

Local Government Pension Scheme Consultation October 2011

Warwick District Council response

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

Pension Fund administrators and fund actuaries are based placed to comment.

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

The main concerns of the proposals are:-

1. With increased employee contribution rates, it is likely that there will be a reduction in membership of the scheme, with more employees not feeling able to afford the contributions. This will deter new members, and encourage current members to leave the scheme. With fewer scheme members, the schemes will become less sustainable, with greater chance of not securing full funding. In the event of large numbers of opt outs in membership there is a risk of a detrimental impact upon Pension Fund cashflow.
2. The proposals are going to lead to a very complex scheme. Currently many members have preserved benefits from the pre 2008 scheme. The proposals will result in changes from 2012/13, 2013/14 and 2014/15. In addition further changes are expected after the period of this Consultation in line with recent Government announcements. Aside for the administrative complications, it is likely to result in a lack of understanding of the scheme by members. Any member is likely to have a pension based on up to 5 different accrual rates. These arrangements are likely to be extremely complex to administer and understand. For employees, this will reduce the transparency of the scheme and their benefits; this in turn will serve to discourage many from joining or staying in the scheme.
3. Increased opt outs from the scheme will increase the National Insurance contributions made by employees and employers.

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

As one of the few funded public sector pension funds, local authorities have arrangements in place to secure full funding of the schemes, with employer contributions rates increasing to levels agreed with fund actuaries. These increases have been factored into local authorities' medium term financial projections. Pension fund assets have suffered with the economic downturn. As the economy recovers, the assets of the funds should also recover, this in turn will help the funds to become fully funded. Whilst this recovery may be some years away, scheme actuaries have previously agreed 25 year recovery periods in line with the future pension fund liabilities. As schemes achieve full funding in the future, it should be possible for local authorities to reduce their contributions into the pension funds.

On the basis that local authorities have already budgeted for the cost of pension scheme liabilities, and pension fund assets will recover with the economy, it may be argued that increases in the employee contribution rates are not necessary at this stage, especially when are already suffering from increased costs of living, whilst earning have been frozen. Other than reducing or stopping the proposed contribution rates for employees, no other option is proposed.

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?

Increased numbers of employees expected to leave the scheme, or not join it. These are likely to be the lower paid. Whilst it is not proposed to increase their contributions to the scheme by as much as those on higher earnings, these will be the individuals most affected by the proposals. Evidence shows that it is women who tend to be the lower paid within local government.

Question 5 - Within the consultation period, consultee's 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.

With people living longer, it is recognised the need for individuals to work longer. It therefore seems logical for the LGPS to be linked to the State Pension Age. However, there will need to be transitional arrangements for those approaching retirement.