

## **ANNEX 1 - OFFICER ADVISORY GROUP/LOCAL GOVERNMENT PENSIONS COMMITTEE**

6<sup>th</sup> February 2013

---

# Single Tier State Pension and end of contracting out

## **1. Key points to note**

- White paper published (circulated 23<sup>rd</sup> January)
- Creates new single tier State Pension of £144 pw from 2017
- Removes 'contracting out' also from 2017
- Significant financial implications to both scheme members and employers

## **2. Decisions**

Members are asked to

- Comment on the options set out below

## **Summary**

A White paper entitled 'The single-tier pension: a simple foundation for saving' (circulated with the initial invitation to this meeting) was published on 14<sup>th</sup> January and sets out the government's proposals for:

- Moving to a single tier of State Pension
- Abolishing the State Second Pension (S2P)
- Ceasing of contracting out of the S2P

The current basic state pension is £5587 per annum with the employee able to earn a State Second Pension through the payment of National Insurance Contributions. Employees in 'contracted out' occupational pension schemes do not accrue State Second Pension and both they and their employer receive a NI contribution rebate.

These proposals would introduce a new single tier state pension of £7,488 per annum from 2017 and at the same time abolish both the S2P and the ability for schemes to contract out.

## **Impact**

These proposals will impact on both members and employers of the Local Government Pension Scheme as follows;

- Members will pay an additional 1.4% in National Insurance contributions\* and in return receive a higher state pension that they currently would have
- Employers will pay an additional 3.4% in NI contributions\*

\*Additional rates are payable on earnings between the LEL (£5,564) and the UAP (£40,040 - 2012/13 annualised figures). Whilst NI liability does not begin until earnings reach the primary threshold (£7748), the contracted-out rebate is actually calculated from the LEL.

Both of the above could well have a detrimental effect on the scheme as lower paid members could opt out as they no longer see a need for membership whilst employers will be put under significant financial strain for no benefit and may seek alternatives to the scheme where they can.

The total cost to employers is estimated to be in the region of £500m per annum (GAD have been asked to provide a more accurate figure).

The impact across pay ranges to employees and employers for both contributions and total retirement replacement rates (state pension plus occupational pension as a percentage of final pay) can be seen at ANNEX 1

## **Options to respond to white paper**

The meeting is asked to discuss the following options for response to the white paper.

1. Representation is made to government to make good the increase in employers NI contributions through the financial settlement. This could be a straightforward solution to the impact on LA employers however settlements are regularly revisited and this solution would have no effect on the impact for members or non LA employers.
2. The white paper excludes the possibility of passing the additional cost onto scheme members through changes to the scheme. However representation should be made to government and the LG trade unions to investigate the required changes to the LGPS which would put both members and employers back in the same total financial situation as before the ending of contracting out. For example excluding the first £4,500 of earning from LGPS pensionable pay would mitigate the impact on both members and employers but is potentially complex and unravels part of the recent agreement on scheme design.
3. Representation is made to government to retain a special public sector contracting out scheme. This would maintain the NI rebate for the public sector and in return exclude scheme members from the ability to accrue a full single tier state pension. This would mitigate the impact on both members and employers and would not unravel the recent agreement on scheme design but would require a partial u turn from government and add complexity to the single tier system

**Contact officer:** Jeff Houston  
**Position:** Head of Pensions - LGA  
**Phone no:** 020 71877346  
**E-mail:** [jeff.houston@local.gov.uk](mailto:jeff.houston@local.gov.uk)

