WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

LGPS VALUATION CONSULTATION - LGPS DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

1. EXECUTIVE SUMMARY

1.1 This report informs Members of a consultation exercise being conducted by the Department for Communities and Local Government (DCLG). The consultation suggests possible amendments to the LGPS to ensure its stability and viability in view of the current stock market impacts on pension fund liabilities likely to be identified at the forthcoming 31 March 2010 actuarial valuation exercise.

1.2 Members are requested to approve the draft response to the DCLG attached at appendix 2.

2. BACKGROUND

2.1 DCLG circulated a letter on 25 June 2009 (Appendix 1 attached) which sets out how Ministers wish to secure a consensus of stakeholders on a number of amendments to the Regulations to ensure a satisfactory impact on the conduct and outcomes of the 2010 actuarial valuation and to assist in maintaining Scheme viability generally. The deadline for responses on the consultation is 30 September 2009.

2.2 DCLG states that in a later separate consultation exercise consideration is to be given to the longer term future of the Scheme and ways that the Scheme might be further reformed to best respond to changes in the workplace, workforce and economy.

2.3 The letter points out that at the 31 March 2007 valuation, nationally funds total assets were valued at £132 billion with liabilities totalling £159 billion giving a shortfall of £27 billion. This represented a scheme-wide funding level of 83%.

2.4 The position of the Merseyside Pension Fund at 31 March 2007 was as follows:

Total assets	£4,301m
Total liabilities	£5,364m
Deficit	£1,063m

This represented a funding level at that time of 80% relative to the funding target.

2.5 The DCLG letter points out that the last major Scheme reform saw the introduction from 1 April 2008 of changes to a 1/60th accrual rate and tiered employee contributions rates between 5.5% and 7.5% yielding on average about 6.4% of total payroll.

2.6 Employers' contribution rates are currently fixed until 31 March 2011 to meet the balance of the cost of providing the benefits. These will be reassessed at the 31 March 2010 valuation and adjusted to ensure that pension funds are solvent and able to meet their existing and future liabilities.

3. POSSIBLE NEW APPROACH - FINANCING PLANS

3.1 Instead of pension funds producing full (100%) funding recovery plans to make good all past service deficits, as part of the preparation of their Funding Strategy Statements, they would prepare and maintain a Financing Plan to demonstrate how over the short, medium and long term, they will fund pension liabilities for their fund and for each of its employer bodies.

3.2 The Financing Plan would detail and determine local future income streams and how it is proposed to prudently manage the funding of long term liabilities, based on reasonable, realisable assumptions and qualified professional advice. It would also take into account local budgetary constraints and recognise the reality of local resource and other parameters within which each pension fund must operate.

3.3 DCLG suggests that a Financing Plan could include the following key components which could be reflected in the regulations or guidance: -

- base information :-
  - short to medium cash flow projections
  - actuarial estimate of long term funding needs
  - current funds and projected changes
- key assumptions
- risk management analysis
- employing body contribution rates to provide sufficient resources to meet the liability projections for the fund overall and each employing body
- certification of the plan by the fund officer responsible for the administration of the fund and the appointed actuary
- agreement to the Financing Plan by the pension committee, after proper consultation with all interested parties.

3.4 The DCLG states that the policy aim would be to stabilise pension costs at the same time as moving away from rigid, long term 100% funding targets. It recognises however that it is equally important that the Scheme retains the confidence of all stakeholders in being able to meet its statutory-based pension promise.

4. POSSIBLE NEW APPROACH - LOCAL FUNDING TARGETS

4.1 An alternative approach could involve essentially retaining the existing Scheme funding regime but additionally would allow an LGPS administering authority to adopt a long-term funding target which would not necessarily always be set at 100%, provided this could be sustained and transparently justified by the administering authority within its Funding Strategy Statement.

4.2 Long term funding targets would, therefore, continue to be an essential feature of the Funding Strategy Statement, as indeed would deficit recovery plans over a locally chosen period. This new adjustment could ensure that any longer-term funding shortfall could be recovered within a prudentially-set, and publicly accountable timescale. It stabilises pension costs without losing sight of the fact that the Scheme must meet its statutory pension promise.

4.3 DCLG confirms that this does not mean that funds are to be given unfettered powers to set funding levels and employer contribution rates. That would be to deny the prudentially critical role of the valuation and subsequent actions by the administering authority. The intention rather is for the normal pre-and post-valuation dialogue between administering authorities, fund actuaries, and other stakeholders to continue with the view to reaching an agreed funding position in the light of the valuation exercise outcome. However, the proposed regulatory changes would put beyond doubt that ultimately it is for each administering authority, and most importantly its elected committee Members, to have the final say on questions of affordability and sustainability and fairness to local taxpayers, within the Scheme regulatory framework.

