



Sir Merrick Cockell  
Local Government Group  
Local Government House  
Smith Square  
London  
SWIP 3HZ

Direct Line: 0151 242-1390

Please ask for: Yvonne Caddock

Date: 10 August 2011

## **LOCAL GOVERNMENT PENSION SCHEME REFORM 2011**

*Wirral Council is responsible for the administration of the Merseyside Pension Fund which is part of the Local Government Pension Scheme (LGPS). The Merseyside Pension Fund deals with the LGPS pension administration and investments on behalf of the 5 Merseyside District Councils, and over 100 other employers on Merseyside and elsewhere throughout the UK.*

*The Fund has over 50,000 active contributing members, 41,359 pensioners and just over 34,000 deferred pensioners. It is responsible for the investment and accounting for a pension fund of £5billion.*

The Fund has formally responded to all of the recent consultations on public sector pension reform, and wishes to provide further comment ahead of the 12 week statutory consultation – specifically in regard the short-term savings equivalent to a 3.2% increase to member contributions.

### **1/ MINIMAL INCREASE TO MEMBER CONTRIBUTION RATES**

We maintain the view that any increase to employee contributions, will rapidly increase the number of members who will choose to opt-out of the Scheme as it will be reasoned as “unaffordable” or at worst, not worthwhile.

The proposed protections for those members earning up to £21,000 per annum, means that a greater contribution burden will be made by the “middle” earners of our Fund.

This year we have already seen a 48% increase in the incidence of enquiries from members into the affordability of scheme participation and also the perception of diluted pension promises.

If there is a political imperative that our members are asked to demonstrate an increased contribution to the Scheme, a minimal, uniform 1% increase would be more acceptable to our membership. Particularly, in a period of pay freezes and reductions to net pay from April 2012, due to the increases in National Insurance contributions.

## **2/ NORMAL RETIREMENT AGE**

In addition to a 1% uniform increase to member contributions, the Fund would advocate that the next Scheme adjustment would be to align the Schemes Normal Retirement Age (NRA) with that of the increases in State Pension Age (SPA).

However, the option for members to take a reduced pension from age 60 should still continue, giving members more choice over their personal circumstances and the value of benefits payable. The appropriate reduction factors would apply from the increased NRA, thus maintaining a link to affordability over time.

## **3/ ACCRUAL RATE FOR YEARS 2012-2015**

Another option to make the required savings is the reduction of the accrual rate on the current benefit package. Moving the accrual rate back towards the pre-2008 level of 80<sup>th</sup>s for all active members during the next three years, would demonstrate savings to each Funds liability funding profile.

However, this change would manifest another significant consequence; particularly it would reduce the number of retiring members electing to convert annual pension to the maximum available tax free cash. This would adversely impact on savings already assumed in assessing employer contribution rates, leading to increased employer costs.

The demographics of the LGPS mean that 50% of its membership receive low pay and have short service, a reduction in the rate of accrual could lead members to question the value of contributing to the scheme, due to meagre awards of benefits; abdicating personal responsibility and relying on means tested benefits for support in retirement.

In a survey of the Fund's membership as part of our response to Lord Hutton's consultation (1,952 respondents) the preferred option for scheme reform was to increase the normal retirement age rather than adjusting the accrual rate, if it were proven that reforms were deemed necessary to combat the rising costs of pension provision.

The Merseyside Pension Fund strongly believes that in order to maintain the active membership base, ensuring continuing financial viability, any necessary short term reforms should take the form of a limited contribution increase and alignment of the Scheme's normal retirement age with increases to state pension age.

Yours sincerely



Ian Coleman

Director of Finance

cc. Bob Holloway, DCLG