

To: Chief Executives
 Salaries and Wages
 Human Resources
 Pension Contacts

Circular 06/2013
 25 April 2013

At: All Employing Authorities

Dear Colleagues,

Consultation on Proposed Scheme Design for the Local Government Pension Scheme (Northern Ireland) 2014

On 11 April 2013 The Department of Environment issued the above consultation document on the design of the new Scheme. It proposes that the new Scheme is introduced from 1 April 2014.

Separate consultations are awaited on the Scheme administration, governance and cost sharing and the transitional arrangements to move members forward from the 2009 Scheme.

The purpose of this circular is to outline the structure of the new Scheme and to invite representatives of employing authorities to one of two seminars being held on 7 and 9 May 2013. We would particularly welcome attendees who may be responding to the consultation and, in particular, those staff responsible for running payrolls. Several of the changes in the new Scheme will impact on payrolls and you may wish to include the views of your Payroll Manager within your response to the consultation.

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1. The Consultation Documents

- 1.1 Copies of the consultation documents are available on the Department's website at http://www.doeni.gov.uk/index/local_government/local_government_consultations.htm . The closing date for responses is 6 June 2013 and emailed responses should be sent to LGPDConsultations@doeni.gov.uk .

2. The 2014 Scheme

- 2.1 The main provisions of the proposed new Scheme are as follows:
- Career average revalued earnings (CARE) Scheme
 - 1/49th accrual rate
 - Revaluation rate is assumed to be the Consumer Price Index (CPI)
 - Normal pension age is equal to the member's state pension age (minimum of age 65)
 - Definition of pensionable pay now includes non-contractual overtime and additional hours
 - Contribution rates are set on actual pensionable pay, the number of contribution bands decrease and the ranges change
 - 50/50 option where members can pay 50% contributions and receive half the pension accrual rate (i.e. 1/98th)
 - Vesting period is two years
 - Ill-health retirements as current i.e. a two tier system
 - Death in service lump sum is 3 X pensionable pay
 - Survivor benefits as current
 - Commutation rate as current i.e. £1 of pension for every £12 of lump sum given up

3. The Differences Between The Proposed 2014 And The Current 2009 Schemes

- 3.1 Table 1 describes the main differences between the proposed 2014 and current 2009 Schemes. This is not a complete list and there are other differences which have not been described here. In some cases further clarification is needed (for example, definitions are missing in the draft regulations) and more information will be provided by the next two consultations.

Table 1- key differences between proposed 2014 Scheme and the current 2009 Scheme

| | LGPS (NI) 2014 | LGPS (NI) 2009 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
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| Type of Scheme | Defined Benefit Career Average Revalued Earnings (CARE) Scheme | Defined Benefit Final Salary Scheme | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Accrual Rate | 1/49th | 1/60 th | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revaluation Rate | The index by which pension built up each year is increased in order to retain its value – revaluation adjustment assumed to be Consumer Price Index (CPI) | Final pension normally based on final salary | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Normal Pension Age | The member’s State Pension Age (minimum of age 65) | Age 65 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minimum pension age | Age 55 | Age 55 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Definition of pensionable pay | Now includes non-contractual overtime and additional hours | Excludes non-contractual overtime and non-pensionable additional hours | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Members’ contribution rates and banding | <p>Contribution rates are calculated on actual pay received</p> <table border="1"> <thead> <tr> <th>Range</th> <th>Contribution Rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td>5.5%</td> </tr> <tr> <td>£13,501 - £21,000</td> <td>5.8%</td> </tr> <tr> <td>£21,001 - £34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001 - £43,000</td> <td>6.8%</td> </tr> <tr> <td>£43,001 - £85,000</td> <td>8.5%</td> </tr> <tr> <td>More than £85,000</td> <td>10.5%</td> </tr> </tbody> </table> | Range | Contribution Rate | Up to £13,500 | 5.5% | £13,501 - £21,000 | 5.8% | £21,001 - £34,000 | 6.5% | £34,001 - £43,000 | 6.8% | £43,001 - £85,000 | 8.5% | More than £85,000 | 10.5% | <p>Contribution rates are calculated on full-time equivalent pay</p> <table border="1"> <thead> <tr> <th>Range</th> <th>Contribution Rate</th> </tr> </thead> <tbody> <tr> <td>Up to £13,500</td> <td>5.5%</td> </tr> <tr> <td>£13,501 - £15,800</td> <td>5.8%</td> </tr> <tr> <td>£15,801 - £20,400</td> <td>5.9%</td> </tr> <tr> <td>£20,401 - £34,000</td> <td>6.5%</td> </tr> <tr> <td>£34,001 - £45,500</td> <td>6.8%</td> </tr> <tr> <td>£45,001 - £85,300</td> <td>7.2%</td> </tr> <tr> <td>More than £85,300</td> <td>7.5%</td> </tr> </tbody> </table> | Range | Contribution Rate | Up to £13,500 | 5.5% | £13,501 - £15,800 | 5.8% | £15,801 - £20,400 | 5.9% | £20,401 - £34,000 | 6.5% | £34,001 - £45,500 | 6.8% | £45,001 - £85,300 | 7.2% | More than £85,300 | 7.5% |
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| Contribution flexibility | 50/50 option where members can elect to pay 50% contributions and accrue 50% of the pension benefits | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Vesting period | Two years period of service when members can get a refund of their contributions if they leave the Scheme | Three months period of service when members can get a refund of their contributions if they leave the Scheme | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | LGPS (NI) 2014 | LGPS (NI) 2009 |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ill-health retirements | Need two years' service to qualify Tier 1 – immediate payment of benefits with membership enhanced by period to Normal Pension Age (state pension age or age 65 if higher) Tier 2 – immediate payment of benefits with membership enhanced by 25% of period to Normal Pension Age (state pension age or age 65 if higher) | Need one year service to qualify Tier 1 – immediate payment of benefits with membership enhanced by period to Normal Pension Age (age 65) Tier 2 – immediate payment of benefits with membership enhanced by 25% of period to Normal Pension Age (age 65) |
| Death in service lump sum | 3 x pensionable pay | 3 x pensionable pay |
| Death in service survivor benefits | 1/160 th accrual based on tier 1 ill-health enhancement | 1/160 th accrual based on tier 1 ill-health enhancement |
| Commutation Rate | £12 lump sum for every £1 of pension given up | £12 lump sum for every £1 of pension given up |
| Indexation of pension in payment | Consumer Price Index (CPI) | Consumer Price Index (CPI) |

