

MEETING	PENSIONS COMMITTEE
DATE	3 DECEMBER 2010
TITLE	INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION INTERIM REPORT BY LORD HUTTON OF FURNESS (THE HUTTON REPORT)
RECOMMENDATION	TO INFORM MEMBERS OF THE PENSIONS COMMITTEE OF THE PROPOSED CHANGES TO PUBLIC SERVICE PENSION SCHEMES
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1. Background and Introduction

- 1.1 Public sector pensions provide retirement incomes for millions of people in the UK. Due to the defined benefit nature of these schemes and the increasing cost of funding these pensions the Independent Public Service Pensions Commission was set up to review the situation.
- 1.2 The remit given to the Commission was “To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.”
- 1.3 The remit includes all public sector pensions of which the LGPS is one.
- 1.4 The LGPS is a funded scheme whereas the majority of the other schemes are unfunded with contributions received being used to pay current pensions. There are no proposals to change this.
- 1.5 The interim report was published on 7th October 2010.
- 1.6 The final review is due next year to coincide with the 2011 budget.

2. Summary of the interim report

- 2.1 The report recognises the importance of public sector pensions and the original intentions when such schemes were started many years ago.
- 2.2 Increased costs have resulted from longer life expectancy, an increase in the number of pensioners and an extension of pension rights to all employees.

- 2.3 The requirement to provide comparable pensions is a barrier to non-public service providers, potentially makes new working arrangements with the private / voluntary sector more difficult.
- 2.4 The discount rate used to set employer contribution rates in actuarial valuations is critical and should be reviewed.
- 2.5 Current and past reform measures have helped to reduce the long term cost of funding public sector pensions.
- 2.6 The Commission has concluded that further reform of the current schemes is necessary.
- 2.7 The interim report proposes some short term reforms.
- 2.8 The Commission will seek further consultation from relevant organisations and present a range of options to the Government.
- 2.9 The final report will set out in more detail a wide range of radical solutions in an effort to ensure a balance of fairness for taxpayers and scheme members.
- 2.10 Accrued rights of staff will be protected from any reforms.

3. Short Term Reform

- 3.1 The interim report concludes that there is a need to reform public sector pension schemes but there must be proper protection for accrued rights. This needs further work and consultation and therefore is not a viable option for making short term savings.
- 3.2 The Commission agreed that the most effective way to make short term savings is to increase employee contributions and it is the Government responsibility to decide the level of increases which should protect the low paid and be introduced in stages.
- 3.3 In the Comprehensive Spending Review the Government announced that average employee contributions will increase by 3% by 2014-15. The increases will be phased in from 2012. As this is an average over all the public sector schemes which have different rates of employee contributions it is not yet known how much the increase to LGPS members will be.

4. Long Term Reform

- 4.1 The interim report states that the current system cannot respond flexibly to changes in demographics over recent years and the need for greater mobility between the public and private sectors. It has also lead to disproportionate benefits for high flyers relative to low flyers and an unfair division of costs between the employer and the employee.
- 4.2 The Commission believes that long term structural reform is needed to current final salary provision of benefit, but that an individual defined contribution model for employees is not appropriate for public service pensions.
- 4.3 The report states that an alternative scheme model is needed which provides a fair sharing of risk between the employer and employee and provides adequate pensions for members.
- 4.4 An alternative range of benefit structures will be considered including career average arrangements and hybrid schemes combining defined benefit and defined contribution models.
- 4.5 The final report will also consider pension scheme administration costs and the scope for rationalisation and cost reduction. This will include possible simplification and consolidation of functions across different schemes and units within a scheme. The report cites the number of LGPS funds, how costs vary between them and possible efficiencies if that number could be reduced as a specific example.

5. Final Report

- 5.1 The final report will include the long term reform options and recommendations and will be published for the 2011 budget.