

TO: LOCAL GOVERNMENT PENSION  
SCHEME INTERESTS IN ENGLAND  
AND WALES

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## **LOCAL GOVERNMENT PENSION SCHEME RULE OF 85 EXTENDED PROTECTIONS**

With the agreement of Ministers, I am writing to advise Local Government Pension Scheme (LGPS) interests in England and Wales of the position about proposals to extend the protections in the Scheme involving the rule of 85, following the statutory exercise conducted between 5 July and 1 October 2007.

The responses to the consultation exercise have been considered carefully by Ministers and the wide range of comments received has been analysed against the criteria set out in the department's consultation letter of 5 July 2007. A summary of the responses received so far will be placed on the department's website as soon as possible.

The principles underlying the statutory consultation exercise were set out in the department's letter of 5 July, and those particularly relating to affordability were based on costed estimates provided by the Government's Actuary Department (GAD) which in turn were sourced on data extracted from the 2004 LGPS actuarial valuation exercise.

In terms of affordability, the consultation letter indicated that the capital cost of removing the current level of tapered protections between 2016 and 2020 was some £0.35 billion - £0.4 billion. In payroll terms, this figure equates to some 0.1% of payroll or, in total, about £25 million annually, for 20 years.

Responses to recent consultation exercises have broadly confirmed that order of magnitude, with some local variations associated with the number of Scheme members in the workforce able to qualify, and their specific age and service characteristics.

It was made clear also, as an integral part of the consultation package, to comply with the well-established principles regarding the Government's position to ensure that no additional costs arising from Scheme reforms or amendments should pass on to taxpayers and that the costs of implementing any amendments to improve the current level of protections needed to be provided from within the Scheme and its existing cost-envelope. It was also emphasised that adjusting assumptions, or forecasts of data change, would not be regarded as satisfactory ways to deal with the costs incurred of introducing the rule of 85 additional protection benefit, as this could be seen as foregoing a saving which would otherwise be available to employers.

No final or immediate decision has yet been made by Ministers regarding the outcome of the statutory consultation exercise. Their intention, as confirmed by John Healey in a Ministerial Written Statement to Parliament on 13 December, is to consider a fresh assessment of costs and experience, using the 2007 actuarial valuation data, which will shortly start to become available, and to take into account any other relevant information and experience which emerge from that process.

Ministers are aware from the responses to the consultation exercise and other sources that there are strong views among stakeholders about the rule of 85 and its associated protections, and its affordability. If interested parties now wish to make any further representations, at the same time as the assessment work is undertaken, they are invited to contact the department in the usual way.

Ministers have requested, to take the new assessment forward, that the LGPS Policy Review Group, involving the Government Actuary's Department, the Association of Consulting Actuaries, the LGA / LGE and trades union interests are invited to assist in the consideration of fresh data from the 2007 valuation. Ministers have requested that the results of the exercise should be available as soon as possible in the new year. The necessary arrangements for an initial meeting of stakeholders, in January, are now being made.

**T B J Crossley**