4. Commentary on some proposed changes

4.1 Type of Scheme

In the proposed CARE Scheme pension benefits accrue during the period of membership relative to the actual earnings in each year. These benefits are then revalued each year to keep pace with inflation.

In simple terms, each year a member will have an opening balance, to which pension built up during the year and any additional pension purchased is added, the total amount of pension is then revalued (revaluation adjustment) to give a closing balance. This closing balance becomes the new opening balance for the next year.

This change to yearly accrual of pension amounts will require payroll departments to accurately calculate the pensionable pay each payroll run and deduct contributions at the correct rate. Payroll software will need to allow for possible variations in pay and contribution bands due to the effect of non-contractual hours and overtime now being pensionable. NILGOSC will have to be advised of the pensionable pays (under both the 2014 definition and the 2009 definition) and contributions paid on an annual basis.

Members will need to have an appeal facility (probably time limited by 6 years) in respect of pensionable pay calculations as each year's pay is immediately used to determine their pension saving for that year. This is unlike the current final salary arrangement where it is the final pay at retirement that is the critical pay in determining pension benefits.

4.2 Normal Pension Age

The new Scheme proposes that the normal pension age is linked to State Pension Age subject to a minimum of age 65.

State Pension Age is to reach age 65 for both men and women by November 2018. It is then to increase to age 66 from December 2018 to October 2020 and to age 67 between 2034 and 2036. The Coalition Government has recently announced plans to bring forward the rise to age 67 and then link future increases in State Pension Age to life expectancy.

This increase in State Pension Age and therefore Scheme normal pension age is likely to affect costings for ill-health retirement as the enhancement period is relative to normal pension age.

Early retirement provisions for redundancy and ill-health remain unchanged but employer capital costs on redundancy could also increase as Scheme normal pension age increases.

4.3 Pensionable Pay

It is proposed that pensionable pay includes non-contractual payments such as overtime and additional hours.

Payroll software will need to be amended to accommodate an annual cumulative pensionable pay per job including the pensionable value of any emolument relating to that job and any notional pay, known as assumed pensionable pay, while a member is on reduced pay or no pay. The assumed pensionable pay is the higher of the pay the member received in the previous scheme year relating to that year grossed up to an annual figure or the pensionable pay the member received in the 12 weeks immediately preceding the commencement of assumed pensionable pay grossed up to an annual figure. The assumed pensionable pay will have to be calculated by employers.

4.4 Members' contribution rates and banding

Payroll software will need to be able to set contribution rates according to actual pay received and not full-time equivalent pay.

4.5 50/50 Option

This option enables employees to elect to contribute half the contributions and receive half the pension. They will however retain the full value of other benefits including the death in service lump sum. Employer contributions remain at full level while a member is in the 50/50 Option.

The aim of this option is to prevent individuals opting out and not having any pension provision and it is suggested that individuals within the 50/50 option will be re-enrolled back into the main Scheme at regular intervals.

Payroll systems will need to be able to keep a separate pensionable pay relating to periods within the 50/50 option and any assumed pensionable pay relating to that period. These separate pays will need to be notified to NILGOSC on an annual basis.

