introduction

1.1. Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the health service.

1.2. Amicus welcomes the main elements of the new proposals which maintain a reasonable balance between providing improved benefits and increased member contributions. In particular we welcome the retention of final salary pensions on the improved 1/60 accrual basis and the introduction of dependants' pensions for unmarried partners.

1.3. This welcome is qualified by our belief that existing Local Government workers should enjoy equivalent rights in respect of early retirement at 60, as other public service workers. In the context of the present consultation Amicus would urge the Government to extend the period of full protection in respect of the phasing out of the Rule of 85 beyond the date of 2016. This extension should at the very least be until 2020, the date proposed in Scotland.

2. Member Contributions

2.1. In respect of the main proposal we support the general idea of a salary-related contribution structure subject to it being established that the £12,000 p.a. pivot point should be indexed in line with movements in average earnings. If this indexation is not established then clearly the contribution level would be on a phased path of increase for all staff which would be especially detrimental to the lower paid.

2.2. Amicus has a particular concern about the impact of this new contribution structure on manual workers paying the protected 5% contribution rate. Unless some special protection for these members is given they could face increases in their percentage pension

contributions equal to or greater than the highest salaried members of the Scheme. A manual worker with pensionable pay of £24,000 p.a. faces an increase of 1.5% in their contribution rate, which is more than that faced by a Chief Executive earning ten times as much.

- 2.3. Amicus believes that there is a continuing validity to the original reason for the lower manual workers rate which was justified by their generally shorter life expectancy and by the physical demands of their work.
- 2.4. The proposals will raise the average member contribution rate paid from 5.8% to 6.3%, an increase of 0.5%. For other members of the Scheme, those earning less than £24,000 will see an increase in their contribution of less than 0.5% and those earning more than this will see a higher contribution. A member would need to earn £48,000 p.a. before their contribution rate rose by as much as 1%.
- 2.5. Amicus does accept that manual workers will benefit equally from the benefit improvements and so it is not unreasonable that they pay a proportionate increase in their pension contributions.
- 2.6. A simple way to address this unfair impact would be for the manual workers special position to be retained but with a standard contribution rate of 5.5% i.e. with an increase in line with the average increase faced by all other members of the scheme. An alternative could be to cap the size of the increase as could be paid by a manual worker but this would be more difficult to explain and more complex to administer.

3. Ill Health Pensions

- 3.1. Amicus members work in physically demanding occupations with a higher than average incidence of ill health retirement. The terms of ill health pensions are therefore of particular importance to them and Amicus is opposed to any reform of ill health pensions which is designed to reduce scheme expenditure in this area. Better targeting of benefits is acceptable but an overall reduction is not.
- 3.2. Amicus' key concern is to eliminate or minimise the possibility of situations arising where a member loses their job on account of ill health but is then deemed not to be ill enough to qualify for an ill health pension.
- 3.3. Amicus is uncertain as to whether the wording in the draft regulations will be a move which is helpful in addressing this concern or not. The concept of 'gainful employment' does not seem very helpful, as part of the basic qualifying test for an ill health benefit, if this could mean any paid employment and so include work at a much lower level of salary and status.

- 3.4. Amicus believes the basic qualifying test for award of an ill health pension should be simply that the employee is leaving employment because they are incapable of carrying out their normal duties. If this was established as the basic criteria then the three levels of benefit defined in relation to whether and when an individual might obtain gainful employment would be more acceptable.
- 3.5. Amicus would suggest that 'gainful employment' needs to be defined so as to mean employment comparable in remuneration and status to the member's normal job.
- 3.6. The provision that for those who qualify for ill health pension service enhancement that the service enhancement will not be less than that payable under current rules is a welcome safeguard. However, where it is established that an individual will never work again then the enhancement should be 100% of the service to normal retirement date.

4. Cost-sharing mechanism

- 4.1. Amicus does have concerns about the 'mechanism for sharing future cost pressures' as referred to in the Statement by the Minister for Local Government, launching the consultation, on 23 November 2006.
- 4.2. In particular Amicus does not see a basis for such a mechanism which could be based on capping of the notional employer contribution rate.
- 4.3. In the other unfunded public service schemes mechanisms have been established which do cap the employer contribution, which at first sight seem to belie a cost-sharing concept. In these cases the explanation of this paradox lies in assurances that increases in costs arising from changes in the notional rate of return used to cost benefits and increases in costs arising from legislative changes are born by the Government. The costs that fall on members are restricted to those derived through real increases in benefits, which could arise from benefits being improved or members living longer or being paid higher salaries than expected. So while members bear all of one part of the risk, the Government/employers bear all of another major part of the risk.
- 4.4. It is far from clear that such a mechanism could be applied or would be suitable for the funded LGPS Schemes. On the one hand it is hard to see the employers being willing to guarantee that they would absorb against costs associated with a lower investment return/discount rate and on the other hand it is hard to see members agreeing to increase their contributions or accept reduced benefits if the cost of benefits was rising but schemes were in financial surplus because of movements in financial markets.

- 4.5. Nor can Amicus see a basis for a mechanism triggered by certain specified factors which operated without reference to the overall financial position of the Schemes
- 4.6. A more limited basis of sharing that has previously been floated is one based on members bearing some or all of the cost resulting from members living longer. This again is problematic if it locked members into increasing contributions/lower benefits without reference to the wider financial position of the Schemes.
- 4.7. As is the case with the current consultation Amicus accepts that substantial changes in Scheme funding will precipitate a review of benefit and contribution levels. Amicus believes such issues would best be addressed without pre-determined formulae being applied and on the basis of changes being negotiated with the trade unions.
- 4.8. Amicus hopes that the benefit levels and member contribution rates established at this Valuation would not be revisited for some considerable period of time.

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26th February 2007

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