Merseyside
PENSION FUND

APPENDIX1

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Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 16 July 2009

Dear Kirsty,

Consultation on Accounting and Audit Regulations 2003 and Reporting of remuneration of senior officers in public bodies

I refer to your letter dated 12 June 2009 and the draft statutory instrument that was attached.

I submit the following comments on behalf of the Merseyside Pension Fund in its role as administering authority under the Local Government Pension Scheme.

The Fund is concerned at the lack of clarity in respect of the proposals on the valuation of pension benefits, in that we understand that some such arrangements have been in place in respect of a number of public sector organisations for some time and in fact some local authority funds including the Environment Agency have provided annual figures for some time.

The Executive Director of the Local Government Employers organisation has drafted a detailed response on behalf of the LGPS nationally and I attach to this letter a copy of the draft circulated by him to this Fund which sets out many of the questions and concerns that we have.

This Fund would support limiting disclosure on pensions to rights built up by an individual up to 31 March each year - not those projected to retirement.

On barriers and costs of reporting, we do not believe that the information likely to be required will be readily available, as none of the values will be included in the annual benefit statements produced by the Fund and these statements are only usually produced towards the second half of the year after data is supplied by employers.

The contributory nature of the LGPS with employees paying variable basic contributions of up to 7.5% plus various optional additional contributions and the fact that employer contribution rates vary considerably and do not relate predictably to the contribution from the employee needs to be considered.

Please let me know if you require any further information or assistance

Yours sincerely

Deputy Head of Pension Fund

Appendix - Local Government Employers Draft Response

Pension Entitlement

This proposes that the pension entitlement should be reported which, "*for these purposes, means the total value of an individual's pension benefits based on their accrued length of service and pensionable pay, at the beginning and end of the year, and projected to the individual's normal retirement age.*"

Further clarification is, however, needed i.e:

1. In order to avoid unnecessary work, it seems to us that the pension should be valued at the end of the year and at the end of the previous year. So, for example, if the year end is 31st March, the pension should be valued at 31st March 2010 and 31st March 2009. The following year, only one additional calculation would then have to be performed (i.e. at 31st March 2011) as the figure for 31st March 2010 is already held. Such an approach would negate the need for extra valuations on each 1st April.

2. How is the value of the accrued pension entitlement to be calculated? Is it in accordance with how benefits are valued:

a) for the Lifetime Allowance under the Finance Act 2004, or

b) for the Annual Allowance during the Pensions Input Period for the purposes of the Finance Act 2004, or

c) for the FRS17 statement (i.e. using the same methodology for the individual as used for the overall FRS17 statement), or

d) for the purpose of calculating a transfer value in accordance with the Pension Schemes Act 1993

The whole point of this exercise, it seems to us, is to make pay transparent. As pensions are deferred pay, they should rightfully be included as part of the reward package.

However, the latter two options above have a disadvantage in that the value will vary depending on market conditions and so could rise or fall from one year to the next. Using a FRS17 methodology would, however, show the proportion of the overall FRS17 amount attributable to each high earner.

The existing Pension Input Amount calculation as used in the Annual Allowance HMRC check (see 2(b) above) seems to be, perhaps, a more relevant method of showing how much a person has seen their pension pot grow over the year.

All of the above methods, however, suffer from the fact that they do not recognise that any increase in value of the pension has not wholly been paid for by the employer as part of the remuneration package. The employee has paid contributions too from their salary. To recognise this, one could, for example, reduce any growth by the amount of contributions paid by the employee or multiply the growth by the employee contribution rate and divide by the combined employee/employer contribution rate. If this is not done, the representation of the increase in value of the pension element of the remuneration package could be misleading, depending on what this disclosure is really meant to achieve.

3. When valuing the pension entitlement, should the value of benefits purchased by the member alone (with no contribution from the employer) be excluded e.g. should we exclude benefits from purchased added years, purchased family benefits, Additional Voluntary Contributions (AVCs), Additional Regular Contributions (ARCs), and membership bought from AVCs. It would seem logical to exclude these as they will have been paid for solely by the employee (in the same way as if the employee had paid into a separate stakeholder pension scheme, or an ISA etc). However, the standard methodologies in 2(a), (b) and (d) above include these items, and 2(c) would include some of the items. The standard methodologies would, therefore, have to be tweaked if the items are to be excluded.

