Agenda item:

Pensions Committee	On 1 November 2010

Report Title: **Briefing on the interim report of the Independent Public Service Pensions Commission**

Report of **Director of Corporate Resources**

Signed : Kevin Bartle for DoCR

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Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To inform the Committee of key issues arising from the interim report of the Independent Public Service Pensions Commission.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That the report be noted.

5. Reason for recommendations

5.1. For noting only.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The interim report of the Independent Public Service Pensions Commission concludes that public service pension schemes are in need of reform to make them affordable in the long term. The report concludes that the Local Government Pension Scheme should remain a funded scheme and the only recommendation for the short term is to increase employee contributions.

7.2 The final report is expected to be published in Spring 2011 in time for the Budget and will address the following key issues:

- Increasing retirement age
- Replacing the final salary structure of the schemes
- The structure and number of Local Government Pension Scheme funds

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1 The Council is currently paying 22.9% of salaries in employer contributions to the Local Government Pension Scheme. The reforms being considered by the Commission are likely to reduce the cost of the scheme to the Council. However the reforms will not affect accrued rights and therefore will not reduce the value of the deficit which will still need to be met in the long term.

12. Use of appendices /Tables and photographs

12.1 None

13. Local Government (Access to Information) Act 1985

13.1 HM Treasury: Interim report of the Independent Public Service Pensions Commission, 7th October 2010

14. Background

14.1 The Independent Public Service Pensions Commission was set up and the terms of reference published on 20th June 2010. Lord Hutton was appointed to chair the commission. The remit is "a fundamental structural review of public service pension provision". The review covers all of the major public sector pension schemes including the Local Government Pension Scheme.

14.2 The Commission was tasked with producing a final report in time for the Budget in Spring 2011 and an interim report was published on 7th October 2010.

14.3 This report sets out the key points of the interim report as they relate to the Local Government Pension Scheme. Section 15 covers the conclusions and recommendations reached in the interim report and section 16 sets out the issues identified for further examination in the final report.

15. Conclusions and recommendations from the Interim report

15.1 The report concludes that reform is necessary for public sector pension schemes to address the rising costs, whilst ensuring the schemes are fair in a modern workforce. Section 16 below summarises the issues being considered for reform in the longer term. However the interim report states that it does not consider "a race to the bottom" of pension provision that has been seen in the private sector in recent years is appropriate. Given that only 35% of private sector employees are in employer sponsored pension schemes, it is believed this will lead to greater reliance on the state in the long term. The report is clear that transferring costs to the state benefit system is not a solution to the public services pensions issues.

15.2 The report addresses the key difference in the Local Government Pension Scheme (LGPS) compared to the other large public sector schemes, in that it is a funded scheme. The report makes it clear it does not see there is any long term benefit in removing the assets of the scheme and therefore recommends that the LGPS remains a funded scheme. Equally it does not recommend that the unfunded schemes build up funds due to the initial costs of doing this.

15.3 The only recommendation for cost saving in the short term is for an increase in employee contributions. This is in response to the move away over the last 50-60 years from schemes where employee and employer shared the costs equally to ones where the employees only pay around a third of the cost. The report does not specify how much the increase should be and leaves this for Government to decide. It is expected that this will be announced as part of the Comprehensive Spending Review. However the report recommends the implementation of any increase has regard for the low paid and the risk of increasing numbers of opt-outs, particularly at a time of a pay freeze. The LGPS already has a system of different percentages of employee contributions for different salary levels, so a proposal weighted towards the higher paid paying more could be easily introduced.

16. Areas to cover in the final report

16.1 As stated in 15.1 above the interim report concludes that reform to public service pension schemes is necessary and it sets out the following principles which will guide the work towards the recommendations in the final report:

- Affordable & sustainable
- Adequate & fair
- Support productivity
- Transparent & simple

16.2 The report concludes that the age of retirement needs to be reviewed. The number of years a pensioner can expect to live in retirement is now around twice as long as it was 60 years ago and this has a direct impact on cost. The Commission will consider how to increase retirement ages and one solution is for them to rise in line with the state pension age. In the LGPS the retirement age is already 65, unlike many other public service schemes, and the protected rights of those with long service to retire earlier than this is due to be phased out by 2020.

16.3 The interim report concludes that final salary schemes are not appropriate for the future. The evidence the report presents show that those with rapid career progression receive a larger pension as a proportion of the contributions they make, than those with a more modest progression. Therefore it is concluded this is not fair and the final salary link should be removed. The interim report states that a number of alternative schemes are being investigated in order to reach a recommendation for the final report including Career Average Schemes, Notional Defined Contribution Schemes and Hybrid Schemes. The experience of other countries operating these schemes will be considered.

16.4 The final report will also consider the administration of public service pension schemes to ensure that they are as cost effective as possible. In relation to this the LGPS will be specifically looked at in terms of the number of funds which operate in local areas. There are currently 89 funds in England and Wales and the final report will address whether this structure delivers value for money or whether it should be changed.