



LANCASHIRE UNISON CAMPAIGN TO PROTECT OUR PENSIONS

CONSULTATION ON AFFORDABILITY AND VIABILITY OF THE LGPS AND THE GOVERNANCE OF THE LGPS

This Campaign News sets out details of the consultation that is being conducted on the affordability and viability of the Local Government Pension Scheme in England and Wales and also looks into the employee contribution bands. UNISON is finalising a national response and the proposed main points are set out below

1. Funding

This Consultation is about how to keep the Local Government Pension Scheme affordable after the next valuation of the funds due on 1 April 2010.

It is proposed that every Local Government Pension Scheme fund would have to come forward with a finance plan a few months

after the next scheme valuation on 1 April 2010 to deal with the cost of all the benefits that have been earned up to the date of the valuation. The consultation sets out two possible approaches:



- i. Instead of all the funds aiming for 100% of the value of the costs of the benefits earned to the date of the valuation, they could discount what is affecting all the LGPS funds in the short and medium term. An example of this would be a temporary decline in the value of investments, even if this meant the funding target for the LGPS going temporarily below 100%.
- ii. To retain the existing scheme funding arrangements to aim for 100% funding but allow individual funds to set a target below 100% funding if they felt their fund's long term prospects justified it.

2. Employee contribution bands

The consultation is seeking views on two key changes to the contribution bandings:

- i. To increase contributions for the higher paid for those earning over £100,000 pa to 10% before tax relief.
- ii. To increase the number of those paying lower rate contributions, so all those earning whole time equivalent pay up to £15,000 pa would pay 5.5% before tax relief and the 6% band would be increased up to whole time equivalent pay of £22,000 a year.

UNISON's Proposed Response

Funding

UNISON would support the proposal that funding principles for the Local Government Pension Scheme should be different to the principles in the private sector. The Local Government Pension Scheme is ultimately guaranteed by central Government and does not need the same level of protection as private sector schemes.

UNISON would much prefer funding principles in (i) that apply across the Local Government Pension Scheme rather than allowing significant local variation as set out in (ii) above.

At the end of the day as long as the assumptions used mean that the scheme will always have enough money to pay its benefit liabilities, there should be no "black hole" to be filled by the employer or tax payer. Just because a temporary set-back in investments reduces the value of the fund to less than 100% of costs, then providing the assumptions are sound for the long term it should not lead to substantial temporary increase in employer contributions.

Contributions

UNISON has been pushing for the employee contribution bands to

be revised and we are pleased that the proposals for the lower paid bands go some way to meeting our concerns. UNISON would support the principle of the higher paid paying higher contributions and lower paid being treated more fairly with a higher proportion of low paid part time workers contributing less than 6%. More work has to be done on assessing the actual contribution bands to ensure that all low paid part timers do not pay any more than 6%.

Conclusion

UNISON has been pushing for some time for all the funds to reflect the fact that the LGPS is a Statutory Scheme backed by Government and that the correct way to deal with temporary cost pressures caused by events like the collapse of the stock market is for a scheme to take a longer view when setting employer contributions.

The second consultation on potential changes to the benefit structure of the scheme is expected within a few weeks for initial discussion. UNISON would hope that this would tie in directly with the discussions on sharing the cost of the scheme in the future and will trigger a full debate on what changes are desirable and/or necessary to maintain the pension scheme into the future.