4. If the employee holds a separate deferred pension in the pension scheme which they have not aggregated with their current period of membership in the pension scheme, should this be added to the valuation of the pension entitlement.
One assumes not as:

a) the benefits are held in relation to a separate, earlier employment

b) the benefits could well, in the case of the Local Government, Police and Firefighters' Pension Schemes be in a scheme administered by a different authority which would necessitate obtaining a valuation from the previous administrator

5. Whilst the employer will be responsible for making the relevant disclosure in their annual statement of account, the employer does not hold the pension information. This is held:

a) by the relevant administering authority/Pension Fund (or the outsourced provider), in the case of members of the Local Government Pension Scheme;

b) by Teachers' Pensions (an outsourced provider), in the case of members of the Teachers' Pension Scheme**;

c) by whomever is providing (if outsourced) the pensions administration service to Police and Fire authorities, in the case of members of the Police Pension Scheme and the Firefighters' Pension Scheme.

Only those bodies will, it seems to us, be in a position to calculate the value of the pension benefits (having been supplied with the relevant final pay figure by the employer). Is there to be a legal requirement placed on those bodies to provide the employers with the relevant pension valuation by a specified date? Will this be tied in with the FRS17 timescale? Will the bodies be able to charge for providing the pension valuation in the same way as for the provision of FRS17 data? What about cases where the pensions administration function has been outsourced (as there is unlikely to be a provision in the contract with the provider of the pensions administration function for the provision of the pension valuation, and this could lead to extra charges being levied under the contract).

**Note: it is not only teachers who are members of the Teachers' Pension Scheme. For historical reasons, there may be some LEA officers who are still members of the Teachers' Pension Scheme.

6. What is the purpose of valuing a person's projected pension entitlement to their normal retirement age (given that there is no guarantee the person will remain an employee or in the Scheme until then)?

Merseyside PENSION FUND

Compensation / ex gratia payments

For those employees subject to the Local Government Pension Scheme would this include:

a) an Injury Allowance paid under the Local Government (Discretionary Payments) Regulations 1996 and, if so, how should this be valued (given that the Injury Allowance is an ongoing payment)?

b) augmented membership in the LGPS granted under regulation 12 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 as part of an employee's termination package? If so, the augmented membership would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

c) additional pension granted under regulation 13 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 as part of an employee's termination package? If so, the extra pension would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

d) lump sum compensation under regulation 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 paid as part of an employee's termination package? We assume that the "value" is simply the amount of lump sum paid.

For those employees subject to the Teachers' Pension Scheme would this include:

a) mandatory compensation under Part IV and discretionary compensation under Part II, Part III or Part V of the Teachers (Compensation for Redundancy and Premature Retirement) regulations 1997 as part of an employee's termination package? If so, the mandatory compensation would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued? How would the discretionary compensation under Part II, Part III and, in particular, Part V be valued?

b) additional pension granted under regulation C3C of the Teachers' Pension Scheme Regulations 19997 as part of an employee's termination package? If so, the extra pension would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

For those employees subject to the Police Pension Scheme of the Firefighters' Pension Scheme would this include:

a) an Injury Award paid under Police (Injury Benefits) Regulations 2006 or the Firefighters' Compensation Scheme (England) Order 2006. If so, the Injury Award would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

Merseyside
PENSION FUND

<u>Other</u>

How are employees who leave / retire part way through a year to be dealt with? It appears that any compensation payment would have to be shown but would the value of the pension also have to be shown, given that by the end of the year they are no longer an employee but are, instead, a pensioner?

Although the consultation document is limiting the pension disclosure to what it refers to as senior officers / officials, it is not clear whether this is meant to extend to officers / officials such as

a) Head Teachers, Deputy Head Teachers and other teaching and non-teaching staff in schools
b) Chief Constables, Deputy Chief Constables and other uniformed and non-uniformed staff in Police Authorities
c) Chief Fire Officer, Deputy Chief Fire Officer and other uniformed and non-uniformed staff in Fire Authorities

who earn in excess of £50,000. It is for this reason (i.e. the lack of clarity / certainty) that we have included comments above relating to the Teachers', Police and Firefighters' Pension and Compensation Schemes. Perhaps the matter can be clarified in the final regulations.

It also strikes us that a sum of £50,000 will catch far more than Heads, Chiefs and Deputies of services. A number of employees who earn £50,000+ would not be considered to be senior officers / senior officials. For example, there may be a few examples of manual staff who, with bonuses, earn in excess of £50,000 a year.

Terry Edwards LGE