

An affordable LGPS



Hutton Report The recommendations

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Hutton Report - The recommendations

The following pages set out the recommendations of the report grouped into the following sections. The recommendation numbers are quoted together with references to paragraphs within the full report.

- 1. The Scheme** - A defined benefit CARE scheme with no pay cap but tiered contributions. Average earnings revaluation for new accrual and CPI for pensions. Ability to retire early and pay more plus the retention of ancillary benefits. New Normal Pension Age (NPA) linked to State Pension Age (SPA).
- 2. Protections** - The impact of retaining The Final Salary link and Normal Retirement Age for current service.
- 3. Controlling costs** - Independent review of NPA plus fixed cost ceiling for employers with default cost reduction mechanism.
- 4. One scheme for all?** - shared framework plus differences for LGPS and uniformed schemes. Access to schemes to be restricted to public sector employees.
- 5. Governance and transparency** - Independent oversight of all schemes with OBR reporting of fiscal impact. Pension Boards at scheme and local level with member and independent expert members.
- 6. Administration and rationalisation** - Minimum standards set with independent advice, benchmarking across and within schemes using shared standards. Shared services encouraged across LGPS but no forced rationalisation.
- 7. Implementing change** - Central control of parameters and principles, scheme by scheme consultation, implement in this parliament, resource for change using best practice, move existing members to new scheme.

Recommendation
5b and 7

Defined Benefit - 2.26-29 but not final salary

Career Average Revalued Earnings (CARE)
3.23-28 certainty outweighs flexibility of Cash Balance

Recommendation
9a and 9b

No pay cap 3.36 simplicity and cash flow implications plus minimal impact of cap at reasonable level

Tiered contribution rates 3.74-88 contributions linked to earnings to reflect no pay cap

Recommendation
8a and 8b

Average Earnings revaluation (actives) 3.43-58 coupled with lower accrual rates (61st?) better meets adequacy principle

CPI revaluation (pension) 3.37-42 purchasing power important

?? revaluation (deferred) 3.59-64 pros and cons, decision left to government

Recommendation
10

Flexible/Early retirement- 3.91-103 with actuarial reduction but no abatement

Ability to pay extra 3.104-106 must be fiscally neutral

Ancillary benefits (death, dependants, ill health) remain 3.108-114 limited value in removal

Recommendation
11

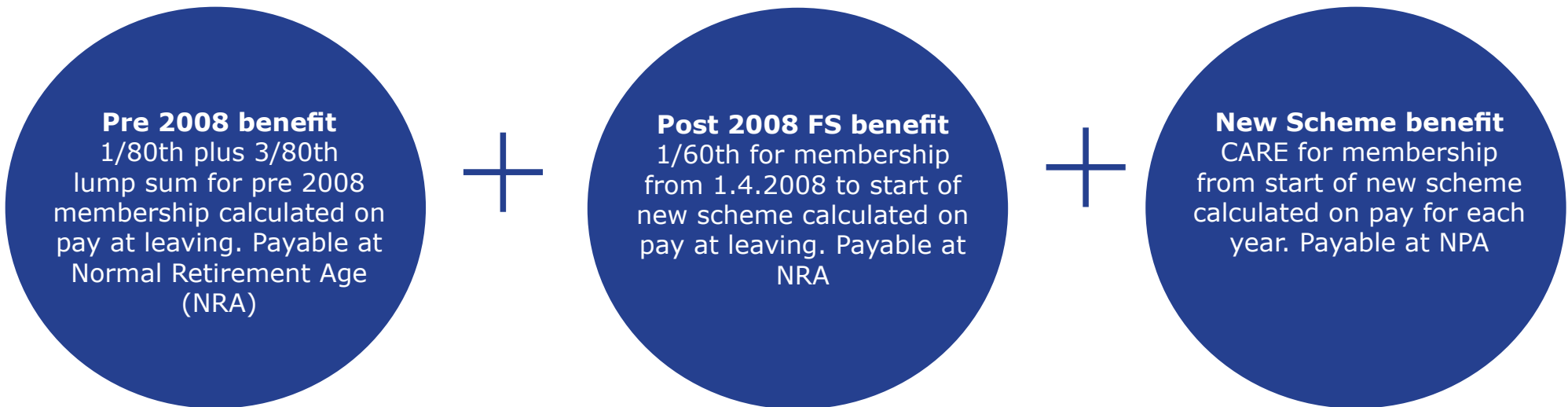
Normal Pension Age = SPA - 4.9-14 for future service only and reviewed regularly

