NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

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To: Chief Executives
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Circular 09/2011
16 May 2011

Dear Colleagues

Letter to Ministers on Proposed Increases in Employees' Pension Contribution Rate

Circular 08.2011 issued 6th May 2011 advised employers of HM Treasury's proposal to increase employees' contribution rates.

As detailed in the circular, NILGOSC intended to write to the Ministers of Environment and Finance and Personnel to outline the effects of any increase and alternatives to the proposals. This letter has been issued today and a copy is attached for your information.

If you have any queries on the content of the letter, or any comments or questions about the proposed increases, please contact David (david.murphy@nilgosc.org.uk), Zena (zena.kee@nilgosc.org.uk) or myself (deane.morrice@nilgosc.org.uk).

Yours sincerely

Deane W Morrice MBE
Secretary

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Minister of the Environment
DOE Private Office Room 717
Department of the Environment
Clarence Court
10 - 18 Adelaide Street
Belfast
BT2 8GB

16 May 2011

Dear Minister

Proposed Increase on Pension Contributions for 44,000 Public Sector Employees

Early in your term of office you will be requested to make legislation through the Assembly that will increase the cost of pension contributions for the 44,143 members of the Local Government Pension Scheme.

For some the decrease in their take-home pay could be significant and the trade unions have already flagged that they intend to ballot members for strike action.

The purpose of this letter is to provide you with background to the Local Government Pension Scheme in Northern Ireland (LGPS (NI)), details of the announcement made by the Chancellor and how that has been taken forward so far by the NI Executive. An analysis of the impact of employee contribution increases on the members of the scheme is included together with a recommendation as to action that the Department could take. I would also welcome the opportunity to meet with you to brief you further on this matter.

The Northern Ireland Local Government Pension Scheme

The (LGPS (NI)) administered by NILGOSC is separate from the Local Government Pension Schemes in England, Wales and Scotland. It is also different from the other Public Sector Pension Schemes in Northern Ireland. The making of the regulations governing the LGPS (NI) is a matter devolved to the Northern Ireland Assembly. The LGPS (NI) Regulations are made by the Department of the Environment.

NILGOSC is a Non Departmental Public Body established on 1 April 1950 by the Local Government (Superannuation) Act 1950 to administer the local government pension scheme and manage the pension fund for the benefit of employees of local authorities and other admitted bodies in Northern Ireland.

At 31 March 2011 there were 204 employing authorities contributing to the Scheme. These employing authorities were composed of 26 Councils, 5 Education

Boards, 1 Library Authority, 1 Housing Executive, 78 associated bodies, 84 schools and 9 Further and Higher Education Colleges and Universities. There were 44,148 contributing members, 26,291 pensioners and 21,412 deferred members. From May 2011 all Local Councillors are eligible to join the Scheme.

The Local Government Pension Scheme is totally different to the other "pay as you go" public sector pension schemes in Northern Ireland and the rest of the UK. The Local Government Pension Scheme is a "funded scheme" and the payment of the scheme benefits does not come from the Treasury but from the Fund into which the employer and employee contributions are invested and from which the benefits are paid. At 31 March 2011 the Fund was valued at £3.9 billion. Members of NILGOSC pay significant contributions to the Scheme. The amount varies between 5.5% of salary for the lowest paid – earning up to £12,900 a year – to 7.5% for staff earning over £81,100 a year. The average employee contribution rate is approximately 6.4%. The majority of Employers in the Scheme currently pay an employers' contribution rate of 18%. The average pension paid is £3,984 a year, considerably lower than the UK public sector average pension of £7,800.

The Chancellor's Announcement

The Coalition Government appointed Lord Hutton to carry out a review of Public Sector Pensions in 2010. Lord Hutton published his interim report on 7 October 2010 and he recommended that, as a short-term option for reform, that public sector pension schemes should increase employees' contribution rates.

This recommendation was accepted by the Chancellor, George Osborne, in his spending review statement on 20 October 2010 and he announced that employees' contributions for all the public sector pension schemes would increase by 3%, phased in over 3 years from 2012. He also announced that low earners would be protected. However neither the Government nor Lord Hutton addressed the unfairness between employee contribution rates within public sector pension schemes where employees in the LGPS (NI) are already paying considerably higher contributions than the majority of other public sector employees.

Lord Hutton did not refer to this increase in his final report published in March 2011 although it was confirmed in the Chancellor's Budget on 23 March 2011.

The setting of the employees' contribution rates for LGPS (NI) is a devolved matter for the Assembly sponsored by the Department of the Environment. It will therefore be the decision of you as the Minister and the Assembly to decide if the HM Treasury direction to increase employee contribution rates is to be followed.

I understand that the Department of Finance and Personnel expect all Northern Ireland departments which run pension schemes to implement the increase in line with their counter parts in England and Wales.

