Merseyside
PENSION FUND

Lord Hutton of Furness
Chair, Independent Public Service Pensions Commission
1 Horse Guards Road,
London,
SW1A 2HQ

Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 15 December 2010

Dear Lord Hutton,

CALL FOR EVIDENCE FOR FINAL REPORT
LOCAL GOVERNMENT PENSION SCHEME

I refer your letter dated 1 November 2010 inviting evidence and views to assist you in considering the issues outlined in order to produce your final report and recommendations. I submit the following response on behalf of the Wirral Borough Council in its capacity as the Administering Authority of the Merseyside Pension Fund.

Background

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 130 other employers on Merseyside and elsewhere throughout the UK.

The Fund has some 50,000 active contributing members, 41,359 pensioners and 34,000 deferred pensioners. It is responsible for the investment and accounting for a fund of £4.5 billion.

As part of the funded LGPS scheme in England the Merseyside Fund had assets to meet 78% of its future liabilities at the latest valuation as at 31 March 2010 and has a positive cash-flow.

As a LGPS fund it already pays on average lower pension (£4,640 p.a. for pensioners and £2,496 p.a. for survivor pensioners) than other public sector schemes, which as you have previously confirmed cannot be regarded as "gold-plated" in comparison with many private sector pension schemes.

Fund consultation undertaken

The Fund has consulted with its constituent employers and received a number of submissions from them which it has had regard to in drawing up this response to the Commission. The Fund's response to the 25 questions that you asked in your call for evidence is attached.

The Fund has recently also carried out a web based survey of its members views with some 1,952 people, (4% of the Fund active membership) taking part during the five days the survey ran for.

Details of the results of the members' survey, a representative selection of comments received together with results of the previous consultation on Scheme reform carried out in 2006 are also contained in Appendix 1.

As part of the survey the Fund received a total of 526 individual comments in relation to questions asked and full details of these are contained in Appendix 2. Statistical information on the Fund is provided in the attached annexe to this letter.

Future arrangements for the LGPS

The LGPS already has a higher retirement age (65) than most other public sector schemes for existing and new members.

Because of its funded nature it has a history of being subject to a high level of scrutiny and conscientious management by locally elected officials and council finance directors. It already delivers a high standard of administration and investment performance at a competitive cost in comparison to the private sector.

It is also the Fund's view that the LGPS is already ahead of all other public sector schemes in delivering effective reform.

With consideration to the above, and having regard to the attached evidence it is the view of this Fund that **retention of the final salary basis would be the most appropriate decision for the LGPS.**

In view of the overwhelming support and strong feelings expressed by scheme members, at an absolute minimum, existing members should be offered an option to retain the final salary basis and if necessary any additional cost be met by higher employee contributions. The attached detailed response also considers the alternative types of Scheme outlined in your questions and the Interim Report.

The Fund would be pleased to answer any further questions that you may have and to provide you with any additional information that you feel would be helpful.

Please do not hesitate to contact me if I can be of further assistance.

Yours sincerely

Director of Finance

enc: Summary of Response
Detailed Response to Questions
Annexe – Merseyside membership statistics
Appendix 1 – Survey results and selected comments from members
Appendix 2 – Full list of member comments to survey

Merseyside Pension Fund
Summary of Response

The Merseyside Pension Fund believes that the recommendations emerging from Phase 2 of the Independent Commission's review should:-

- be strategic and high principled and provide a strategic policy framework within which the LGPS and other public service schemes can conduct their own reforms with full recognition given to their occupational, financial, governance and administrative contexts;

- recognise the context, post Spending Review, within which any pension reforms need to take place;

- allow a reasonable timeframe for reform having regard to the need to consult with all stakeholders and to allow sufficient time for legislation to be properly made and computer software and systems to be updated. Any unnecessary complexity will only add to costs and result in a longer period of implementation;

- make simplicity a major objective of the Phase 2 recommendations to avoid over-complexity and the resulting risk of confusion of members and higher costs to employers and providers. The results of our scheme members' survey shows that complexity is a disincentive to employee participation in pension schemes and any lack of clarity and perceived uncertainty about possible reduction in pension security will result in more "optant outs";

- have recommendations that recognise in full the individual distinctiveness of each scheme, including its pay and occupational/gender characteristics and do not seek to impose a detailed 'one size fits all' solution on individual schemes;

