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Local Government Pension Scheme  
(Northern Ireland) – consultation on  
rectification of the Cost Cap Floor Breach

Consultation Document

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This consultation document seeks views on proposed amendments to the Local Government Pension Scheme (Northern Ireland).

**Comments should be sent by 15 February 2019 to:**

**Department for Communities  
Local Government and Housing Regulation Division  
Level 4, Causeway Exchange  
1-7 Bedford Street  
Town Parks  
Belfast, BT2 7EG**

or email: [LGPDConsultations@communities-ni.gov.uk](mailto:LGPDConsultations@communities-ni.gov.uk)

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# 1. Purpose of the consultation – scope and timeframe

- 1.1. This consultation covers proposals to address the cost cap floor breach of 3.2% identified in the valuation results for the Local Government Pension Scheme (NI) as at 31 March 2016.
- 1.2. A recent scheme valuation by the Government Actuary's Department (GAD) shows that the costs of the Local Government Pension Scheme (LGPS) in Northern Ireland are 3.2% below the employer cost cap which is set at 17% of pensionable earnings of the Scheme. This breaches the permissible variation of +/- 2% thus triggering a statutory procedure to ensure that scheme costs are brought back to the target measure of 17% of pensionable pay.
- 1.3. This consultation seeks your comments on the recommendation agreed by the Local Government Pension Scheme Advisory Board to rectify the cost cap floor breach. This is for:
  - the Member accrual rate to move from 1/49 to 1/43.5 and
  - the Survivor accrual rate to move from 1/160 to 1/142.
- 1.4. The Department for Communities proposes to make Regulations to reflect this recommendation, in exercise of the powers conferred by sections 1, 3 and 25 of, and Schedule 3 to, the Public Service Pensions Act (Northern Ireland) 2014.
- 1.5. Section 21(1) of that Act requires the Department to consult such persons (or representatives of such persons) as appear to the Department likely to be affected.
- 1.6. The closing date for submitting responses is **15 February 2019**.
- 1.7. The Department will consider and respond to comments it receives during this consultation.
- 1.8. Responses are invited to this consultation about any aspect set out in this paper. Any examples provided are purely illustrative to demonstrate the changes to processes recommended within this consultation and do not reflect actual financial implications or benefits.

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1.9. For the avoidance of doubt, no proposal in this consultation paper adversely affects any member of the LGPS (NI). A considerable number of members will, however, benefit from the changes proposed.

## 2. Details of the Proposals

- 2.1 The Local Government Pension Scheme (NI) (“the LGPS”) is a defined benefits scheme under the Public Service Pensions Act (NI) 2014. It is also a funded scheme. The 2014 Act introduced pension reforms across public sector pension schemes to address the impact of long term scheme costs for taxpayers and employers.
- 2.2 Amongst other matters, the 2014 Act makes provision for scheme cost controls by providing that the regulations governing a public sector pension scheme must provide for:
- the scheme to be actuarially valued in accordance with Department of Finance (DoF) directions,
  - the setting of an employer cost cap (including how it is measured and updated) - this is used for measuring the cost of a scheme, and
  - the rate of employer contributions, in respect of defined benefits schemes with a pension fund (ie the LGPS), to be set at an appropriate level to ensure solvency and long-term cost efficiency.
- 2.3 Valuations of the public service pension schemes are undertaken every four years. This is the first time that a full assessment of the pension schemes has been undertaken since the government introduced reformed schemes in 2015. The 2016 valuation of the LGPS (NI) was undertaken in accordance with DoF valuation directions. The Government Actuary’s Department (GAD) was commissioned by DfC to carry out this valuation.
- 2.4 The Local Government Pension Scheme Regulations (Northern Ireland) 2014 specify the procedure for addressing a cost cap breach. The Department is required to consult with the Scheme Advisory Board with a view to reaching agreement, endorsed by all members of that Board, on measures to rectify the situation. If, following such consultation, agreement is not reached within 3 months, the default position is to adjust the rate at which benefits accrue so that the target cost for the Scheme is achieved.

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2.5 The Scheme Advisory Board considered options for rectifying the cost cap breach in line with the following principles:

- fairness and equality (spread any gain fairly and equitably) which is consistent with the Department's/ Government's aims for fairness to members and the taxpayer,
- attractiveness to members,
- in line with wider Government policy to encourage adequate saving for retirement and longer working lives,
- administrative ease i.e. not unduly complex or disproportionately expensive to administer and consider retrospection and timing issues,
- helpful to employers in terms of recruitment and retention.

2.6 Possible remedies considered included:

- adjusting the member's accrual rate,
- adjusting the member's accrual rate in conjunction with the survivor's accrual rate,
- adjusting the revaluation rate,
- the introduction of an automatic lump sum,
- an increase in death in service benefits,
- adjusting the member's contribution rate,
- improving the commutation factor.

2.7 Following consultation, the Scheme Advisory Board has reached agreement that the necessary adjustment should be made through the accrual rate of the scheme. This will make the necessary correction, will benefit all active members and best meets the principles set out above. This would mean a move in the accrual rate of members from 1/49 to 1/43.5 along with a move in the survivor's pension accrual rate from 1/160 to 1/142 in order to maintain the survivor's pension at 30.625% of the member's pension.

2.8 The accrual rate is the rate at which pension benefits are built up while a person is an active member of the scheme. It is most commonly expressed as a fraction of pensionable pay received in that year. The current member accrual rate in the LGPS is 1/49 (this could also be expressed as 2.04%) and the survivor accrual rate is 1/160 (0.63%).

2.9 The proposal is that, going forward, the accrual rate for members will be 1/43.5 (2.3%) and the accrual rate for survivors will be 1/142 (0.7%). This will maintain the ratio of survivor's pension to member's pension at the current rate of 30.625%.