## Single Tier State Pension and end of contracting out - ANNEX 1

<b>CONTRIBUTIONS</b>									
<b>Pay</b>	<b>£10,000</b>	<b>£15,000</b>	<b>£20,000</b>	<b>£25,000</b>	<b>£30,000</b>	<b>£40,000</b>	<b>£50,000</b>	<b>£75,000</b>	<b>£100,000</b>
LGPS cont rate %	5.5	5.8	5.8	6.5	6.5	6.8	8.5	9.9	10.5
LGPS contributions	£550.00	£870.00	£1,160.00	£1,625.00	£1,950.00	£2,720.00	£4,250.00	£7,425.00	£10,500.00
NI contributions	£288.96	£888.96	£1,488.96	£2,088.96	£2,688.96	£3,888.96	£4,337.36	£4,837.36	£5,337.36
NI rebate	£62.10	£132.10	£202.10	£272.10	£342.10	£482.10	£482.66	£482.66	£482.66
<b>Total of current LGPS conts plus contracted out NI conts</b>	<b>£776.86</b>	<b>£1,626.86</b>	<b>£2,446.86</b>	<b>£3,441.86</b>	<b>£4,296.86</b>	<b>£6,126.86</b>	<b>£8,104.70</b>	<b>£11,779.70</b>	<b>£15,354.70</b>
Percentage of pay	7.77	10.85	12.23	13.77	14.32	15.32	16.21	15.71	15.35
<b>Total of current LGPS conts plus contracted in NI conts</b>	<b>£838.96</b>	<b>£1,758.96</b>	<b>£2,648.96</b>	<b>£3,713.96</b>	<b>£4,638.96</b>	<b>£6,608.96</b>	<b>£8,587.36</b>	<b>£12,262.36</b>	<b>£15,837.36</b>
Percentage of pay	8.39	11.73	13.24	14.86	15.46	16.52	17.17	16.35	15.84
<b>Increase</b>	<b>0.62</b>	<b>0.88</b>	<b>1.01</b>	<b>1.09</b>	<b>1.14</b>	<b>1.21</b>	<b>0.97</b>	<b>0.64</b>	<b>0.48</b>
Employers NI Contributions	£346.66	£1,036.66	£1,726.66	£2,416.66	£3,106.66	£4,486.66	£5,866.66	£9,316.66	£12,766.66
NI rebate	£150.82	£320.82	£490.82	£660.82	£830.82	£1,170.82	£1,172.18	£1,172.18	£1,172.18
<b>Increase as percentage of pay</b>	<b>1.51</b>	<b>2.14</b>	<b>2.45</b>	<b>2.64</b>	<b>2.77</b>	<b>2.93</b>	<b>2.34</b>	<b>1.56</b>	<b>1.17</b>

<b>REPLACEMENT RATES based on 30 years pensionable service</b>									
<b>Pay</b>	<b>£10,000</b>	<b>£15,000</b>	<b>£20,000</b>	<b>£25,000</b>	<b>£30,000</b>	<b>£40,000</b>	<b>£50,000</b>	<b>£75,000</b>	<b>£100,000</b>
LGPS pension	£6,122	£9,184	£12,245	£15,306	£18,367	£24,490	£30,612	£45,918	£61,224
Current basic State pension	£5,587	£5,587	£5,587	£5,587	£5,587	£5,587	£5,587	£5,587	£5,587
<b>Total LGPS plus State Pension</b>	<b>£11,710</b>	<b>£14,771</b>	<b>£17,832</b>	<b>£20,894</b>	<b>£23,955</b>	<b>£30,077</b>	<b>£36,200</b>	<b>£51,506</b>	<b>£66,812</b>
<b>Replacement rate %</b>	<b>117</b>	<b>98</b>	<b>89</b>	<b>84</b>	<b>80</b>	<b>75</b>	<b>72</b>	<b>69</b>	<b>67</b>
New State pension	£7,488	£7,488	£7,488	£7,488	£7,488	£7,488	£7,488	£7,488	£7,488
Increase per annum	£1,901	£1,901	£1,901	£1,901	£1,901	£1,901	£1,901	£1,901	£1,901
<b>Total LGPS plus New State Pension</b>	<b>£13,610</b>	<b>£16,672</b>	<b>£19,733</b>	<b>£22,794</b>	<b>£25,855</b>	<b>£31,978</b>	<b>£38,100</b>	<b>£53,406</b>	<b>£68,712</b>
<b>Replacement rate %</b>	<b>136</b>	<b>111</b>	<b>99</b>	<b>91</b>	<b>86</b>	<b>80</b>	<b>76</b>	<b>71</b>	<b>69</b>