

To:
Local Authority Leaders
Local Authority Chief Executives

23 September 2011

Dear colleague,

Local Government Pension Scheme – Proposed increase in employee contributions

As you will be aware, in the public sector Spending Review statement in October 2010 the Government announced its intention to increase employee pension contributions in the public service pension schemes (other than the Armed Forces Pension Scheme). The Government intended that the increases should be introduced progressively over the period 2012/13 to 2014/15. It was subsequently confirmed that the level of increase for members of the Local Government Pension Scheme (LGPS) would be 3.2%, on average.

The Local Government Group made representations to the Government that the funded nature of the LGPS meant that income equivalent to a 3.2% increase could be generated in ways other than wholly via an increase in employee contributions. As a result of those representations the Secretary of State for Communities and Local Government wrote to me on 20 July 2011 asking the Group to enter into discussions with the local government trade unions. This was with a view to establishing a package of measures to secure short term savings by 2014/15, equivalent to a 3.2% increase in employee pension contribution rates, with any necessary legislation to be in place by 1 April 2012. The package could include alternative ways to deliver some or all of the savings, whilst providing protections from contribution increases for the lower paid.

The LG Group has been in discussions with the trade unions since then.

The Secretary of State's letter of 20 July 2011 initially required the Group to provide him with an update on the outcome of the discussions by 9 September but a short extension to this deadline was subsequently allowed. However, despite constructive discussions with the trade unions, it has not so far been possible to reach agreement on a joint proposal to put to the Secretary of State.

I have therefore written to the Secretary of State (on 21 September 2011) setting out the Group's proposals as to how the required 3.2% savings can be achieved in a way which we believe is fair to employees and affordable for the taxpayer (as an alternative to the level of increases in employee contributions that DCLG might otherwise come forward with). The proposals minimise the impact on the lower paid whilst at the same time giving choice to individuals.

The key elements of the Group's proposals are:

- no increase in employee contributions for staff with full-time equivalent earnings of less than £15,000, a moderate increase for those earning between £15,000 and £21,000 of 1.5% and an increase of between 2% and 2.5% for those earning over £21,000
- choice for employees, by giving those with full-time equivalent earnings of £15,000 or more who feel they cannot afford an increase in contributions the option of taking a reduced pension accrual rate instead for future service from April 2014. Any employees with full-time equivalent earnings of less than £15,000 who may be finding it difficult to meet the current level of contribution would have the option of taking a reduction in their contribution rate but would, as a result, have a reduced pension accrual rate for future service from April 2014
- raising the normal pension age from 65 to 66 for benefits built up from April 2014. Benefits built up prior to then would retain a normal pension age of 65.

A full copy of my letter to the Secretary of State is available on our website at <http://www.lge.gov.uk/lge/core/page.do?pageld=1> under "News and features" together with some worked examples of the effect the choice mentioned in the second bullet point above would have on individuals.

We believe our proposals:

- overcome the issue of part-time employees having to pay an increased contribution rate determined by reference to their full-time equivalent salary (i.e. they would have the choice of being able to take the reduced accrual rate option instead)
- would help the low paid to stay in the scheme and reduce opt out rates
- give employees a choice, which they can exercise in the light of their own personal circumstances
- ensure that those employees earning above the £15,000 threshold who want to keep their current pension accrual rate will have to pay more to retain that accrual rate, and
- reduce the risk of industrial action

We understand that the Secretary of State will issue a statutory consultation document towards the end of September setting out the DCLG proposals for how the 3.2% savings could be met. We would hope that consultation paper will make some reference to the LG Group proposals and it is our intention to continue discussions with the trade unions.

Yours faithfully

A handwritten signature in black ink, appearing to read 'L. C. C.', is positioned below the text 'Yours faithfully'.

Chairman, Local Government Association