

## ITEM FOR STAFFING COMMITTEE – 8 APRIL 2014

### LOCAL GOVERNMENT PENSION SCHEME (LGPS) 2014 – POLICY ON REVIEW OF EMPLOYEE CONTRIBUTION RATES

**Submitted by:** Executive Management Team

**Portfolio:** Finance and Resources

#### **Purpose of the Report**

To obtain the Committee's approval for a policy on the future approach to the reviewing of employee Local Government Pensions Scheme % contribution rates.

#### 1. **Background**

- 1.1 Currently, employees who are members of the Local Government Pension Scheme (LGPS) have their % contribution rates determined annually in April. The % contribution rate they are required to pay depends on their Full-Time Equivalent pay and increases depending on which of seven salary bands they are allocated to. The salary pay bands are set by the LGPS and for 2013/14 were as follows:

<b>Full-time equivalent salary pay band</b>	<b>Contribution Rate</b>
Up to £13,700	5.5%
More than £13,700 – up to £16,100	5.8%
More than £16,100 – up to £20,800	5.9%
More than £20,800 – up to £34,700	6.5%
More than £34,700 – up to £46,500	6.8%
More than £46,500 – up to £87,100	7.2%
More than £87,100	7.5%

- 1.2 Since 2008 when the banding system was introduced, the council's policy has been to re-assess employee contribution rates annually each April, taking into account increments payable from 1 April. Employees are subsequently notified of the band to which they have been allocated and can appeal against this if they so wish.
- 1.3 The LGPS 2014 comes into effect from 1 April 2014. One of the changes is that the number of contribution bands will increase from 7 to 9 as follows:

<b>Salary Pay Band (based on <i>actual</i> pay)</b>	<b>Contribution Rate</b>
Up to £13,500	5.5%
More than £13,500 - up to £21,000	5.8%
More than £21,000 - up to £34,000	6.5%
More than £34,000 - up to £43,000	6.8%
More than £43,000 - up to £60,000	8.5%
More than £60,000 - up to £85,000	9.9%
More than £85,000 - up to £100,000	10.5%
More than £100,000 – up to £150,000	11.4%
More than £150,000	12.5%

1.4 There are also two other changes that can affect employees' % contribution rates:

- (i) The pensionable pay used to determine contribution rates will change from Full-Time Equivalent to Actual Pay.

This could mean that some part-time employees will pay a lower % contribution rate in future.

- (ii) The definition of what elements of pay are pensionable has changed to include all overtime and any additional hours worked in excess of contractual hours.

This could mean that some employees who work overtime or additional hours during 2014/15 may need to be allocated to a higher salary pay band than the band determined by pay associated with their contractual hours only.

## **2. Issues**

2.1 Under the current and the new Regulations, employers must complete an annual assessment of employee contribution rates each April and can review the band and rate on any material change in pay. In practice, this means that the band allocated can be reviewed during the Scheme year should the employee have a change in contractual pay (eg a promotion or a pay award).

2.2 Under the new Regulations, where pay is estimated (for example to include overtime) the actual pensionable pay can be regularly reviewed to ensure the correct rate is being applied. This can be done:

- a) Each pay period.
- b) Each quarter (or half yearly).
- c) At the end of, say, month 11.
- d) Each year, with the rate for the next Scheme year being set by reference to
  - the actual rate of pensionable pay received in the previous Scheme year, or
  - the annual rate of pensionable pay at the beginning of the new Scheme year, or
  - the expected annual pensionable pay for the new Scheme year.

2.3 When determining % employee contribution rates in future, as well as taking into account any increments payable each 1 April, the Council will need to take into account 'material changes in pay' (eg as a result of promotion, or national pay awards) and also the likely amount of overtime or additional hours to be worked in the forthcoming year and decide how and when this should be determined. It will also be necessary to determine how often employee contribution rates that have been based on estimated pay will be re-assessed.

2.4 It is understood that in circumstances where an employee's % contribution rate is 'under-assessed' by an employer, the amount of contribution under paid by the employee as a result of this, although relatively small, would effectively end up being paid by the employer as it will be taken into account during periodic 're-assessment of employers' % contribution rates carried out by the Scheme's Actuaries.

- 2.5 According to the Guidance received, the employer's objective should be to assess the appropriate rate in a "reasonable and consistent manner" and to 'balance the wish to ensure the employee contributions deducted over a Scheme Year fairly reflect the pay band appropriate to the pensionable pay received by the employee in the Scheme year against the need to adopt an approach that is simple both to administer and for employees to understand."
- 2.6 In other words, employers will need to consider 'whether seeking to get income from employee contributions correct to the n<sup>th</sup> degree (thereby reducing the impact on the employer's contribution rate that might impact on the employer's contributions) is more than outweighed by the cost of the additional complexity required to achieve this'.

The matter was considered at the meeting of the Employees' Consultative Committee on 24 March 2014 when it was recommended that the proposed policy detailed at 3.1 (below) be adopted.

### **3. Proposed Policy**

3.1 The recommended policy is as follows:

- Annual re-assessment of employee contribution rates each April taking into account any 1 April increments continuing to be applied.
- Further re-assessment during the year whenever there is a change in material circumstances (eg an employee is promoted/reduces or increases hours worked/there is an annual national pay award).
- Potential overtime and additional hours worked in a Scheme Year is assessed after month 3 (ie in July each year) with the calculation of estimated pensionable pay and the decision on amending the appropriate contribution band allocation being informed by the amount of overtime/additional hours paid the previous Scheme Year and the amount paid in the first 3 months of the current year.
- The above approach to be reviewed again later in 2014/15 to determine policy for 2015/16 and beyond.

### **4. Legal and Statutory Implications**

4.1 The council is required by law to implement the provisions of the Local Government Pension Scheme 2014. This includes having an approved policy on future arrangements for reviewing employee contribution rates to include an annual review each April.

### **5. Equality Impact Assessment**

5.1 The employee % contribution rates/bands are set by the Pension Scheme and are designed to be fair and equitable to Scheme Members. The borough Council has no discretion over the % contributions/band rates to be applied.

**6. Financial and Resource Implications**

- 6.1 In the event that employee % contribution rates are 'under assessed' by an employer, the amount of contribution under paid by the employee would effectively end up being charged to the employer through the process of periodic reassessment of employers % contribution rates carried out by the Scheme Actuaries.
- 6.2 There is a resource impact as HR/Payroll staff who in future, will have to carry out further reviews of employee contribution rates in addition to the annual one. It is important that the process adopted is relatively simple to administer to ensure that the additional work required can be completed from within currently approved staffing budgets.

**7. Major Risks**

- 7.1 See 6.1. However, the sums involved are expected to be relatively small.

**8. Earlier Committee Resolutions**

Employees Consultative Committee – 24 March 2014