



LOCAL GOVERNMENT PENSION SCHEME

DEPARTMENTAL RESPONSE TO COMMENTS MADE DURING THE CONSULTATION ON A POSSIBLE CHANGE TO THE TRANSITIONAL PROTECTIONS FOR THE 85 YEAR RULE

Department of the Environment

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Background

1. The Local Government Pension Scheme (LGPS) in Northern Ireland has had a normal retirement age of 65 since the 1920s. Until 2006, under the 85 year rule, members could retire before age 65 and take their pension entitlements without actuarial reduction if the sum of their age and their length of service equalled 85 years or more. Members over 60 could do so as of right; members aged 50 or over but under age 60 required their employer's consent. Members could, therefore, retire early without incurring an actuarial reduction in the value of their pension.
2. The 85 year rule was removed in October 2006 because it contravened legislation to prevent age discrimination. Transition provisions were, however, included to give some protection to those members closest to retirement who might otherwise have difficulties in making alternative arrangements.

Current Transitional Protections

3. The current transitional protections from the removal of the 85 year rule were introduced for existing members of the LGPS in Northern Ireland with retrospective effect from 1 October 2006 by the Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2007. The current transitional arrangements apply to members who joined the LGPS before 1 October 2006 and provide:
 - full protection to members who will be 60 and satisfy the 85 year rule and retire by 31 March 2016; and
 - a tapered reduction period for members who will be 60 and satisfy the 85 year rule and retire between 1 April 2016 and 31 March 2020. The tapered reduction is calculated using factors supplied by the Government Actuary's Department.
4. The current protections are the same as those which apply in the Local Government Pension Scheme in England and Wales.

Proposed change

- 5. Following meetings between trade unions and departmental officials, the Department sought views about whether the transitional protections for LGPS members in Northern Ireland (resulting from the removal of the 85 year rule) should be changed to the same as those which apply to LGPS members in Scotland. The consultation was held from 2 November 2009 to 31 January 2010.
- 6. The transitional provisions in the LGPS in Scotland protect members from the removal of the 85 year rule until 31 March 2020 with no period of tapered protection. If this was adopted in the LGPS in Northern Ireland it would mean that those who were members at 30 September 2006, who will be 60 and satisfy the 85 year rule and retire by 31 March 2020 would not have their pensions actuarially reduced.
- 7. There were a total of 13 responses to the consultation. The breakdown was as follows.

NUMBER	CATEGORY
7	Employing Authorities
3	Trade Unions
3	Others

- 8. Based on the comments received, the majority of respondents supported the proposed change to the same protection as that in the LGPS in Scotland. A breakdown of the responses is given below.

	Support	Against	Neither support nor against	No comment
Employing authorities	5	1	-	1
Trade Unions	3	-	-	-
Others	1	-	1	1
Total	9	1	1	2

Reasons given by those supporting the proposed change

9. Reasons given by 8 of the respondents who supported a change in the protections were: –
- it would provide greater benefits to existing long term members up to 2020 at minimal additional cost;
 - it would be beneficial to both employees generally and employees during the period of transition, however, further information on the cost should be provided;
 - one respondent did not believe the cost of the change would be even as high as the modest figure indicated in the consultation, not least because the true saving from people working beyond their 85 year rule qualification age has never been fully quantified; and
 - 5 offered general support without a specific reason.
10. A further respondent agreed in principle to support the proposed change subject to the full and clear communication of this to the individuals concerned.

Reasons given by those against the proposed change

11. One response on behalf of 5 bodies did not support the proposed change. While they welcomed the potential benefit for a very small number of staff, they were concerned that the cost would fall equally to all employers through an increased employer contribution rate. They had serious concerns about this increase as employer contribution rates are already rising and are putting an

intolerable burden on public sector running costs. This increased contribution rate would in turn impact on the majority of staff, in that a number of jobs could be put at risk through the increased financial pressure placed on employers arising from the proposal. On balance, therefore, they did not support the proposed change.

Reasons given for neither supporting nor rejecting the proposed change

12. One respondent was unable to support or reject the proposed change and made the following points:
- the proposed change would remove the parity principle and asked what principles would underpin the Northern Ireland LGPS in the future;
 - more information was required on the level of additional benefit that would accrue and the number of scheme members likely to benefit because the number of those eligible is not the same as the numbers who may actually benefit;
 - the Department should take account of other changes currently being consulted on by the Department for Communities and Local Government in relation to the LGPS in England and Wales alongside the question of the 85 year rule; and
 - the proposed change should be made part of the remit of the Local Government Pension Scheme Review Group recently established by the Department.

Departmental Response

13. Under the current transitional protections 11,693 (28% of active membership) members of the Local Government Pension Scheme in Northern Ireland have full protection from the removal of the 85 year rule. Changing the transitional protections to the same as that in the LGPS in Scotland would enable more members to have full protection but this would be limited to the relatively small number of people (5,657, 13% of active membership) who were members on 31

September 2006, who will be 60 and satisfy the 85 year rule and retire between 1 April 2016 and 31 March 2020.

14. As set out in the consultation document, a change in the transitional protections would result in an increase in the cost of the pension scheme. The latest costing, based on the 2007 valuation data, showed that the increase of the current transitional protections to the same as those in Scotland would be 0.3% of the total existing members' payroll over their expected period of future service. This is equivalent to £18.2m or 0.15% of pay over 20 years assuming a stable payroll over that period.
15. The cost of not applying an actuarial reduction to a pension brought into payment early under the 85 year rule is met by the fund. This cost is in turn passed on to the employer through the actuary's calculation of the employers' contribution rate.
16. At a time when there is considerable pressure on limited public sector resources and the cost of providing pensions is rising, the Department does not consider that it would be appropriate to add to those costs by changing the transitional protections from the removal of the 85 year rule.