- recognise that other countries' systems are bespoke to their wider state pension and governments' priorities towards public pensions;

- recognise the already strong local credentials of the LGPS, recognise that as well as being properly funded, and funded locally, the LGPS is governed, administered and invested at individual pension fund authority level by elected members representing the council taxpayers and others who stand behind the LGPS;

- take into account the experience, expertise and structures of the individual LGPS pension fund authorities as an integral part of local government and that they operate separately and distinctively from the PAYG, schemes and within their own distinctive and financial regulatory frameworks;

- recognise the fact that LGPS administering authorities are already responding to the challenge of efficiency, joint procurement and partnership working. For instance, the DCLG will, in the New Year, be leading on this with specialists in the sector and with leading stakeholder groups. Any proposal to impose changes combining/reducing LGPS pension fund authorities appears to be anti-local and reducing local democratic control and oversight;

- recognise explicitly the LGPS regulatory framework, through its statutory triennial valuations with employer adjustments being in place within one year of completion; the existence of fund authority Funding Strategy Statements to manage transparently and locally its deficit recovery programmes while protecting council taxpayers. Fund Statements of Investment Principles, are published locally;

- recognise the income stream provided by the LGPS pension fund investment process which offsets directly employers' costs and helps to guarantee annual positive cash balances in the Scheme;

- acknowledge that the LGPS is fully transparent and far more so than any other public service pension scheme. For example, the preparation and publication locally of:-

  Funding Strategy Statements; Statements of Investment Principles; Myners' Compliance Statements;

  Pension Fund Annual Reports, including:
    - audited accounts;
    - summary of actuarial valuation reports,
    - investment performance,
    - governance & risk management frameworks; and
    - communication policy statements

  all of which are agreed by locally elected members, providing a robust, stable and viable pension framework for members, employees and council taxpayers.

- recognise that as a result of its funded nature and reform already delivered the LGPS is affordable and sustainable without the need for further radical change.

Merseyside Pension Fund
Detailed Response to IPSPC Questions

Scheme Design

Q1) What is an appropriate scheme design for public service pensions? Why?

In looking at future scheme design for public service pensions it is essential to recognise the distinctive characteristics of the existing schemes. There are understandable concerns regarding the costs of funding the unfunded public sector pension schemes. However, this Fund believes that a case can be made because of the distinctive nature of the Local Government Pension Scheme (LGPS), that in that it has already gone further in terms of reforms for both existing and new members and having regard to its funding position it should be looked at separately from the unfunded schemes. The Merseyside Fund believes as explained below that the case for further fundamental reform of the LGPS has not been made.

Unlike most public service pension schemes the LGPS is a funded pension arrangement and its investment and administrative performance is transparent and subject to local democratic accountability. The individual LGPS funds are in many ways operated along the same lines as the best private sector schemes. The LGPS funds are required to publish annual reports on performance, undertake triennial valuations, have clear and published policies on funding strategy and investment principles, as well as their Governance arrangements and approach to communications.

The LGPS was last reformed in April 2008, following extensive consultation with employees and employers. That consultation showed “a clear and strong consensus amongst respondents to the “Where Next?” consultation indicating significant support for retention of “a final-salary scheme which meets the test of affordability, viability and fairness to members, employers and taxpayers”. Communities & Local Government Regulatory Impact Assessment to the draft LGPS (Benefits, Membership and Contributions) Regulations 2007).

The Local Government Employers Organisation (LGE) undertook its own survey in 2006 of employers regarding options for change, which showed there was little support for career average schemes, nor for a hybrid final salary/career average scheme (LGE letter to CLG dated 12 October 2006).

Merseyside Pension Fund’s own survey of its membership at that time revealed that 84% of the respondents had a preference for retention of a final salary scheme, with 70% of respondents being prepared to pay additional contributions for a better benefit package.

The resultant scheme provides final salary benefits which are expected to cost nationally “an average existing member and new entrant employer benchmark cost of 13.2% with an average employee contribution of 6.3%” (Communities & Local Government letter dated 23rd November 2006). These are not figures which would appear to indicate a pension scheme in crisis and for the Merseyside Pension Fund the recent 2010 valuation has confirmed that the average employers’ future contribution rate required is 11.6%. In addition, cost sharing arrangements are in place and the ability to cap future increases in employer contributions to address any future concern about the affordability of the scheme.

