

Report to Hartlepool Schools' Forum 2nd April 2014
From Chief Finance Officer

Agenda Item 6 - Teachers Pensions and LGPS 2014 Changes

1. Purpose of Report

- 1.1 To provide the Forum with an update of changes affecting the Teachers' Pension Scheme and Local Government Pension Scheme (LGPS) effective from 1st April 2014.

2. Background

- 2.1 There are two Pension schemes available to school employees, dependent upon their terms and conditions. These are the Teachers' Pension Scheme and LGPS.
- 2.2 The contribution bands for these schemes are reviewed every April, and it is usual for the band values to be amended to reflect increases in inflation. However, in recent years there have also been further reforms to review both contribution bands and contribution rates.
- 2.3 In addition, from 1st April 2014, the LGPS will change from a Final Salary Scheme to a Career Average Re-valued Earnings (CARE) Scheme.

3. Teachers' Pension Scheme Changes

- 3.1 The Department for Education has announced the contributions increases that will apply to members of the Teachers' Pension Scheme in the financial year 2014/15. The contribution bands and contribution rates that apply from the 1st April 2014 to 31st March 2015 are set out in the following table:-

Lower Salary	Higher Salary	Contribution Rate in 2014/15	Increase (against 2013/14 Rates)
£0	£14,999	6.40%	0.00%
£15,000	£25,999	7.20%	0.20%
£26,000	£31,999	8.30%	0.40%
£32,000	£39,999	9.50%	0.70%
£40,000	£44,999	9.90%	0.70%
£45,000	£74,999	11.00%	0.90%
£75,000	£99,999	11.60%	1.00%
£100,000	>£100,000	12.40%	1.20%

- 3.2 The contribution rates shown are gross before tax relief and are applied on the basis of an employees' full time equivalent salary.

4. LGPS Scheme Changes

- 4.1 The changes to the LGPS are more substantial. The scheme will change from a Final Salary Scheme to a Career Average Re-valued Earnings

(CARE) scheme. However arrangements are in place to ensure that benefits accrued up to 31st March 2014 are fully protected.

4.2 The introduction of a CARE Scheme brings a number of changes. The main changes are:-

- The way in which an employee's pension is calculated for service after 1st April 2014 will no longer be based on their final salary. An employee's pension will build up as a proportion of pensionable pay and be calculated on the average annual earnings over their period of membership. Earlier years are re-valued by inflation (CPI) to ensure that each year's salary is of equivalent 'real' value.
- Accrual rates, i.e. the amount of annual earnings added to the pension amount have changed from an accrual rate of 1/60th to 1/49th.
- A 50/50 pension option has been introduced. The relevant employee contribution rate is calculated on an individual's full pay but employees have the option to elect to pay half contributions in return for building up pension at a half rate.
- Contribution rates for 2014 have been revised and for some employees will increase. The impact of increases is partly mitigated by tax relief provided on pension contributions. Scheme members are allocated to a band based on their pensionable earnings. From 1st April the calculation of a members earnings applicable to a contribution band is based on:-
 - An employee's actual pensionable pay, not the full-time equivalent pensionable pay, and
 - Includes non-contractual overtime which is now pensionable.

4.3 The following table shows the LGPS rates effective from 1st April 2014:-

Band	2014/15 Bands	Gross Contribution Rate
1	Up to £13,500	5.5%
2	£13,501 to £21,000	5.8%
3	£21,001 to £34,000	6.5%
4	£34,001 to £43,000	6.8%
5	£43,001 to £60,000	8.5%
6	£60,001 to £85,000	9.9%
7	£85,001 to £100,000	10.5%
8	£100,001 to £150,000	11.4%
9	£150,001 or more	12.5%

4.4 These changes bring a number of implementation decisions and challenges. One of these is to decide how to ensure that employees are allocated to the correct contribution band. There are no set rules for how

employees are allocated to the appropriate contribution band, apart from the rates must be reviewed annually. The underlying requirement is that the method chosen needs to apply the deduction rate in a reasonable and consistent manner. The arrangements must ensure that employees are treated fairly while ensuring the correct contributions are paid to the Pension Fund.

4.5 Allocating employees is relatively straight forward where the employee is not expected to undertake any additional hours or overtime. However, it is less straight forward where the number of hours an employee may work in a year is not known e.g. where the employee's contract is part time, zero-hours, casual or where they have variable overtime arrangements.

4.6 The Council is currently proposing to introduce the following arrangements:-

1. Allocate employees to bands based on Basic Pay as at 1st April 2014 plus a best estimate of their other pensionable pay elements (e.g. non-contractual overtime) from 2013/14.
2. Review exceptions at the end of April 2014 where the actual pensionable pay does not match the initial band to which each employee has been allocated.
3. Review exceptions quarterly (end of June, September etc.) on an ongoing basis.

4.7 In addition any significant employee changes (e.g. promotions, changes in hours) which impact on bandings will be applied as they occur. The effective date for these will be the 1st day of the month following notification.

4.8 While the Regulations do not prevent an employer from retrospectively changing the contribution banding and recovering underpaid contributions this is not proposed as an option given the administrative burden. Furthermore the proposed monitoring and control arrangements will minimise any financial cost / financial risk to the employer.

5. Changes Covered within Buyback Arrangements

5.1 The introduction of this new Scheme will require a number of system, reporting and operational changes. These are covered within the existing Payroll buyback arrangements.

6. Communication to Employees

6.1 Attached at Appendix 1 is a copy of the communication enclosed with March payslips that has been provided to all employees to notify them of these changes.

7. Recommendation

7.1 That the report is noted.

8. Contact Officers

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