

Mr Joe Perkins
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: 20 August 2010

Dear Mr Perkins,

LOCAL GOVERNMENT PENSION SCHEME INFORMATION

I refer your request to this Fund dated 6 August 2010 for information.

In response to the invitation from John Hutton dated 2 July 2010 for evidence and views to assist the Commission's independent review of public service pensions I submit the following 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 100 other employers on Merseyside and elsewhere throughout the UK.

It has over 49,000 active contributing members, 41,359 pensioners and just over 34,000 deferred pensioners. It is responsible for the investment and accounting for a fund of £4.5 billion.

It is understood that you have already received many submissions from a variety of interested parties which have addressed the distinctive nature of the Local Government Pension Scheme in comparison to other unfunded public sector pension arrangements, and this response does not therefore dwell overly on the distinctive nature of the LGPS, but there are some points which we feel should be emphasised.

- As part of the funded LGPS scheme the Merseyside Fund had assets to meet 80% of its future liabilities at the last valuation in 2007 and has a positive cashflow.
- It pays on average lower pensions (£4,640 p.a. for pensioners and £2,496 p.a. for survivor pensioners) than other public sector schemes which cannot be regarded as "gold-plated" in comparison with many private sector pension schemes.

- It 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 elected officials and council finance directors.
- It already delivers a high standard of administration and investment performance at a competitive and economic cost in comparison to private sector schemes.

Detailed Response

The view expressed in the Hymans Robertson LLP submission to you dated July 2010, which emphasised the dangers of “acting in haste and repenting at leisure” is strongly supported by this Fund. Quick fix cost saving measures may impact down the line in increased public spending on means tested benefits for the elderly if participation in and the benefits paid from public sector schemes are significantly reduced. They also bring with them additional administration costs as evidenced by the recent decision to move pension inflation indexing from RPI to CPI has shown across the pensions industry in both public and private sectors.

This Fund shares the opinion of many commentators that the LGPS is a model for how public sector schemes should operate, emphasising its funded nature and that it operates within most of the same restrictions and governance requirements of a private sector occupational pension scheme.

The LGPS has been subject to ongoing review and reform for many years and is currently under review again by the Department for Communities and Local Government separately from the work of the Commission.

In the recent past this has resulted in a new scheme being implemented in April 2008 which included a number of cost reducing measures:

restrictions on the right to retire before age 65 without any reduction in pension for all existing and new employees (subject to limited protection for those close to retirement age);

More stringent ill health retirement qualifications,

Changes to the employee contribution rate from a fixed 6% to an earnings related range between 5.5% and 7.5% (with current consultation on increasing the higher level of this range);

The LGPS provides for employee contribution rates to be increased on a risk sharing basis and it is currently awaiting the details of the outcome of this cost-sharing exercise following the 31 March 2010 triennial actuarial valuation.

Further reductions in the costs of the LGPS to employers have been made as a result of the current wage freeze in local government and by the reduction in the size of pension liabilities resulting from the move from RPI to CPI to measure inflation for pension indexation.

The current levels of past service deficit which have impacted negatively on employer contributions will be reduced considerably if and when as expected interest rates in the economy and the yield on bonds return to more normal levels.

Having regard to the above the Fund believes that the following should be taken into account in considering future changes to the LGPS. The following are considered the minimum requirements for a future LGPS: -

- That it should remain a funded defined benefit scheme. Experience in the private sector moving away from defined benefits has highlighted how little provision is being made for retirement, with lower pensions take up which will impact on the take up of means tested state benefits and increased incidence of ill health for those on low income.
- The value of any new LGPS should be comparable to other non uniformed public sector schemes to ensure it is competitive as regards being a tool for recruitment and retention of staff.
- In any change to the LGPS appropriate transitional arrangements need to be put in place to ensure accrued rights are adequately protected. Past experience has shown that insufficient attention to the protection of accrued rights creates anomalies and additional administrative costs to resolve them.
- A review should be undertaken to explore the potential for joint/partnership working within the current LGPS administering authorities to seek further efficiency improvements and economy of scale savings on investment management and administration expenses of the Funds.

Summary

The value of the LGPS as a good occupational pension scheme as part of the total remuneration package is widely recognised by many of the Scheme employers as an important aid to recruitment and retention, particularly in respect of professional and long serving staff.

The value placed on benefits provided by the pension scheme for members and their dependants is reflected in the high levels of take up amongst many groups of employees, although take up levels are lower amongst many younger and low paid employees on grounds of affordability.

The Fund believes that the LGPS serves its objectives well in encouraging and enabling large numbers of employees representing a substantial part of the local economic population to save to make adequate financial provision for their retirement.

The Fund is currently paying pensions to 41,359 pensioners and survivors with an average annual amount payable of £4,640. These mostly modest amounts will in many cases be substituting for means tested state benefits that would otherwise have been payable by the Government.

Please do not hesitate to contact me if you require any further information or assistance.

Yours sincerely

Director of Finance

Merseyside Pension Fund Statistical Information

Appendix

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 %
Actives	49,496	31.5	68.5
Deferreds	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.