

SCRUTINY REVIEW OF LOCAL GOVERNMENT PENSION FUND (LGPS)

PEOPLE SELECT COMMITTEE

Executive Summary

A task and finish review was established to investigate the reasons why 15% of the Council's workforce had chosen not to be members of the Teesside Local Government Pension Scheme and to consider what steps might be needed to address this.

Key Findings

The Scheme

- The LGPS is a national scheme with the rules of the scheme contained in statutory regulations. Payment of benefits to scheme members is guaranteed by law
- The LGPS is a defined benefit scheme based upon the amount of money a person is earning by the time they come to retire in conjunction with the number of years of scheme membership. Benefits are derived from a final salary scheme (for service before 1 April 2014) and a CARE scheme (Career Average Revalued Earnings) scheme (for service after 1 April 2014)
- Recognised benefits include:
 - The employer shares the cost – employers contributions are significantly higher than those paid by scheme members
 - Life cover of three years' pay and other death benefits
 - Tax relief on all contributions - even on extra payments to top up pension
 - A pension for life with an option to convert some of it to a tax-free lump sum
 - No hidden fees or charges
 - Two years membership is all that is needed to build up a pension
 - No investment risk and a guaranteed package of benefits
 - Ill health protection
 - Redundancy protection
 - Flexible retirement option
 - Index linked pension increases
- Staff are auto enrolled if they have a contract of employment that is for at least 3 months and are under age 75
- The amount of contributions that an employee pays will depend upon their pensionable earnings. For part time workers, contributions are based on actual earnings
- The LGPS offers the flexibility to pay half the normal contribution rate and build up half the normal pension whilst retaining full life and ill-health cover. This is called the 50/50 section
- The nomination form for death in service grant is available on the website and promoted at staff awareness sessions; staff are also encouraged to review this annually. Despite this, only small numbers of scheme members have completed the form
- In other North-East Council's, pension opt out rates are similar to Stockton's

Additional Voluntary Contributions (AVCs)

- The Council decided to contribute to a Shared Cost AVC (SCAVC) scheme for Council staff under the LGPS Regulations 2013
- Under the shared cost AVC, employees can save on both income tax and national insurance contributions (12% or 2%) on the value of the salary sacrifice

- The SCAVC enables employees to have an efficient way of taking their pot at retirement, including a tax-free lump sum
- AVC Wise run a number of webinars to communicate the benefits to the workforce; a web-based knowledge hub hosting videos and an online calculator which assumes a cautious 3% growth rate
- Scheme members can change their contributions as often as they need
- The Council makes saving in NI costs through the scheme and professional fees are paid to AVC Wise out of the employer NI savings; if no one joins the scheme then there is no fee
- The majority of AVC scheme members are upwards of 45 years and a presentation is in production aimed at the younger workforce and the benefits for them
- Contributions have no impact on state pension as the Council would not let an employee drop below the level of NI contributions to impact on their state pension accrual

Workforce Analysis

- Staff who choose not to be in the Scheme do not benefit from any employer's contributions, have lower total reward and miss out on important death and ill health benefits
- Lower earners with long service can end up with significantly higher income in retirement than when working
- New hires may not appreciate the value of LGPS membership and if an employee is not auto enrolled or opts out initially, it may be harder for them to join in the future
- For high earners, tax charges can be difficult to predict before they are incurred and this can lead to increased dissatisfaction and increase turnover of senior employees
- Affordability is the main issue. Low earners and staff on part time contracts are more likely to opt-out of the pension scheme and staff on casual contracts are much more likely to opt out (90%)
- Where the pension scheme does not meet the needs particular staff groups, the Council could consider non-pension benefits such death benefits or workplace savings

Staff Survey

- Feedback from staff in the Scheme reveals a general lack of understanding of the scheme and a desire for more / better information in plain English. Many comments refer to the Annual Benefit Statement being confusing
- The top two reasons that staff give for not joining the pension scheme are affordability and not being on permanent contracts

Conclusion

It is vitally important that all staff make appropriate provision for their retirement. The Local Government Pension Scheme is an excellent pension scheme, guaranteed by law, where members benefit from significant employer contributions, tax relief on contributions, death benefits, a tax-free lump sum and an index linked pension on retirement. In addition, the Council has decided to contribute to a Shared Cost AVC scheme providing employees with an additional way of boosting their pension pot and further saving for their retirement.

The Task and Finish Group recognise that affordability is the main barrier for employees not taking advantage of the benefits provided by the Scheme. However, a better understanding of the scheme and its benefits and flexibilities would enable employees to make more informed decisions. This could include wider awareness of the 50/50 section enabling staff to benefit from important death benefits and begin to make provision for retirement with reduced contributions.

The staff survey revealed a widespread lack of understanding about the Scheme and many comments about the complexity of the information provided and lack of clarity. The Task and Finish Group urge the Teesside Pensions Fund to review the information it provides to ensure that it is in plain English and easy to understand and recommends that the information the Council sends to new starters on membership and benefits of the LGPS is also reviewed.

We hope our recommendations will raise awareness of the benefits of the Scheme, help employees to make better informed choices and improve take-up.

Recommendations

1. That an ongoing programme of awareness raising be established to encourage take-up of the Pension Scheme including:
 - promotion of the scheme to younger members of staff
 - increasing awareness of options contained in the Scheme (such as 50/50 section, allowing staff to benefit with reduced contributions)
 - emphasising that scheme members benefit from significant employer contributions
2. That the information the Council sends to new starters on membership and benefits of the LGPS be reviewed.
3. That the Council liaise with Teesside Pension Fund to:
 - urgently review the quality of the information provided to staff to ensure that it is both comprehensive and in plain English (including improvements to the presentation of the information contained in the Annual Benefit Statement)
 - develop a range of promotional materials in an easy-to-understand format
4. That Middlesbrough Borough Council be requested, as the administering Authority, to include in any future contract for the administration of the Pension Scheme, a requirement for information and promotional material to be clear and easy to understand.
5. That Human Resources review the use of temporary employment contracts with each Directorate to determine whether a permanent contract could be more appropriate (as this change would result in more employees being auto enrolled into the scheme).