

**Greater Manchester
Pension Fund**

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Date : 28 February 2007

Ms Charlotte Hine-Haycock
DCLG

By e-mail

Dear Ms Hine-Haycock

Draft LGPS (Benefits, Membership & Contributions) Regulations 2007

I respond to Brian Town's letter of 22 December 2006 to express the views of Tameside MBC, in its administering authority capacity, on your proposals to change the LGPSR. I provide some overall comments below and a detailed commentary as attached.

The strong support for the retention of the final salary options by both employers and trade unions in your consultation exercise results in our response focussing on the effective operation of the new Scheme. I am also aware of the lengthy tripartite discussions that took place prior to the draft Regulations being produced. We may wish to expand on this response when we have considered subsequent draft regulations and their inter-relationship with these Regulations.

(1) Pay Issues

You favour the two tiered contribution approach to encourage membership by the lower paid and reflect the overall benefit structure of a final salary scheme over the simpler to administer single rate.

From our perspective, it is important that employers can readily understand and apply the requirements of the regulations. We believe that there are two areas where some improvement is required. Firstly, the determination of final pay. All employers will be able to determine final year's pay (and it may be worth making explicit that this will be the norm for most employees, i.e. they can not take an average of 3 years to capture a RPI increase where this is greater than pay award assuming this is the intention). The problems occur where pay is to be based on an average of 3 previous years pay. Obvious problems occur where an employee changes an employer and / or Fund. In addition from the employer's perspective, there is the issue of availability of information. Employers are required to hold the current year's pay details plus the preceding six years. Some have destroyed older pay records. Requiring employers to sometimes go back ten years to calculate final pay would therefore, for these employers, be presenting them with an impossible duty. Similarly, for those that have retained prior year's records these may be held on a financial year basis. A compromise may be to allow pay to be determined on a financial year basis.

Secondly, we would like to see more clarity for employers in how they determine employee contributions and in particular for part time employees. How should the two tier rates be applied in practice?

(2) Flexible Retirement

Forecasting the impact of flexible retirement changes is complex. Our understanding is that the aim is to encourage longer working lives to the benefit of both employee and employer. We highlight below some numbers of employees potentially eligible and the possible implications of them taking flexible retirement.

With few flexible retirements awarded, GMPF employers have over 1,000 active members working past their eligible retirement dates (i.e. the dates when they could retire as of right [being at least aged 60] and receive unreduced benefits). Thus even without flexible retirement our employers have a substantial incidence of people working beyond when they could retire. What we are hearing however, is that some of these people are understandably interested in limited reductions in their hours (e.g. by one) so that they may be flexibly retired on full pension. If employers allow these types of requests, flexible retirement may be providing the opposite to what the Government intended, i.e. some people will not be working more than they would otherwise have done, they will be working less. And as pensions will be in payment, they could be doing so at substantial cost to the employer.

The advantage of the current rules is that they are relatively easy to explain and administer. Following a flexible retirement either all benefits are paid, or none. Moving to "all or part" of benefits being brought into payment will be a complication and all parties would need to be clear on the opportunity, benefits and costs.

With flexible retirement having only been introduced last year, I suggest that there may be merit in continuing with the existing rules and the proposed expansion of flexible retirement be postponed until say 2009, allowing a review to establish whether the current flexibilities is delivering what the Government intended. This will also help maintain focus on implementing other Scheme changes.

Historically, the regulations have required the explicit consent of employers to the payment of benefits. For flexible retirement, the draft regulations appear to require (for members over 50) the employer just to consent to a reduction in hours or grade. Is it the intention to remove the need for the employer's explicit consent to payment of benefits? We would favour the retention of explicit employer approval for all pension benefits being brought into payment.

(3) Ill Health

One of the important factors in reducing the number of incapacity retirements has been the requirement that members be **permanently** incapacitated. We are uncertain whether it is your intention to drop the permanence requirement. If it is, our expectation is that ill health retirements will materially increase at substantial cost to employers.

We are also keen to contain administration and appeals in respect of ill health retirements. With 3 tiers, it is important to maintain clarity of definitions between each tier and in particular those retirees receiving an enhancement and those that do not. It is likely that the application of the ill health regulations will remain contentious.

(4) Improving benefits

We recognise that the benefit package and its cost is primarily an issue for employers and employees, albeit we are of course keen to help maintain the long term affordability and sustainability of the Scheme. With the extension to recognising cohabiting partners, all long term dependants are supported. The improvements in life expectancy for members will also benefit dependants and this over time will be an issue that the cost sharing mechanism will have to address.

Potential extra costs may also arise if the new entitlement conditions for partners' pensions apply to pre as well as post 2008 service.

Given that all dependants will benefit from a dependant's pension, we were surprised to see the proposed improvement in death grants for deferred beneficiaries from 3/80ths to 5/60ths a 122% increase. Is this a change that has been supported by trade unions and employers (and considered helpful to their recruitment and retention aims)?

Similarly the draft regulations introduced proposed extensions to the pension guarantee to 10 years. This is a costly improvement. Given the expected pressures on all parties at subsequent cost sharing discussions, is there a consensus that this is a priority improvement?

(5) Timetable

It is essential that the regulations are well drafted and complete to deliver the Scheme effectively to members. This will require employers and administering authorities having adequate time to prepare for its implementation. Timescales appear to be very tight. For GMPF we would like a minimum preparation time of 10 months from finalisation of all relevant regulations to implementation.

I hope these comments are helpful. If you need any further information or clarification, please contact me.

Yours sincerely



G L Dale – Pensions Office
Head of Pensions Administration