Unlike the unfunded public service schemes, for the LGPS the real concerns about costs revolves around funding of past service deficits. Changes to future benefit accrual are unlikely to impact directly on funding of past service deficits.

Within the LGPS dealing with the deficits is dealt with through the Funding Strategy Statement required to be published by each LGPS administering authority following consultation with employers.

The Merseyside Pension Fund in its Funding Strategy Statement is seeking to rectify the past service deficit within a maximum 25 year time frame by additional employer contributions. This is believed to be not untypical of other LGPS administering authorities. The maximum 25 year period is indicative of the strength of the employer covenant that exists with public bodies. It also provides for a recovery of deficits during the period when the LGPS is expecting to be receiving more by way of contributions than it pays out in benefits. In this Fund there is normally a requirement for a bond or guarantor to be provided to the Fund by non-local authority employers within the LGPS and the deficit recovery period for these employers may be considerably less than 25 years.

Having regard to the recent Pensions Policy Institute report “The Future of the Public Sector Pensions” which indicates that only the existing final salary schemes are likely to achieve a 60% benchmark pension income replacement rate for median earners and the claims “The combined impact of the last Labour Government’s reforms and the Coalition Government’s recent announcement on CPI indexation has reduced the value of a public sector pension to a typical public sector worker by around 25%” the Fund questions whether further fundamental reform is still necessary in a funded, well managed, transparent and democratically accountable scheme such as the LGPS.

Although the Fund welcomes the Commission’s support for retention of defined benefits for public sector pension provision the Fund believes that there is a case for retention of a final salary defined benefit scheme for the LGPS and regrets that the Commission in its interim report concluded that “long-term structural reform is needed, as these issues cannot be dealt with through traditional final salary defined benefit schemes”, and is proposing to only look at alternatives to final salary schemes in its final report.

This Fund would therefore suggest that having regard to its unique characteristics including its funded nature that the LGPS should be allowed to retain the final salary arrangement if those responsible for its funding and management believe that it is the most appropriate choice. The following comments expand on this point and address the possible alternatives suggested in the interim report.

Given the diversity of occupational/gender characteristics, and pay levels across the existing public sector schemes it may not be practical or appropriate to introduce a “one size fits all” solution. The comments which follow below are mainly concerned with alternative approaches to the Local Government Pension Scheme.

In its interim report the Commission highlighted 4 principles for public service pensions: -

- Affordable and sustainable;
- Adequate and fair;
- Support productivity; and
- Transparent and simple

The Commission acknowledges that these principles will tend to pull in different directions. It is accepted that the underlying aim of reform is to achieve public sector pension provision that is affordable and sustainable. Although what is considered to be affordable and sustainable is ultimately a political decision, it can be argued that this is best achieved with a scheme that is transparent and simple. If a scheme is overly complicated to achieve the other two principles it runs the risk of poor take-up and high administration and communication costs, which would result in more people being reliant on means tested state benefits in retirement.

The interim report highlights seven types of pension scheme as being amongst those for consideration: -

- Career average defined benefit (DB) schemes;
- Notional defined contribution (DC) schemes with added protections;
- Collective DC schemes to smooth out investment risk;
- Cash balance schemes;
- Nursery or sequential hybrid schemes;
- Defined Benefit Schemes with earnings caps;
- Combinations hybrids of DC and DB schemes.

It can be argued that to deliver transparency and simplicity it should be a defined benefit scheme and a scheme which is easy for members to understand and that is economic to communicate and administer.

DC & Hybrid schemes do not meet the criteria of being easy to understand by members, and can be costly to administer and communicate.

Therefore based on the above the most viable alternatives would appear to be: -

- A career average scheme; or

- A Defined Benefit Scheme either final salary or career average with an earnings limit, providing access to Defined Contribution arrangements for earnings over that limit.

- However, based on the results of consultation with scheme members which confirmed a desire for retention of final salary as the most popular future calculation basis (see Appendix 1) the Fund would support the provision of an option for either all existing members (or at least those within a short timescale of retirement) to be able to retain final salary benefits in return for increased contributions to meet any additional costs arising.

The employee contribution arrangements also need to reflect the fundamental structure of the scheme. Some of the existing final salary public sector schemes such as the LGPS currently have banded contribution rates based on different salary levels, in an attempt to redress some of the perceived inequalities within final salary schemes that appear to favour high flyers.

