



Agenda item:

**Pensions Committee**

**On 12 April 2011**

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

Report of **Director of Corporate Resources**

Signed : *J. Power* 1/4/11

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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 final 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 Independent Public Service Pensions Commission has published its final report. It recommends that public service pension schemes, including the Local Government Pension Scheme (LGPS) move to Career Average Revalued Earnings schemes in place of the current final salary schemes, with a retirement age linked to State Pension Age.

7.2 The Commission has recommended that the LGPS remains a funded scheme and although it does not recommend merging LGPS funds, it states collaborative working between Funds should be encouraged. It also recommends further improvements in governance in all the public service pension schemes.

**8. Head of Legal Services Comments**

8.1 As this is an initial information report, there are no specific implications that the Head of Legal Services wishes to draw attention to at this stage.

**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 changes to the scheme recommended by the Commission are likely to reduce the cost of the scheme to the Council, however the Commission has not recommended an accrual rate, so no estimate of the impact can be made at this stage. The changes 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: Final report of the Independent Public Service Pensions Commission, 10<sup>th</sup> March 2011

13.2 HM Treasury: Interim report of the Independent Public Service Pensions Commission, 7<sup>th</sup> October 2010

## **14. Background**

- 14.1 The Independent Public Service Pensions Commission was set up and the terms of reference published on 20<sup>th</sup> 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 (LGPS).
- 14.2 The Commission issued an interim report on 7<sup>th</sup> October 2010 and its final report was published on 10<sup>th</sup> March 2011. Both reports are recommendations to the Government and are clear that the decisions on the way forward, in particular the desired future cost of public sector pensions, rest with the government. The Government announced in the budget on 23<sup>rd</sup> March 2011 that it accepts the recommendations.
- 14.3 On 1<sup>st</sup> November 2010 a briefing on the interim report was presented to Pensions Committee setting out the key conclusions of the interim report. These included the removal of final salary pension schemes, the retention of the funded nature of the LGPS and a recommendation to increase employee contributions.
- 14.4 This report sets out the key points of the final report as they relate to the Local Government Pension Scheme. Section 15 covers the conclusions and recommendations reached in the report regarding future pension scheme benefits and section 16 sets out the recommendations made in respect of governance.

## **15. Conclusions and recommendations – Scheme benefits**

- 15.1 The Commission's report states that it has taken as given the change to the rate of inflation applied to pensions in payment from the Retail Price Index to the Consumer Price Index. It has also taken an increase in employee contributions as a given, however it expresses caution about the implementation in order to avoid high levels of opt-outs and recommends tiered contribution rates, which are already in place in the LGPS. The Local Government Association and the Fund Actuary have expressed their concerns that the contribution increase proposals will have a detrimental effect on the LGPS and the economy and has called on the Government to enter into a dialogue with the employers and unions to consider how best to achieve the Government's aims.
- 15.2 The Commission has recommended that all public sector pension schemes are Career Average Revalued Earnings (CARE) schemes in future instead of the final salary schemes currently in place. This has been recommended on the basis of fairness, as final salary schemes favour "high flyers" i.e. those whose salary increases are above the average over the course of their career. The report does not recommend an accrual rate, as this would determine the cost of the schemes and the Commission believes this is the responsibility of the government. It does note however the increasing cost of longevity and the Commission recommends that Normal Pension Age for the new schemes is tied to State Pension Age to control this cost. There are already plans for the State Pension Age to rise gradually to 68 by 2046.
- 15.3 It is recommended that all scheme members are moved to the new schemes as soon as they are operational; however it also recommends that accrued rights are protected with the link to final salary maintained. This will ensure minimum change to anticipated pensions for those close to retirement, who have already made plans.
- 15.4 Although the Commission does not recommend an accrual rate and therefore the cost of the new schemes, it does recommend the Government set a fixed cost ceiling. It is recommended that when the cost ceiling is reached, an agreement is reached with scheme members to either increase employee contributions or reduce benefits through an adjustment of the accrual rate. To cover the eventuality of it not being possible to reach agreement, it is recommended a default adjustment is set.

## **16. Conclusions and recommendations – Governance**

- 16.1 In addition to making recommendations about the design of public service pension schemes in future, the Commission makes a number of recommendations about the governance of the schemes in future.

- 16.2 The Commission reiterates their view that the LGPS should remain a funded scheme, while the other schemes remain unfunded. Although the Commission does not recommend merging LGPS funds, as this would remove the local accountability, it does note the value of collaborative working between funds to reduce administrative costs. It recommends this should be encouraged and progress closely monitored by central government.
- 16.3 In order to improve standards of governance in public service pension schemes to the higher levels seen in the private sector, the Commission recommends that every scheme, including every individual LGPS Fund, has a “properly constituted, trained and competent Pension Board with member nominees, responsible for meeting good standards of governance including effective and efficient administration.” This would build on the governance arrangements already in place in the LGPS.
- 16.4 Improvements in the standards of administration and communication with scheme members are recommended through the definition of best practice. It is also recommended that more comparative data is made available to drive good performance.

## **17. Next Steps**

- 17.1 The report recommends that new pension schemes are introduced before the end of the current Parliament in 2015. In the budget on 23<sup>rd</sup> March 2011, the Government announced it accepts all the recommendations and will not “cherry pick” from them. The Government is targeting the autumn Spending Review to provide specific proposals for consultation with all stakeholders.
- 17.2 The Corporate Committee with its responsibility for Pensions will be kept informed of developments. Officers are already exploring possible ways of undertaking collaborative working with other London Boroughs, particularly in the area of procurement and will continue to progress this.

