

# Outlook for Local Government Pensions

CIPFA London Division

Tuesday 12 October 2010

**Bob Summers**

**Chair CIPFA Pensions Panel**

# Outlook for Local Government Pensions

- CIPFA Pensions Panel / Network Update
- Employer Cost Prospects
- Taxation
- Presentation
- Hutton Commission

# CIPFA Pensions Panel

- Current Membership

LB Bromley, Suffolk CC, Norfolk CC, LPFA, NILGOSC, City of Glasgow, Torfaen, LGE, Audit Commission CLG, and Hymans Robertson

- Panel 22<sup>nd</sup> September 2010

Investment Regulations, Accounting / Funding Augmentation and Pensions Strain, Hutton Commission, £500 Disclosure and KS Framework

# CIPFA Pensions Network

- **Advisory Panel**
  - LB Croydon, Bedford, Aberdeen, West Midlands, Bath and NE Somerset, Torfaen, Merseyside. Audit Commission
- **Launched January 2009 / Currently 70 Subscribers (66 funds)**
- **Technical Workshops in:**
  - Leeds 14 October 2010
  - London 15 October 2010
- **Annual Conference in:**
  - London 4 November 2010
- **Audit / Risk Management Training Workshops:**
  - Manchester 2 November 2010
  - London 3 November 2010
  - Edinburgh 11 November 2010

# Looking Ahead Employer Cost Prospects

- RPI to CPI Saving
- Pay Freeze Saving
- Longevity Cost
- Early Departure Costs
- Long Term Actuarial View
- Hutton Savings (?)

# Looking Ahead Taxation

- Treasury Consultation Paper August 2010
- Treasury Draft legislation Autumn 2010 for implementation April 2011
- Annual Tax Free Allowance £30 - £45,000?
- Reduction in Life Time Allowance to £1.5M?

## The Presentation

# Norfolk Police Authority Balance Sheet – 31<sup>st</sup> March 2010

31 March 2009 £000	Restated £000		31 March 2010 £000
25,307	43,455	Total Fixed Assets	47,568
25,608	43,455	Total Long Term Assets	47,568
38,967	40,635	Total Assets	26,774
53,583	70,994	Total Assets less Current Liabilities	62,202
<b>(733,053)</b>	<b>(733,053)</b>	<b>Pension Scheme Liabilities</b>	<b>(1,125,174)</b>
(31,054)	(58,900)	Other Liabilities	(54,984)
<b>(710,524)</b>	<b>(720,959)</b>	<b>Total Assets less Liabilities</b>	<b>(1,117,956)</b>

# Future Of LGPS

## Independent Public Service Pensions Commission

- Interim Report early October
- Evidence / Views needed by end July on
  - Affordability, fairness, impact on mobility and plurality of current public service provision of the current public sector pension schemes  
and
  - Objectives that should guide public service pensions in future  
and
  - case for delivering savings options within the spending review period

# Future of LGPS

## Evidence from Stakeholders

- 100 Submissions
- Overview of evidence from Audit Commission, CIPFA, LGA, NAPF, LAPF, Hymans Robertson, GMB, Unison, NLGN, SCT, & ACA
- Where next

# Future of LGPS Audit Commission

- Incremental reform can put LGPS on more secure long term footing
- Cost might outweigh benefits on merging funds
- Raise NRA ,reduce accrual rates, increase employee contributions options
- Local benefits discretion advantages
- Focus on actuarial assumptions
- Consider increase in investment performance
- Pension fund deficit recovery period could be extended
- Unfunding case not compelling
- CARE support

# Future of LGPS

## CIPFA

- Define affordability. Sound evidence base needed with clear principles / objectives
- Recognize differences between schemes
- Average public sector pension only 3% above level state benefits paid
- Employer funding consistent with private sector
- Social Housing Pension Scheme exemplar
- Increase in employees contribution by 1% yields £1.3bn but if less than 15% employees leave increase lost

# Future of LGPS LGA

- Importance of reward package
- CARE support and move to state retirement age
- Define accrued rights
- Don't support increase in employee contributions
- Cap on pensionable pay preferable to cap on pension
- Implement cap / share

