

REDUCED PENSION RIGHTS IN THE LGPS: WHO IS AFFECTED AND HOW MUCH DOES IT COST GOVERNMENT?

A NEW POLICY INSTITUTE BRIEFING PAPER

This briefing paper looks at what evidence there might be to support the case that members of the Local Government Pension Scheme (LGPS) should be better treated than the current proposals for reform from the employers envisage. The particular concern is with the loss of protection for existing members which currently allows any LGPS member who satisfies the 'Rule of 85' to retire from the age of 60 without suffering a reduction in their pension.

The paper is concerned with two questions. First, when the media talk about the members of the LGPS, they tend to convey an image of the bowler-hatted civil servant, retiring with a generous pension after a career spent working behind a desk. How accurate an image is this?

Second, reductions in pensions cost central government money, via both reduces income tax and higher benefits for low income pensioners. But these knock-on costs of reducing pensions never seem to be mentioned. How large might they be?

SUMMARY OF FINDINGS

As far as the LGPS membership is concerned:

- Across Britain, nearly four million people belong to the LGPS. Of those that are still employed in the local government sector, two-thirds are women, more than half of them part-time. In 2004, half of the male pensioner members were getting no more than £70 a week in pension while half of the female pensioner members were getting no more than £36 a week.
- Half of the people eligible to join the LGPS work in just twelve occupations. Classroom assistants are the most numerous. Others in this top dozen include care assistants and home carers, school mid-day assistants, catering assistants and nursery nurses. The great majority of these employees provide services directly to members of the public.

In terms of the impact on central government finances, we estimate that:

- If there were no LGPS at all, all the members relying instead on the State Pension and Pension Credit alone, the Government would be about £2bn a year worse off due to lower taxes and higher Pension Credit and other benefit payments. This is 50% of the amount that the LGPS paid out in pensions and annuities in the year to March 2005.
- If the right to take an unreduced pension at 60 is gradually phased out, as planned, from October 2006, the Government will bear between 35% and 40% of the pension that is lost in the form of lower taxes and higher benefits. The Government Actuary's Department has calculated that the capitalised cost of protecting that right for existing LGPS members as £5.5bn. On that basis, the capitalised cost to the Government of the loss of protection would be around £2bn.¹

¹ A technical note describing these calculations is available from info@npi.org.uk

WHO BELONGS TO THE LGPS?

Across Britain, nearly four million people belong to the Local Government Pension Scheme.

Nearly half of them are 'active' members, that is, people who are employed within the local government sector. Just under a third are already drawing a pension from the scheme. The rest are still of working-age but no longer work in the local government sector. The people who are affected by the changes to the LGPS are the working-age members, some two and a half million in all.

The membership of the scheme has been changing steadily over recent years, especially since 1993 when part-time employees became eligible for membership. As a result, part-time employees, the vast majority of them women, now make up a third of the active membership. Counting full-timers too, two-thirds of the active membership are women.

The pay and pensions of LGPS members

The average pay of members of the scheme in 2004 was £20,000 a year for men and £12,300 for women.

The average LGPS pension in 2004 was £100 a week for men and £50 a week for women in 2004. But these averages are pushed up by a small number of large pensions. In fact, half of the male pensioners in the LGPS in 2004 got £71 a week or less while half of female pensioners got £36 a week or less.

The jobs done by LGPS members

LGPS membership is open to most people who work in the local government sector. Some people who work for national bodies (e.g. the Environment Agency) also belong, as well others who joined before their jobs were privatised.

Leaving aside those, such as teachers and police officers, who have their own pension schemes, there are some 2.3 million people employed in the sector and eligible for the LGPS.

A quarter of these jobs are in personal service occupations. A further half are in administrative and secretarial, associate professional and technical, and elementary occupations.

Jobs in the local government sector eligible for LGPS, by occupation group

Group	%
Personal Service Occupations	27%
Administrative and Secretarial	19%
Associate Professional and Technical	15%
Elementary Occupations	15%
Professional	9%
Managers and Senior Officials	8%
Skilled Trades	4%
Process, Plant and Machine Operatives	2%
Sales and Customer Service	1%

Half of the people working in the local government sector are employed in just 12 occupations of whom the 300,000 classroom assistants are the most numerous.

90% of the jobs in these twelve occupations are done by women while 50% are part-time. The great majority of them provide services directly to the public.

The top 12 occupations in the local government sector eligible for LGPS

Occupation	Total (000s)	% female
Classroom assistants	310	95%
Clerical officers & assistants	160	83%
Care assistants, home carers	150	88%
Cleaners, domestics	100	89%
School mid-day assistants	80	99%
Kitchen, catering assistants	75	97%
Social workers	75	79%
School secretaries	60	99%
Youth, community workers	55	68%
Housing and welfare officers	55	79%
Nursery nurses	50	99%
General office assistants	50	84%

CUTS IN PENSIONS: WHO PAYS?

Anything that reduces pensions obviously hits the individuals affected and their families in their pocket or purse.

But it also costs the Government money too. One way this happens is via lower income taxes, as reduced pensions obviously mean less income tax to pay on those pensions. This is true whatever the level of pension.