	CURRENT BENEFITS	PROPOSED NEW BENEFITS
Member's accrual rate (as a percentage)	1/49 (2.04%)	1.43.5 (2.3%)
Survivor's pension accrual rate (as a percentage)	1/160 (0.63%)	1/142 (0.7%)
Per £10,000 of pensionable pay per year this equates to:		
Member's pension accrual in year (£ pa)	204.08	229.89
Survivor's pension accrual in year (£ pa)	62.50	70.42
Survivor's pension as a percentage of member's pension	30.625%	30.625%

## 3. Human Rights

- 3.1. The Department believes that the proposals set out in the draft Regulations are compatible with the Human Rights Act 1998.



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## 4. Equality

- 4.1. The Department considers that the draft Regulations do not contain proposals to change policy, therefore, no adverse impact on the categories of person in section 75 of the Northern Ireland Act 1998 are identified.

## 5. Regulatory Impact Assessment

- 5.1. The Department has carried out a preliminary regulatory impact assessment and considers that the proposed amendments will not have a direct impact on businesses, charities, social economy enterprises or the voluntary sector.

## 6. Rural Proofing

- 6.1. The Department considers that the proposed amendments in the draft Regulations will not have any differential impact on people living in rural areas.

## 7. Freedom of information – confidentiality of responses

- 7.1. The information you send us may need to be passed to colleagues within the Department for Communities in Northern Ireland (“the Department”).
- 7.2. To find out more about the general principles of Freedom of Information and how it is applied within the Department, please read Annex A and, if you have any further questions, please contact Information Management Branch (IMB).
- 7.3. Email [foi@communities-ni.gsi.gov.uk](mailto:foi@communities-ni.gsi.gov.uk)
- 7.4. IMB cannot advise on specific consultation exercises, only on Freedom of Information issues. Read more information about the **Freedom of Information Act**.

## 8. Alternative Format

- 8.1. Should you require a copy of this document in an alternative format, it can be made available on request in large print, disc, Braille and audio cassette. It may also be made available in minority languages for those not proficient in English.

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## 9. Consultation responses

- 9.1. Please email your consultation response to: **lgpdconsultations@communities-ni.gov.uk**
- 9.2. Postal address-  
**Local Government and Housing  
Regulation Directorate  
Level 4  
Causeway Exchange  
1-7 Bedford Street  
Townparks  
BELFAST  
BT2 7EG**
- 9.3. Please ensure your response reaches the Department by **15 February 2019**.
- 9.4. When responding, please state whether you are doing so as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents, and where applicable, how the views of members were assembled. The Department will
- acknowledge your response.
- 9.5. The following persons will be able to answer your queries in relation to the consultation.
- Siobhan McKelvey - Tel: 028 9082 3409  
**Siobhan.mckelvey@communities-ni.gov.uk**
- William Dobbin – Tel: 028 9082 3360  
**William.dobbin@communities-ni.gov.uk**
- 9.6. The Department will consider the responses received and publish a synopsis of those responses and the Departmental response on the Departmental website. The Department will then progress implementation of the agreed changes by 1 April 2019.
- 9.7. In line with good practice and sustainable development this document has been published electronically.

## 10. How we consult - Consultation principles

10.1. This consultation is being conducted in line with the Fresh Start Agreement – (Appendix F6 – Eight Steps to Good Practice in Public Consultation – Engagement). These eight steps give clear guidance to Northern Ireland Departments on conducting consultations.

# The Freedom of Information Act 2000 – confidentiality of consultations

1. The Department may publish a summary of responses following completion of the consultation process. Your response, and all other responses to the consultation may be disclosed on request. The Department can only refuse to disclose information in exceptional circumstances. Before you submit your response, please read the paragraphs below on the confidentiality of consultations and they will give you guidance on the legal position about any information given by you in response to this consultation.
2. The Freedom of Information Act gives the public a right of access to any information held by a public authority, namely, the Department in this case. This right of access to information includes information provided in response to a consultation. The Department cannot automatically consider as confidential information supplied to it in response to a consultation. However, it does have a responsibility to decide whether any information provided by you in response to this consultation including information about your identity, should be made public or be treated as confidential.
3. This means that information provided by you in response to the consultation is unlikely to be treated as confidential, except in very particular circumstances. The Lord Chancellor's Code of Practice on the Freedom of Information Act provides that:
  - the Department should only accept information from third parties in confidence if it is necessary to obtain that information in connection with the exercise of any of the Department's functions and it would not otherwise be provided;
  - the Department should not agree to hold information received from third parties "in confidence" which is not confidential in nature;
  - acceptance by the Department of confidentiality provisions must be for good reasons, capable of being justified to the Information Commissioner.
4. For further information about confidentiality of responses please contact the Information Commissioner's Office (or see website at [www.ico.org.uk](http://www.ico.org.uk))

## Annex B

### LIST OF CONSULTEES

1. All Members of the Northern Ireland Legislative Assembly
2. All Northern Ireland political parties, MPs and MEPs
3. All Northern Ireland District Councils
4. The Chief Executive of the Education Authority
5. The Chief Executive of the Northern Ireland Housing Executive
6. The Chief Executive of Translink
7. Employing Authorities contributing to the Local Government Pension Scheme
8. Northern Ireland Local Government Association
9. National Association of Councillors (Northern Ireland Region)
10. Northern Ireland Local Government Officers' Superannuation Committee
11. Northern Ireland Committee of the Irish Congress of Trade Unions
12. Northern Ireland Public Service Alliance
13. Unite
14. GMB
15. Unison
16. Various representative groups and bodies
17. Equality Commission for Northern Ireland
18. SOLACE NI (the Irish Branch of the Society of Local Authority Chief Executives and Senior Managers (UK)).

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Available in alternative formats.

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