# Future of LGPS NAPF

- Importance Pension Savings / 53% pensioners could still be on means tested benefit by 2050
- Different nature of LGPS
- Design Principles: Fit for purpose, Adequacy, Affordability, Transparency, Shared Responsibility/ Risk, Quality / Efficiency & Mobility
- Look at pension costs relative to GDP
- Strength of funded scheme
- Increasing employee contributions caution
- Capping high earners achieves little, look at cap on pensionable pay
- Examine increase in NRA at same time as longer term scheme reform

# Future of LGPS LAPF

- Actuaries need to have new approach
- NRA should increase to state retirement age
- Encourage use of AVC's
- Club transfers : use actuarially calculated transfer values
- Restrict ill-health retirement
- Examine taxation of lump sum
- Limit employers contribution under national cap and share to 15%

# Future of LGPS

## Hymans Robertson

- Importance of reassuring international bond market
- Determine target cost
- Continue funded approach
- Don't level down to private sector
- Emphasis needed on flexibility , benefit choices, safety values and integration with state benefits
- Opt-out risk on increasing employee contributions
- Option to reduce ill-health / early retirement costs / other benefits, and cease contracting out
- Incentivise later retirement
- Shared services options but fund merger not a quick win
- CARE / Hybrid arrangements attractions

## Future of LGPS GMB / Unison

- Scheme specific approach , increasing NRA only on an individual scheme basis, and give cost share time to work
- Current long term employer cost 12.2% manageable and affordable
- Need for pensioners cost index
- Develop admitted body status in unfunded schemes
- Amortise past service deficits over 50 years
- Medium term ( 30year ) target of 90%
- Consolidate smaller schemes
- CARE support but not as cost cutter
- No support for increased employee contributions apart from 10% contribution for £100,000 + salary
- Standardise scheme assumptions

# Future of LGPS NLGN

- Take long term view on past service deficit funding and possibly divert short-term funding to meet immediate Council needs
- LGPS should be given greater discretion over shape of future reforms than unfunded schemes
- Full and open discussion on future of LGPS needed
- Mention of Dutch model : Pension Chamber sets contributions / benefits dependent on investment performance

# Future of LGPS SCT

- Funding strength, if no assets and a reduction in employee contributions government top-up needed, around £6bn by 2025
- Resist levelling down
- Amalgamation of funds should be a local decision, administration savings possible
- Effective cap / share, alignment to state retirement age and modest changes to scheme / benefits could provide answer to longevity costs
- Essential for predictability, stability and a model which compliments workforce models of future

# Future of LGPS ACA

- Public Sector should take lead in scheme design
- Funded LGPS scheme affords future flexibility
- Middle way solutions needed with risk sharing, safety values and flexibility
- CARE advantage
- Review Public Sector transfer club rules
- Allow contractors access to other public sector schemes
- Administration efficiencies may be marginal
- Measurement of future pension promises options
- Reduce enhanced early retirement benefits

# Future of LGPS

## The Independent Public Service Pensions Commission – Interim Report

- Comprehensive Review
- Long Term Design Principles
  - Affordability & Sustainability
  - Adequacy & Fairness
  - Supporting Productivity
  - Transparency & Simplicity
- Final Report for March 2011 Budget

# Future of LGPS

## The Independent Public Service Pensions Commission – Interim Report

- Short Term Options
  - Change Benefit Structure X
  - Contracting into SSP X
  - Increasing Contribution Rate ✓
  
- Long Term Options
  - Final Salary DB & Funded DC X
  - CARE
  - International Experiences
  - Risk Sharing Models
  - Increasing Normal Retirement Age

# Thank You

## Panel Debate

Peter Gilmour (Chair)

Simon Parker

Andy Ford

Bob Summers



**CIPFA**

The Chartered Institute of  
Public Finance & Accountancy

## CIPFA London Division

[www.cipfalondondivision.org.uk](http://www.cipfalondondivision.org.uk)