The Fund believes that any move from final salary to a career average scheme or imposing maximum pensionable earnings caps, together with the impact of the new HMRC tax restrictions on relief for pensions contributions will mean that any advantages to "high flyers" will no longer exist, making a case for a return to a flat contribution rate for all members. It should not be a function of a contributory occupational pension scheme to be used as a tool for the redistribution of wealth between different income groups within society by means of differential contribution rates or benefits. This is something which should be dealt with by Government taxation and welfare policies.

Risk-sharing

Q2) which risks associated with pension saving should the scheme members bear which by the employer and which should be shared? Why?

The public sector as a whole should continue to be seen as a model responsible employer and one which sets a benchmark that private sector schemes should aspire to, especially as regards occupational pension provision rather than "the race for the bottom." An equitable distribution of risk does however need to be considered. It is accepted that Final salary schemes place a lot of the risks associated with running a pension scheme on the employer, but it is important to establish some criteria for sharing risk.

In February 2008 the Department for Communities & Local Government published a consultation paper "Sustaining the LGPS in England and Wales" in which it identified the following risk factors for consideration: -

- Changes to longevity
- Other demographics – e.g. staff turnover, rates of ill health retirement, deaths in service, etc.
- Pay increases
- Options available – e.g. added pension contracts and exchanging pension for tax-free lump sum
- Benefit Structure
- Overriding legislation – e.g. HMRC tax simplification and the change from RPI to CPI for indexation.
- Investment returns
- Financial assumptions
- Actuarial methodology

Of the above factors the Fund believes that the most significant current concerns over the affordability and sustainability of funded occupational pension schemes revolves mainly around 2 of these factors – Changes to longevity and Investment returns.

It would be appropriate to see who is responsible for controlling or benefits from these risk factors: -

a) Longevity is clearly a benefit to the scheme members and it would not be unreasonable to see that this is reflected within changes to the scheme rules, either by a having a flexible normal retirement age which matches the State Pension Age, or changes to the underlying benefit package, or by increasing contributions. The latter option could have a potential serious impact upon take up of membership of the low paid.

b) Investment risk (within the LGPS) is mainly the responsibility of the scheme administrator/employer, with the scheme membership at best, only having a limited input into the investment process. In non-funded pension schemes it is understood that a notional investment return is made within the actuarial calculations, as such the membership again has very little if any input into those assumptions. The investment risk clearly lies with the scheme administrator/employer.

Factors relating to Financial Assumptions and Actuarial Methodology will also fall to the administrator/employer. Whereas, factors such as other demographics, pay increases, options available all fall within the area of benefit structure which will with proper design share the risk.

Q3) what mechanisms could be used to help control costs in public service Schemes?

The existing cap and share arrangements within most, if not all, public sector schemes including the LGPS already provide a framework to limit and share the future increases in costs.

In considering potential measures to deliver costs savings in the short term by further increasing employee contributions, the implications of such a measure for admitted body employers in the funded LGPS needs to be taken into account. It would be anomalous if employees of such bodies were subject to the increase in employee contributions if the individual employer did not benefit from a credit to its funding position or reduction to its employer contribution rate.

Q4) Where and how have risks associated with pensions been effectively shared in private sector companies?

It is difficult to identify effective examples of risk sharing in the private sector which has to a large extent abandoned defined benefit arrangements in favour of passing all of the risk to employees by means of defined contribution arrangements.

Q5) Which international examples of good practice in the area of risk sharing should the Commission consider when compiling the final report? Why?

We have no particular comment to make on this question other than to state that we need to be aware that looking at arrangements in other countries will not necessarily provide an easy blueprint for the UK public sector. Indeed it is important to recognise that public sector pension provision in operation in other countries will reflect wider issues of overall state benefit provision, and the extent of the public sector, and differing government priorities.

Q6) What should the split between member and employer contributions look like?

If the cap and share arrangements currently provided for within the LGPS are retained this would enable a cap to be set upon the employers contribution to meet future service costs, within a funded scheme such as the LGPS the balance required from the employee would also depend upon expected investment returns.

For some time within the LGPS there has been a cost sharing position with the employer paying contributions up to around twice what the member has been expected to pay for future service provision (i.e. a sharing of costs on a 1/3 employee and 2/3 employer basis).