4.6 Vesting period

The increase in vesting period to two years will mean that employers will need to differentiate between those members who are opting out under automatic enrolment and those opting out under Scheme rules.

5. Transitional Protections

5.1 The consultation document (page 16) describes transitional protections as follows:

- Members of the 2009 Scheme will retain the link to final salary and a normal pension age of 65 in respect of the pension built up to 1 April 2014. Pension built up to this date will be calculated separately when a member retires and added to the pension built up in the 2014 Scheme.
- Members within ten years of retirement at 1 April 2012 will have an underpin i.e. they will receive a pension at least equal to that which they would have received under the pre-2014 Scheme.
- Existing protections for 85 year rule benefits will be carried forward in to the 2014 Scheme.

5.2 What transitional protections will mean for Payroll

The proposed transitional protections means that payroll software will have to continue to hold all the information that is currently required under the 2009 Scheme as well as the new requirements under the 2014 Scheme.

Further complications will arise if arrears are paid which relate to both pre and post 1 April 2014 membership as these arrears will have to be split out from 2014 pensionable pay and allocated to the correct year. This ensures that there is no double provision of pension benefits.

6. Summary of possible payroll system requirements

6.1 As an indication on and from 1 April 2014 payroll systems will need to be able to:

- Hold each job separately where an employee has more than one job with the employer, with the ability to deduct a separate employee contribution rate in each job (i.e. the employee contribution rate in one job may be different to that in another job)

- Have the ability to potentially change the employee contribution rate each pay period (e.g. if the employee's pensionable pay varies from pay period to pay period)
- Ensure employee contribution rates are determined by reference to pensionable pay received (not full-time equivalent pensionable pay rates)
- Hold separate cumulative figures of employee contributions paid and pensionable pay for each job
- Have the ability to operate the 50/50 section of the Scheme on any or all of the jobs
- Hold, separately to the full section of the Scheme, the cumulative figures of contributions paid and pensionable pay for each job where the member is in the 50/50 section of the Scheme
- Have the ability to deal with a member moving between the full section of the Scheme and the 50/50 section of the Scheme and back to the full section (and vice versa) within one financial year, ensuring the cumulative figures for any periods in the full section during the year are totalled and the cumulative figures for any periods in the 50/50 section during the year are totalled
- Report start and end dates for each period in the full and 50/50 sections
- Calculate the assumed pensionable pay for members on reduced contractual pay or nil pay due to sickness or injury for each job
- Ensure the cumulative figures for pensionable pay include the assumed pensionable pay for the above periods of reduced or nil pay, for each job
- Have the ability to deduct the appropriate pension contributions on actual pensionable pay received during the above periods of reduced pay, whilst holding assumed pensionable pay in the accumulations, for each job
- Operate the 2014 Scheme definitions of pensionable pay (which will include pay elements that were not pensionable under the 2009 definition of pensionable pay e.g. non-contractual overtime will be pensionable under the 2014 Scheme)
- Deduct employee and employer contributions from, and include in the cumulative pensionable pay figures per job, any pensionable emoluments (e.g. child care vouchers via a salary sacrifice arrangement)
- Hold separately, per job, the pensionable pay cumulative each year as if the 2009 scheme pensionable pay definitions were still in operation
- Continue to report changes in contractual hours to NILGOSC
- Continue to report periods of absence due to trade dispute, authorised leave of absence or unpaid additional maternity, paternity or adoption leave.
- Exclude from the post 31 March 2014 pensionable pay cumulative (per job) any pensionable pay paid post 31 March 2014 that relates to a period prior to 1 April 2014
- Be able to hold a pensionable pay cumulative figure at age 65 for members aged 55 and over at 1 April 2012

6.2 You may wish to check that your payroll software is compatible with the new requirements and, if not, request programming times from your payroll software providers. This information could be used to inform any response to the consultation.

7. NILGOSC seminars on the proposed LGPS (NI) 2014

- 7.1 NILGOSC is intending to hold two employer seminars to outline the new 2014 Scheme. As the closing date for the consultation is 6 June 2013 we have arranged these in early May – 7 and 9 May. These seminars are aimed at those who will be responding to the Consultation, Payroll Managers and HR Managers. It is expected that a presentation will last for 45 minutes followed by time for questions.

The venues are as follows:

Belfast – Tuesday 7 May 2013 – 2pm
Park Avenue Hotel, 158 Hollywood Road, Belfast, BT4 1PB

Armagh – Thursday 9 May 2013 – 2pm
Armagh Planetarium, College Hill, Armagh, BT61 9DB

- 7.2 As places are limited at both venues please respond to Sinead.oneill@nilgosc.org.uk by **Wednesday 1 May** to confirm attendance at either or both of the seminars, with the name, job title and email address of everyone who wishes to attend.

Please do not hesitate to contact me if you have any queries.

Yours faithfully



Zena Kee
Pensions Manager