WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	**PUBLIC ACCOUNTS COMMITTEE REPORT ON PUBLIC SECTOR PENSIONS**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 The report informs Members of the report published on 26 May 2011 by the House of Commons Committee of Public Accounts on the impact of the 2007 - 2008 changes made to public sector pensions.

2.0 RECOMMENDATION

2.1 That Members note the report.

3.0 REASON FOR RECOMMENDATION

3.1 There is a requirement for Members of the Pensions Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

4.0 BACKGROUND AND KEY ISSUES

4.1 In 2007-2008, new pension schemes were introduced for civil servants, NHS staff, teachers and local government employees. The changes made were in response to Treasury requirements for savings in taxpayer costs to make public service pensions affordable. Although the report focuses on the unfunded public service pension schemes many of the issues raised in its findings and its recommendations, in terms of future reform are equally applicable to the Local Government Pension Scheme.

4.2 Three main changes were made in 2007-2008:

(1) The age at which a scheme member could choose to draw a full pension was increased from 60 to 65 years for new members. This change had been introduced into the LGPS from 1 October 2006 and except for certain protected individuals service after 31 March 2008 was also made subject to this new provision for existing LGPS members.

(2) Employee contributions were increased by 0.4% of pay for teachers, by up to 2.5% of pay for NHS staff and tiered contributions introduced into the LGPS.

(3) A new cost sharing and capping mechanism was introduced to transfer, from employers to employees, extra costs that arise if pensioners live longer than previously expected.

4.3 The Government announced additional changes in 2010, including indexing pensions to the Consumer Prices Index rather than the Retail Prices Index, which are expected to reduce costs further.

4.4 <u>The Report Conclusions and Recommendations</u>

a) **Government projections show that the expected cost of public service pensions has reduced substantially because of changes made in 2007 and 2008.**
The changes made would keep the cost of public service pensions stable at 1% of GDP - generating more than £67 billion in savings to the taxpayer over the next 50 years. The exact range of savings is unclear because sensitivity analyses were not conducted on significant areas of uncertainty such as the size of the public service workforce.

b) Uncertainty about the discount rate used to set pension contribution levels has in the past undermined confidence about how future costs of pensions are valued.
The discount rate is used to determine the annual levels of employer and employee contributions to pension schemes. A lower discount rate leads to higher contributions from employees and employers, reducing the long-term cost of pension schemes to taxpayers.

c) Cost sharing and capping is the change intended to deliver 60% of the projected cost savings over the next 50 years, but it is not yet clear when it will be implemented or in what form.
The delay so far in implementing cost sharing and capping is largely due to the time taken to revise the discount rate. Additional uncertainty has arisen from the Hutton Commission recommendation to replace cost sharing and capping with a cost ceiling that fixes an upper limit on the amount the Government contributes to employees' pensions.

d) There is no measure defining an affordable level of expenditure on public service pensions, against which actual costs can be compared.
The Treasury reports on public service pension costs as a proportion of GDP, but has no criteria by which to judge their affordability. The Treasury should set out what it believes is an affordable level of spending so that it can assess the cost of public service pensions against a clear benchmark.

e) Employees are not given the information they need to understand the value of their pensions.
This hinders their ability to make rational decisions about important matters such as alternative employment options or whether to stay in, or opt out of, a pension scheme.

f) **It is not clear whether wider measures to encourage pension saving through occupational schemes are effective.**
The Treasury should clearly set out the costs and benefits of each measure of pension support, who benefits from each form of support, and how it judges the success of each measure.

g) **Changes to public service pensions affect other areas of public spending, such as means-tested benefits, but not all of these impacts have been identified and assessed.**
For example, increasing the amount that employees have to contribute to pension schemes could result in more people opting out of their pensions and having to rely on means-tested benefits, leading to extra costs to the public purse. Important implications of this kind need to be evaluated and understood. In particular, the Treasury should ensure that decisions to change public service pensions take into account the potential impact on spending on means-tested benefits.

h) **Further reforms expected in the near future present the opportunity for the Government to determine a stable, long-term direction for public service pensions.**
The Treasury announced in the 2011 Budget that it will propose further changes to public service pensions once it has consulted public service workers, unions and others on the Hutton Commission recommendations. The Treasury should set out clear objectives for any further changes, develop consensus around those changes and put in place arrangements to monitor progress. It should then aim for a period of stability so that employees' confidence in the value of their pensions is not undermined by fears that further changes will be made.

5.0 RELEVANT RISKS

5.1 The Public Accounts Committee outlines a number of risks involved in further reforms including the potential for increased numbers of optants out of the public sector schemes including the LGPS of scheme members faced by increased contributions and reductions in benefits and the potential impact on means tested state benefits.

5.2 In terms of the LGPS the impact on the maturity profile of the funds of increased numbers of optants out at the same time as reductions in the size of the local authority workforce may result in a need to review investment strategies with a potential resulting increase in employer contribution rates.

6.0 OTHER OPTIONS CONSIDERED

6.1 None.

7.0 CONSULTATION

7.1 Details of the consultation by the Public Accounts Committee and of oral evidence given are set out in the report (Appendix 1 attached).

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 None arising from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The outcome of the current reform of public service pension schemes including the LGPS will have significant financial implications for employers and scheme members.

10.0 LEGAL IMPLICATIONS

10.1 None arising from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 None arising from this report.

11.2 Equality Impact Assessment (EIA)
(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

12.1 None arising from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 None arising from this report.

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APPENDICES

1 – House of Commons Committee of Public Accounts report on the Impact of the 2007-08 changes to public service pensions - May 2011

REFERENCE MATERIAL

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date