The average future service rate for this Fund at the 2007 valuation was 12.1% of pensionable pay. The average future service rate at the 2010 valuation has fallen to 11.6% with employees paying around 6.4% on average within a range of 5.5% to 7.5%.

The cost to the employer of financing any past service deficit is a further factor to be taken into account.

Q7) Should there be different treatment of different professions (for example, lower normal pension ages for some public service employees)?

Yes. Clearly some occupations within the public sector as a whole carry with them different physical or mental demands which are also influenced by the age of the member including operational staff within the emergency services and the armed forces. There is clearly a need to consider the appropriate normal retirement age for different occupations.

Within the LGPS (with the exception of a small number of staff transferred from the Civil Service Scheme into the LGPS with protected early retirement ages) all staff covered by the LGPS are subject to a common retirement age of 65. This is despite the fact that some local authority staff are required to carry out physically demanding roles which may become more difficult with age no specific provisions provide for an earlier right to retire early to recognise this.

Q8) Should there be different treatment for those at different income levels?

The Fund believes that it should not be a function of an occupational pension scheme that it is used as a tool for the redistribution of wealth between different income groups, this is something which if felt necessary should be dealt with by Government taxation and welfare policies.

The case for different treatment for those on different income levels to address fairness issues within the scheme will depend upon the benefit and contribution structure of the scheme. There are issues within final salary pension schemes regarding the advantages to high flyers, although this has within the LGPS and NHS been partly addressed by having differential contribution rates set within tiered income bands. The recent changes announced by HMRC to the taxation of pension contributions will further reduce the advantage which high flyers are perceived to have.

Although a move away from a final salary scheme to either a career average scheme or a final salary scheme with an income cap would further reduce any advantages to high flyers this would negate the justification for the current tiered contribution rates.

Q9) What is the appropriate normal pension age for the different public service schemes? Should this vary across schemes and, if so, why?

See the response to question 7. This should be established after consultation with the appropriate employer and employee representatives for the different schemes. The Fund believes that there is a case to be made for the non-uniformed public service schemes to have a normal retirement age linked to the state pension age for men.

Adequacy

Q10) How should the Commission think about measuring adequate levels of resources in retirement?

The first report of the Pension Commission headed by Adair Turner entitled "Pensions: Challenges and Choices" published in 2004 provided a great deal of evidence as regards income replacement rates. This evidence was expanded upon by the report of the Pension Policy Institute "The future of Public Sector Pensions" published in November 2010. The Fund believes that this work would represent a good framework for the Commission to focus on.

Q11) What should be considered an adequate level of resources in retirement?

To ensure that the members receive a benefit appropriate to their contribution over a relevant number of years the minimum target should be based upon something in excess of the levels which would trigger any means tested benefits – pro-rated to the earnings in employment.

Based upon the work undertaken by the Adair Turner Commission and the Pension Policy Institute regarding income replacement rates an ideal scenario would be to provide for a full time employee with appropriate full working life membership to be able to achieve somewhere between 50% to 80% of their earnings.

Q12) Should a full state pension and a full public service pension ensure people have adequate resources in retirement? Or should room be left for individuals to make their own arrangements?

A full state pension and full public service pension should provide adequate income in retirement. Expecting people to make their own arrangements would potentially lead to more people claiming means tested benefits, which would fall upon the taxpayer.

The private sector move away from defined benefit schemes to defined contribution schemes has according to recent Research by Long Finance in its report "Don't stop Thinking about Tomorrow: The Future of Pensions" led to such schemes providing grossly inadequate income and condemning future elderly to a life of poverty". Such individuals will fall upon the state for support through means tested benefits. It further claims "The effect of legislation has been to drive employees into grossly inadequate DC schemes, where they bear every risk to their retirement income alone, despite being overwhelmingly unequipped to do so".

Within the LGPS individuals can already make further arrangements to top up their occupational pensions by making additional voluntary contributions or purchasing additional pension within the scheme.

Q13) How should this change where people work part careers in public service?

The amounts payable from public sector schemes for people who have partial careers should be pro-rata to a full time/ full career employee. They will have had the opportunity to build up other pension rights in any other non public service occupation they may have had or may have in the future.

<u>Employee understanding and choice</u>

Q14) How much do workers value and understand pensions? Is there any evidence this differs between groups (for example, by age, by income)?