But because the LGPS provides pensions to many low income pensioners, the Government also loses money because some of the reduction will be made up in the form of increased Pension Credit, Housing Benefit (HB) and Council Tax Benefit (CTB).

THE IMPACT ON INDIVIDUALS

Three examples

The first example is a single pensioner, living in rented accommodation who has a State Pension of £60 a week and an LGPS pension of £30 a week. As their income is below the guarantee level, they get £19 a week Pension Credit, plus full HB and CTB.

If their LGPS pension were lower by a third (£10 a week), all that would happen is that Pension Credit would rise by £10 to up the difference. The individual would be unaffected and the Government would bear all the cost.

Example 1: £10/wk cut in LGPS pension		
Single pensioner, living in rented accommodation	£ per week	£ /week (change)
LGPS pension	£30	-£10
State, other pension/income	£60	-
Pension Credit	£19	+£10
Less income tax paid	£0	-
Housing/Council Tax Benefit	£63	-
Total income	£173	£0
% of cut borne by individual		0%

It should be stressed that, in terms of the sums of money involved, if this pensioner is a woman then she is nearly average in LGPS terms.

Example 2 is a pensioner couple, living in rented accommodation and entitled to both HB and CTB. If their LGPS pension were lower by one a third (£30 a week), they would end up only £4 a week worse off because their HB and CTB would be higher to reflect their lower income.

Example 2: £30/wk cut in LGPS pension		
Pensioner couple, living in rented accommodation	£ per week	£ /week (change)
LGPS pension	£90	-£30
State, other pension/income	£140	-
Pension Credit	-	-
Less income tax paid	£12	-£7
Housing/Council Tax Benefit	£60	+£20
Total income	£278	-£4
% of cut borne by individual		12%

Example 3 is the same as example 2 except that here the couple own their home. If their pension were £30 a week lower, they would get more CTB but they would still be £19 a week worse off.

Example 3: £30/wk cut in LGPS pension		
Pensioner couple, owner occupiers	£ per week	£ /week (change)
LGPS pension	£90	-£30
State, other pension/income	£140	-
Pension Credit	£-	-
Less income tax paid	£12	-£7
Council Tax Benefit	£19	+5
Total income	£237	-£19
% of cut borne by individual		62%

Reflections on the examples

These examples leave two things out of account. The first is the effect of the savings element of Pension Credit. This applies once someone in the household reaches 65 and provides extra money to people with small pensions – the very people in our examples.

What it also means, however, is that the loss individuals would suffer if their LGPS pensions were reduced is different after 65.

As it happens, in both examples 1 and 3, the loss from age 65 would be about 50%. To put it brutally, this means that even pensioners living on the poverty line will not be fully protected from pension cuts.

Second, entitlement to both HB and CTB is affected by savings. If the couples in examples 2 and 3 had £16,000 or more in savings – by no means out of the question if part of the LGPS pension has been taken in the form of a lump-sum – then they would get no HB or CTB and would suffer the full extent of the fall in the LGPS pension bar their reduced income tax.

In summary, those who will suffer the most if their LGPS pension rights are reduced are either those who own their home or those who have savings. In that sense, the case against the reductions can actually be seen as a defence of thrift more generally, whether that thrift has taken the form of saving to buy a home, saving for a pension, or saving to put money aside for the proverbial ‘rainy day’.

THE IMPACT ON THE GOVERNMENT

These examples show how a reduction in the pension paid by the LGPS imposes costs on Government. What the percentage is for any particular individual depends upon:

- their overall income;
- their savings;
- whether they own or rent their home;
- their Council Tax and rent, if any;
- whether they are single;
- the income of their partner;
- whether they or their partner are age 65+.

In order to estimate the aggregate effect on Government finances, we combine data on the spread of LGPS pensions in payment with an analysis of pensioner household characteristics from government surveys. The ensuing calculation gives an estimate of the percentage of any cut in pension that would be borne by the Government, via lower taxes and higher benefits.

What is the LGPS worth to government?

At 31 March 2005, there were some 950,000 LGPS pensioners (excluding widow(er)s and children) in England receiving total pensions of £3.4bn per annum.

If the LGPS did not exist, members relying instead on the State Pension and Pension Credit, we estimate that the Government would be worse off by some 50% of that amount. For Great Britain as a whole, this would amount to nearly £2bn a year.

(It should be noted that this calculation does not take account of the saving to Government in the form of tax relief on contributions to the LGPS which would not have been made).

What does the erosion of protection cost?

The estimate of what the implications would be for Government finances of the gradual disappearance of the right to take an unreduced pension at age 60 is hedged around with more uncertainty. This is because the erosion of that right only begins to count from October 2006 and only begins to take effect from 2013.

Depending on the precise assumptions made, we estimate that the Government would bear between 35% and 40% of the lost pension. The Government Actuary’s Department has calculated that the capitalised cost of protecting that right for existing LGPS members is £5.5bn. On that basis, the capitalised cost to the Government of the loss of protection is some £2bn.

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New Policy Institute, 504 Coppergate House, 16 Brune St, London E1 7NJ
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