5. REVISED EMPLOYEE CONTRIBUTION TARIFF

5.1 The letter refers to a proposition being considered to amend the existing LGPS tariff which sets the level of employee contributions linked to their pensionable pay, with new, higher tariffs for members who annually earn in excess, say, of £75,000, together with an extension of the lower rate of contributions for the lower paid.

5.2 The Scheme introduced on 1 April 2008 included a new banded contribution arrangement with a top level of 7.5% of pensionable pay for those whose earnings are in excess £75,000. However, according to the DCLG it is now believed that there are many high earners in the local government workforce who are paying a proportionately modest amount towards their pension benefits.

5.3 The figures illustrated in table 1 do not reflect the current tariff in force as they ignore the impact of the annual indexation applied in accordance with RPI increases and actually indicate increases in employee contribution rates for the majority of people earning in excess of £30,000 pa and some of those earning less than £18,000.

5.4 *The overall impact of all these proposed changes would only be a marginal increase in total yield from 6.4% to 6.42% and is more about further redistribution of the cost burden of the Scheme from the lower to the higher paid members than improving the funding position.*

5.5 The DCLG suggests that given the very high proportion of part-time employees in the Scheme, it seems equitable to re-consider the extent, in tariff terms, of the lower rate of 5.5% of pensionable pay. It suggests this help to recruit and retain membership of lower paid employees into the Scheme who, according to recent UNISON research, find the costs of membership prohibitive.

5.6 It is questionable whether the impact of the marginal adjustment to the rates at the lower earnings levels would actually result in any increase in Scheme take up by the lowest paid employees, many of whom do not believe that they can afford any contribution and could be worse off by joining because of loss of means tested state benefits.

5.7 An example of the scope of a possible future regulatory amendment is illustrated in the table. Under this example, members earning over £100,000 per year could pay a contribution rate of 10% of pay, and those in the next band earning over £75,000 a rate of 8.5%. Meanwhile, many members earning less than £22,001 p.a. would benefit from a lower rate. DCLG states that the table is illustrative at this stage and does not represent any firm commitment.

5.8 Those earning between £30,001 and £75,000 per year would also have to contribute more: +0.2% or +0.3%, to avoid “cliff edge” increases in contributions within the tariff.

5.9 Subject to the outcome of any statutory consultation DCLG believes that the new contribution tariff could take effect from 1 April 2010.

5.10 *Until the introduction of the new scheme on 1 April 2008 (other than a small group of protected former manual workers) all members irrespective of earnings paid the same 6% percentage contribution of their pay for their benefits.*

5.11 *Those employees earning £100,000 or more will have already seen a 25% increase in their contributions from 1 April 2008 (from 6% to 7.5% of pay) and these same members would face a further 33% increase in their pension contributions from 1 April 2011 (from 7.5% to 10% of pay).*

Table 1 – Possible New Employee Contribution Tariff			
Band	**New Pay Range (pay per year)**	**Proposed New Contribution Rate**	**Difference from current LGPS rate**
1	£0 - £15,000	5.5%	No change for members earning up to £12,000 per year -0.3% for members earning from £12,001 to £14,000
2a	£15,001 to £18,000	6.0%	+ 0.1% This apparent anomaly is justified by the significant reduction in rate for Band 3 below
2b	**£18,001 to £22,000**	6.0%	**-0.5%**
3	£22,001 to £30,000	6.5%	No change
4	£30,001 to £40,000	7.0%	+0.2%
5	£40,001 to £75,000	7.5%	+0.3%
6	**£75,001 to £100,000**	8.5%	**+1.0%**
7	**£100,001+**	10.0%	**+2.5%**
Yield = 6.42% of payroll			

5.12 Responses to the informal consultation exercise are invited no later than 30 September 2009. The LGPS Policy Review Group will be considering the paper in the course of its deliberations.

6. FINANCIAL IMPLICATIONS

6.1 The outcome of the consultation may well have a significant impact on the future funding arrangements and on employer and employee contribution rates.

6.2 The Actuary will have regard to the outcome of the consultation in carrying out the 31 March 2010 actuarial valuation.

7. STAFFING IMPLICATIONS

7.1 There are no staffing implications in this report.

8. EQUAL OPPORTUNITY IMPLICATIONS

8.1 There are none arising directly from this report.

9. HUMAN RIGHTS IMPLICATIONS

9.1 There are none rising directly from this report.

10. COMMUNITY SAFETY IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. LOCAL MEMBER SUPPORT IMPLICATIONS

11.1 There are no specific implications for any Member or Ward.

12. LOCAL AGENDA 21 IMPLICATIONS

12.1 There are no specific implications arising from this report.

13. PLANNING IMPLICATIONS

13.1 There are no specific implications arising from this report.

14. BACKGROUND PAPERS

14.1 LGPS Delivering Affordability, Viability and Fairness - DCLG June 2009.

15. RECOMMENDATION

15.1. That Members approve the draft response to the DCLG consultation.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/261/09