The Merseyside Pension Fund has undertaken a survey of its membership on this point with full details of the results given in the attached appendix. With over 1,950 respondents representing 4% of the Fund's active membership, 87% of respondents considered their LGPS pension arrangements as either valuable or very valuable when making career decisions.

Here are some typical comments from the many made in the survey: -

> *"An occupational pension gives an individual an independent income in their retirement, for a lot of individuals it offers a structured savings plan that they would probably never make if it was left to an individual to choose, plan and organise".*
>
> *"As a young person should I worry about a pension I may never be able to claim (or won't provide a sufficient income) or just buy property because I need somewhere to live now and can sell it when I get old? It's a tough choice for low paid people. Occupational pensions do at least remove some of the confusion, as long as your employer looks after it properly it should be one less thing to worry about."*

Q15) Which forms of scheme design will encourage employees to save for their retirement? Is there any evidence from pension scheme reforms influencing opt out rates in the private sector?

Although it could be argued that a defined benefit arrangement is in some ways easier to communicate and understand, evidence shows that within the private sector people are not putting enough into DC arrangements, nor do they always make the best choices when the time comes to make an annuity option. The existing LGPS defined benefit final salary scheme is comparatively easy to understand, and highly valued by existing members, many of whom would be prepared to pay higher contributions if necessary to retain the option. That the need for members to have confidence in the security of their Scheme and the safety of their future pension is crucial is demonstrated by comments received by the Fund in its latest member consultation and loss of confidence will inevitably result in increases in opting out or decisions not to join.

Q16) What best practice exists in the private sector around communication of benefits with scheme members?

Many of the communication policies considered best practice within the private sector e.g. scheme booklets, regular newsletters, annual benefit statements, and website access, have all been widely used by LGPS administering authorities including Merseyside and many of whom have won awards for their approach to communication.

Q17) Should any new scheme design offer members a degree of choice in the level of contributions paid and benefits received? For example, should members be able to receive a higher pension if they want to take the pension later? Why?

A number of members of the scheme have expressed support for a degree of choice to target or exclude specific benefit that they would or would not choose to take up given a choice. However the Fund would recommend that for long term planning such as pensions it should be the guiding principal to "keep it simple" and this may lead to the need to limit options. The wrong decision taken on contributions and benefits options taken at an early age would be more likely as a result of the member looking at short-term needs rather than providing adequate income in retirement.

The funded LGPS already provides for an actuarial increase in benefits for those members who stay in employment beyond their normal retirement age.

Pensions and plurality of provision of public services

Q18) Whether and how public service pensions could be structured to support a more level playing field between the public and private sectors when tendering for contracts?

Anyone bidding for a public sector contract should provide pension arrangements at least equal to those within the public sector. Otherwise this would distort any bidding process, with the external bidder potentially not having to consider pension costs, or only reduced pension costs in its bid.

The existing admission body arrangements within the LGPS have not been a barrier to the private sector being successful in its bids for services and is widely taken up in the experience of this Fund. The LGPS admission arrangements should form a model for the rest of the public sector. To minimise difficulties in contracting and to ensure equal treatment of staff, the public sector procurer could agree to carry the risk of volatility of agreed pension costs by allowing the contractor to tender on the basis of paying the future service rate.

Q19) Which non-public service employees should be eligible for membership of public service schemes?

Only those who undertake work which has been awarded under a contract from a public authority.

Administration costs

Q20) What evidence is there on administration costs (excluding fund management costs) of private sector pension schemes? How do these compare with those in the public service schemes?

Capita the well known third party provider of services to the public sector produce an annual survey on Pension Fund Administration costs. Within the LGPS, CIPFA carry out an annual survey comparing administration costs between LGPS administering authorities and also by reference to the Capita figures.

The average unit cost for the LGPS and for this individual Pension Fund compares favourably with both in-house and outsourced private sector arrangements.

Q21) How do private sector schemes ensure that there is good quality and efficient scheme administration? Which measures can be applied to public service schemes?

Within the LGPS the CIPFA annual pension administration benchmarking survey referred to above already assists in establishing good quality and value for money.

Q22) Is there scope for rationalising the number of local government pension funds? If so, how could this be achieved?

