

To: Chief Executives
Salaries and Wages
Human Resources
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At: All Employing Authorities

Circular 16/2011
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Proposed Increases in Employees' Pension Contribution Rates and Changes to Public Sector Pension Schemes

UPDATE

Purpose

The purpose of this circular is to provide a brief update on how the Local Government Pension Scheme (LGPS) in Northern Ireland, administered by NILGOSC, has been affected by the negotiations between the Government and the Trade Unions in England & Wales.

Background

On 20 October 2010, George Osborne announced in his Spending Review that employees' pension contributions rates for all the Public Sector Pension Schemes would increase by 3.2% over 3 years from April 2012 and that low earners would need to be protected in order to minimise the risk of members opting out of the schemes.

On 10 March 2011, Lord Hutton published his final report on Public Service Pensions which made 27 recommendations. Key recommendations focussed on the introduction of amended public sector schemes, including a revised Local Government Scheme, which would be Career Average in nature (rather than Final Salary) and would have the normal retirement age linked to State Pension Age. These new schemes were planned to be operational before the next parliament in 2015. Any new scheme could only affect benefits accrued from the date of the revised scheme becoming operational.

Since March, Treasury has been in discussion with the Trade Unions about the implementation of these changes. The situation in the four jurisdictions of the UK are different.

Scotland

In October 2011 the Scottish Government agreed not to introduce increases in the employees' pension contribution rates from April 2012 for members of the Scottish Local Government Pension Scheme.

England & Wales

The Government announced on Tuesday that it has the agreement of the major Trade Unions and the employers' representative (the Local Government Association) that they will enter into detailed negotiations between January and April 2012 to design a new Local Government Pension Scheme which will be Career Average in nature and will have normal retirement age linked to State Pension Age.

Significantly the Government agreed to treat the LGPS differently from the other Public Sector Schemes due to the 'funded' nature of the scheme. As a result it agreed that it was not a requirement to have an increase in employees' pension contribution rates from 2012 if savings could be found through the design of the new Scheme. The new Scheme will be introduced a year earlier than Lord Hutton had envisaged, i.e. from 1 April 2014, and any increases in employees' pension contribution rates deemed necessary would apply from this date.

Therefore, assuming the negotiations between the parties continue to be effective, there would be no immediate changes to the LGPS in England & Wales.

Northern Ireland

The rules for the Northern Ireland LGPS are set out in statute which is made by the Department of the Environment. Any changes to the employees' pension contribution rates or to introduce a new scheme will require a change in legislation.

The Department has not made, or issued for consultation, as yet, any new legislation to change the Scheme.

The Northern Ireland Executive has determined that the NI LGPS should be subject to an increase in employees' pension contribution rates however this decision was taken before the breakthrough in England & Wales.

Therefore, as at today's date, it is the Northern Ireland Government's intention to apply employees' pension contribution rate increases to the NI LGPS however there are no details as to how the rises will be applied or what the timetable for implementation will be. We are aware that the Minister for the Environment hopes to have the issue discussed further at the Executive in the New Year.

This means that we are unable to set out what changes, if any, will be made to the NI LGPS at this stage. Once there is clarity I will issue another circular. In the meantime we will keep you up to date with developments through our website (www.nilgosc.org.uk/LatestNews-Reforms.html).

Yours sincerely



David Murphy
Chief Executive and Secretary