

# Public Sector Pensions – Client Briefing Note

A week is often regarded as a long time in politics and it has certainly been a busy last few days for those involved in public service pension reform (in England & Wales anyway).

## Short Term Changes

On Friday 7th October, CLG issued their consultation document with proposals on the short term reforms required by Treasury to produce the £900m savings for LGPS employers by 2014/15. The document can be accessed [here](#).

Whilst CLG no doubt took on board the proposals that finally emerged from the local government employers (but without the backing of the Unions), the CLG proposals are arguably more straightforward although still likely to be an administrative burden before it all changes again in 2015.

CLG put forward 2 proposals that are a combination of a lower increase in member contributions than the average of 3.2% that the unfunded schemes have to find and a reduction in accrual rates compared to the existing 60th final salary formula as follows:

	Option 1	Option 2
Average increase in member contributions <sup>(1)</sup>	1.5%	1.0%
Maximum increase in member contributions	5.0%	5.0%
Accrual rate 2012/13	1/60	1/60
Accrual rate 2013/14	1/64	1/60
Accrual rate 2014/15	1/65	1/67

<sup>(1)</sup> from 2014/15 with increases phased in from 2012/13

As per Danny Alexander's instructions, those under £15k will see no increase in contributions and those earning less than £21k will also see a less than average increase.

A key concern in all of this change was to minimise the "opt out risk" associated with trying to achieve the savings via an increase in member contributions only.

With a lower average increase, option 2 must have less opt out risk than option 1 and also involves only one change to accrual rates. However we suspect CLG's preferred option is the first one.

Interestingly, the proposed maximum increase which will only affect the very highest earners in the LGPS (those earning £150k plus) – estimated to be 0.05% of the membership - is the same 5.0% under either option resulting in a contribution of 12.5%.

The consultation will run until 6th January 2012 and consultees are invited to respond to the following questions:

**QUESTION 1** – Do the proposals meet the policy and objectives to deliver the necessary level of savings in the LGPS?

**QUESTION 2** – Are there any consequences or aspects of the proposals that have not been fully addressed?

**QUESTION 3** – Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

**QUESTION 4** – Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

**QUESTION 5** – Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

The plan is also that amending legislation will be introduced before April 2012 that will allow actuaries to revisit employer contribution rates included in their contribution certificates issued at the 2010 valuations (with the expectation of a reduction!) so that the additional contributions from employees can be offset against employer contributions.

## Long Term Changes

Of course the other change on the horizon is a completely new LGPS (and new schemes for Teachers, Civil Service, NHS etc) from 2015 that incorporates the recommendations from the Hutton report.

These new schemes are expected to be career average schemes with retirement age linked to State Pension Age with potentially some scheme specific aspects.

It is now reported that Treasury have written to the Unions on the “cost envelopes” – how much is available to be spent on pensions – for the main public service schemes (excluding the “uniformed” schemes).

These are reported as follows:

Scheme	Total Cost	Average Employee Contribution
NHS	20.2%	9.5%
Civil Service	20.8%	5.6%
Teachers	20.1%	9.6%
LGPS	17.3%	8.0%

Some observations on how the Treasury proposals are likely to be viewed:

- The LGPS would appear to have less to spend on the new scheme than the other schemes (although our understanding is that these costs are for the same benefit structure in each scheme)
- Civil servants (such as those who work in Treasury) seem to have the most to spend with scheme members paying the least
- The average employee contribution for the LGPS is 1.5% more than the current average.

Taking the last point first, this would seem to imply that Treasury also prefer option 1 to option 2 set out in the CLG consultation document.

The difference in cost envelopes between the LGPS and the other schemes is around 3%. Arguably about half of this may be explained by the lower average increase in member contributions that is planned via the short term changes although that would then infer that the LGPS will not be as generous a benefit structure as the other schemes. The question has to be, what explains the other 50% of the difference – something we are trying to get to the bottom of.

We suspect this is likely to be a topic of some considerable debate in the very short term!

## LGPS data for 2010/11 published

CLG have also published the latest “SF3” data setting some key statistics for the LGPS. Full details can be found [here](#).

### The key statistics are:

- Local Government Pension Scheme expenditure on benefits in 2010-11 was £6.7 billion, compared with £6.3 billion in 2009-10, an increase of 7 per cent
- Income from employees’ contributions to the Local Government Pension Scheme in 2010-11 was £2.0 billion, a small decrease on 2009-10. Income from employers’ contributions to the scheme rose by 3 per cent to £5.9 billion in the same period
- Income from investments rose by 5 per cent on 2009-10 to £2.7 billion
- The market value of the funds at end of March 2011 was £143 billion. This represents an increase of 8 per cent on March 2010 and an increase of 47 per cent on March 2009
- There were 1.6 million employees in the Local Government Pension Scheme at the end of March 2011, a 51 thousand, or 3 per cent, decrease over the figure for March 2010
- The number of people leaving the Local Government Pension Scheme in 2010-11 because of redundancy increased by 40 per cent over the 2009-10 figure to over 17,600
- The number of former employees entitled to deferred benefits rose to 1.3 million in 2010-11, an increase of 7 per cent over 2009-10 and an increase of 41 per cent over 2006-07.

The most interesting aspect (albeit no big surprise) is the reduction in active members. However contributions from employees and employers are still more than benefit payments albeit the gap is closing and is expected to close further in future years. However investment income continues to grow and so assets are still expected to grow for some time to come yet.

## Further information

For more information please contact Graeme Muir in our Glasgow office 0141 243 4400 or email: [publicsector@barnett-waddingham.co.uk](mailto:publicsector@barnett-waddingham.co.uk)

Barnett Waddingham – OCTOBER 2011

Chalfont Court Hill Avenue Amersham HP6 5BB Tel: 01494 788100 Fax: 01494 788800	Silver Springs House 2 Topaz Way Birmingham Road Bromsgrove B61 0GD Tel: 01527 300 000 Fax: 01527 300 090	St James’s House St James’s Square Cheltenham GL50 3PR Tel: 01242 538500 Fax: 01242 538501	163 West George Street Glasgow G2 2JJ Tel: 0141 243 4400 Fax: 0141 243 4432	West Riding House 67 Albion Street Leeds LS1 5AA Tel: 0113 394 3700 Fax: 0113 394 3760	Port of Liverpool Building Pier Head Liverpool L3 1BW Tel: 0151 235 6600 Fax: 0151 235 6640	Cheapside House 138 Cheapside London EC2V 6BW Tel: 020 7776 2200 Fax: 020 7776 3800
--	--	---	---	---	--	--

Barnett Waddingham LLP is a body corporate with members to whom we refer as “partners”. A list of members can be inspected at the registered office.

Barnett Waddingham LLP (OC307678), BW SIPP LLP (OC322417), Barnett Waddingham Investments LLP (OC323081), and Barnett Waddingham Actuaries and Consultants Limited (06498431) are registered in England and Wales with their registered office at Cheapside House, 138 Cheapside, London EC2V 6BW.

Barnett Waddingham LLP is authorised and regulated by the Financial Services Authority and is licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Barnett Waddingham Investments LLP and BW SIPP LLP are authorised and regulated by the Financial Services Authority. Barnett Waddingham Actuaries and Consultants Limited is regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.