Any proposal to impose changes combining/reducing LGPS pension fund authorities appears to be anti-localism and reducing local democratic control and oversight. Although there may be scope for some rationalisation of local government pension funds, in looking at possibilities it should be remembered that as well as being funded, and funded locally, the LGPS is governed, administered and invested at individual pension fund authority level, and governed by locally elected members representing the council taxpayers and employers who stand behind the LGPS.

This provides real local democratic accountability especially over such things as the application of Fund policy discretions. The administration and investments functions are also transparent with for example the publication of Funding Strategy Statements, Statements of Investment Principals, Annual Reports, and Governance and Communication Policy Statements.

This level of local accountability to one of the key stakeholders of the scheme the Council Tax payer would be difficult to replicate if rationalisation is taken to extremes. The LGPS is larger in terms of membership than the Civil Service, Teachers, Fire, Police, and armed forces combined. It is a funded scheme if all of the local authority funds where to be combined it would produce an investment organisation which could potentially seriously distort the stock and bond markets.

There are already examples available of LGPS administering authorities developing partnership working and the CLG intends to promote the development of such initiatives more widely in the coming year.

Transition issues

Q23) How can the Commission ensure an effective transition to the new arrangements?

This all depends upon the decisions taken about the nature of the new arrangements in comparison to existing entitlements, delivering satisfactory guarantees on protection of accrued rights and the timescale for implementation.

If it is planned to have the new arrangements within the lifespan of the current Parliament (i.e. before the next General Election), which would remove the current uncertainty impacting upon pension planning, then it would be essential to keep the new scheme as simple as possible. The need for any proposed changes should be capable of justification on grounds of affordability and sustainability having regard to the significant changes that have already been made to pension arrangements including the recent CPI change.

As previously stated in this response, in terms of the LGPS this Fund believes that retention of the current final salary basis is the most appropriate choice.

Should however a decision be made to alter the current calculation basis and to close off the current scheme from a chosen date and calculate deferred benefits in respect of members' accrued rights to be increased in line with a specified revaluation index, this would be likely to reduce the value of accrued rights and so make the task of agreeing a smooth transition more problematic.

The only way to fully protect scheme members' accrued rights and to avoid substantially reducing the "pension promise", in respect of those rights, would be to continue to calculate benefits at leaving based on final salary. i.e. the salary at date of conversion to the new scheme arrangement should continue to be increased each year until leaving in line with that individual's rise in pensionable pay and after leaving in line with the relevant benefits revaluation index CPI/RPI.

This is the approach which was adopted in previous similar circumstances for accrued service up to the introduction of the new LGPS scheme in April 2008 and any other approach would not be seen by members as fully protecting accrued rights.

Continuing to calculate benefits at leaving in respect of the membership accrued up to the cut off date for the old scheme rules would also potentially avoid the need to carry out calculations in respect of all active members at the cut off date.

Q24) What can the Commission learn about moving to a new scheme from best practice in the private sector and internationally?

The Commission should recognise that nearly, if not all public sector schemes have a great deal of experience as regards moving to new schemes as a result of recent reforms. The key is to keep the new arrangements simple to understand and to allow sufficient time to not only agree and pass the relevant legislation, but also to prepare and deliver what will be a major communication exercise to employers and members, develop suitable administration software, retrain pension staff, and process whatever transitional arrangements are deemed suitable.

Q25) How have accrued rights been protected or transferred during changes in schemes in the private sector?

The Merseyside Pension Fund does not have experience of this issue but it is believed that in the private sector protection is generally given only as far as minimum levels required under the various pension acts.

-- ends

Annexe

Merseyside Pension Fund Statistical Information

The detailed data that you requested has been provided separately. The table below sets out a summary of the Fund level data from the 31 March 2010 Actuarial Valuation exercise.

Category	Total Number	Male %	Female %
Active	49,496	31.5	68.5
Deferred	34,019	36.4	63.6
Pensioners inc survivors & depend	41,359	43.1	56.9
Total	124,874	37.0	63.0

The split between full time and part time active members was:

Full time actives	**29,766**
Part time actives	**19,730**
Total	**49,496**

The average full time equivalent annual salary for the active members at 31 March 2010 was £21,800 and the average actual annual salary figure was £18,400.

The average annual pension for pensioners at 31 March 2010 was £4,640 p.a. and for survivor pensioners was £2,496 p.a.

From the statistics shown above it is evident that females form a substantial majority of all of the membership groups including 68.5% of the current actives.