Whilst an increase may not be significant for members of the other public sector schemes and in particular the DFP managed Principal Civil Service Pension Scheme (members currently pay only between 0%-3.5%) it will have a significant impact on the members of the LGPS (NI) who are already paying between 5.5%-7.5%. This is a matter of much concern to the Committee.

Impact on Members of Increases in Employee Contribution Rate

NILGOSC has not been notified of the quantum of savings it is expected to make by increasing contribution rates and therefore the estimates below are based on the 3% figure announced by the Chancellor.

The Chancellor stated that there should be protections for the lower paid, however a definition of lower earnings has not yet been determined. Assuming that those in the LGPS (NI) earning under £18,900 are classed as lower paid, the majority of the members at 63% fall into this category which means that the 3% increase would be borne by the remaining members, i.e. those earning over £18,900. The proposed contribution increases for England & Wales would not generate a 3% saving in Northern Ireland because of the higher level of lower earners here. Therefore higher contribution rates would be required as shown in the table below, based on estimates using the last complete membership data at 31/03/10:-

Pay Bands and Member Numbers 31/3/10 showing 3% Increased Rate with 100% Protection for the Lower Paid

Pay Band £	Existing Rate %	Possible Revised Rate %	No. of members
0-12,600	5.50	5.50	11,256
12,601-14,700	5.80	5.80	3,531
14,701-18,900	5.90	5.90	11,112
18,901-31,500	6.50	10.0	11,301
31,501-42,000	6.80	14.0	2,458
42,001-78,700	7.20	17.0	1,160
78,701-200,000	7.50	25.0	66

The above table is only one example of a set of revised employee contribution rates that would meet the overall target of a 3% increase. It is a matter for the Department of the Environment to decide what the actual revised rates will be. Another important consideration is that over 20,000 are part time employees and although they earn a part time salary their contributions are based on a full time equivalent salary which in many cases puts their contribution rate into a higher rate band than the salary they are earning.

It is impossible to predict the effect that increasing the Employee contribution rate will have on the numbers of existing members choosing to leave the scheme

(Opting-out). The GMB union has produced survey results in January indicating that 39% of members would opt-out if employee contributions were increased. Simply by emphasising to members that membership of the scheme is voluntary could cause an increase in Opt-outs in the era of zero pay increases. As only 71% of eligible employees have currently joined the Scheme the Committee believes that the GMB opt out estimates are not unrealistic.

It is the risk of an increase in Opt-outs that caused Lord Hutton and the Chancellor to emphasise the need to protect the lower paid.

Employer contribution rates have been set for the 3 years commencing on 1 April 2011, therefore any increase in *employee* rates will not result in a corresponding reduction in the employer contribution rates. This is what would happen with the "pay as you go" schemes and therefore is an appropriate arrangement for a non-funded scheme to reduce employer costs. However in a funded scheme any additional employee contributions should eventually improve the funding of the Scheme but can only be taken into account by the Fund Actuary at the next valuation, which for the LGPS (NI) is in 2013. There is a significant risk that if members opt-out of the Scheme the relative costs of the Scheme will increase, and these costs will be borne by increases to the employers' contribution rates. The other problem is that employees opting out will require to solely rely on state benefits for their retirement income and the cost of meeting this liability is only being transferred from one government department to another.

Increasing Employee contribution rates will not provide any additional revenue to the Treasury. It will simply damage the sustainability of the LGPS (NI) if members choose to leave.

There are a number of alternative options to increasing employee contribution rates that can be introduced which I would wish to discuss with you before the Executive makes a final decision on this issue.

Recommendations

Lord Hutton made a number of recommendations for changes to the Public Sector Schemes' benefit structures. The principal recommendation was that career average revalued earnings schemes should replace the traditional final salary schemes as they were unfair to low earnings and provided a disproportionate benefit to high earners.

With such wholesale changes to the pension scheme in the pipeline the Committee believes that it is premature to increase employee contribution rates now and that the issue of affordability and contribution rates should be examined as part of the move to a career average scheme.

If increases to employee contribution rates must be made then increases should be made fairly reflecting the differences across all the Public Sector Schemes. It is inequitable that, for example, a Permanent Secretary who is a member of the Principal Civil Service Pension Scheme should pay 3% whilst a part-time classroom assistant in the Local Government Scheme has to pay 5.9%.

The Committee is recommending that because the Local Government Pension Scheme is a funded scheme and has so many low paid workers it should be considered separately when this issue is discussed by the Executive.

I would welcome the opportunity to meet with you to provide further details and to discuss the various options open to the Department and the Executive. Please do not hesitate to contact me if you feel that this would be useful.

Yours sincerely

Deane W Morrice MBE
Secretary