Hutton Report - Protection of accrued rights

Recommendation 4

Retention of final salary link for service up to the point of move into new scheme and pension age of that service (which may be after new NPA) 7.32

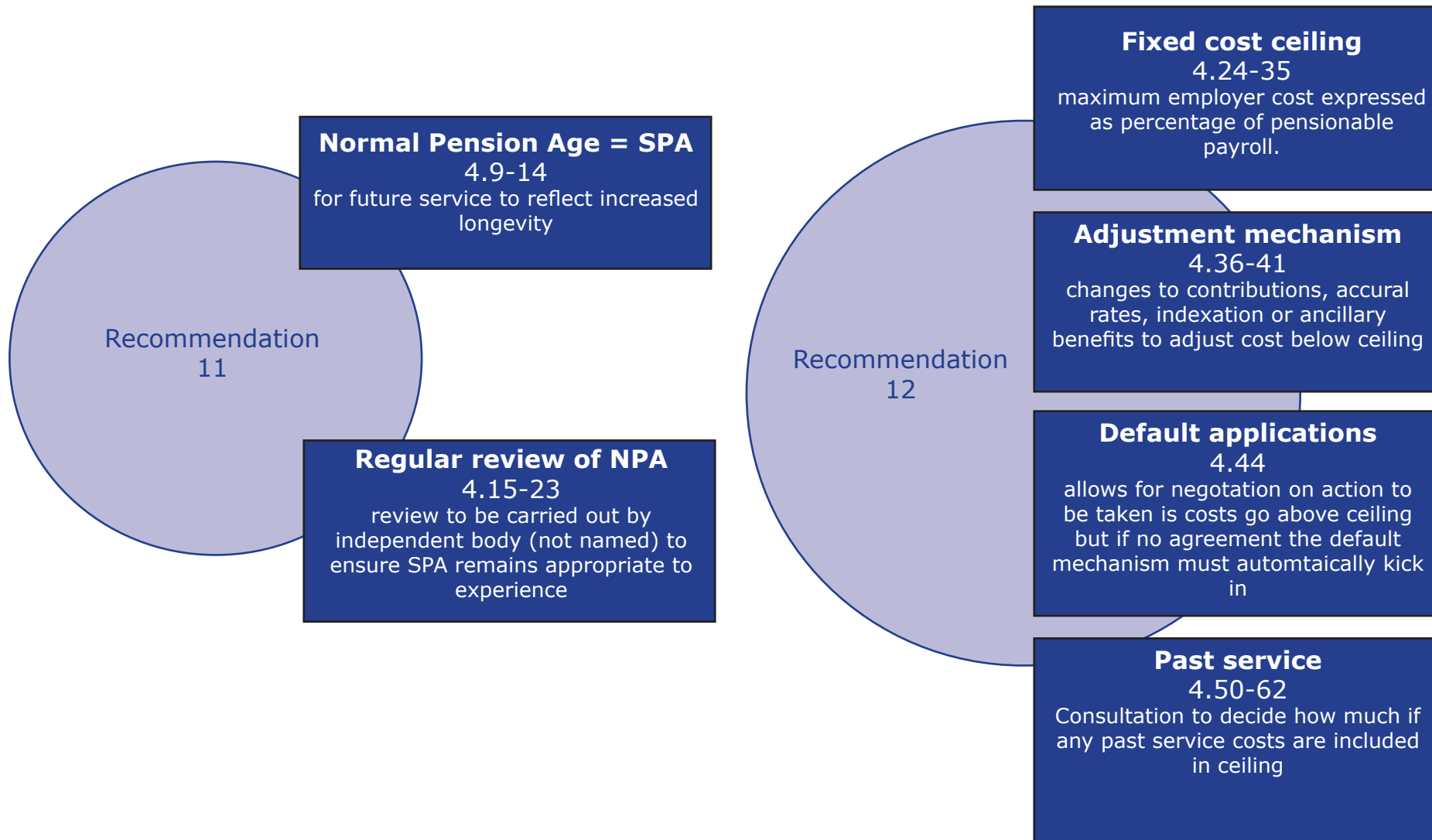
The effect is the following total benefit for current (pre 2008) member



Impact

Pros - protection of existing rights

Cons - Complex calculation at retirement requiring equally complex systems, processes and data collection.



Hutton Report - One public sector scheme?

Public sector schemes

LGPS only

Recommendation 13 and 15a

Common design features apply to LGPS, NHS etc
5.1-17 and 5.30-33
Defined Benefit - CARE
Indexation for pensions and accrued benefits
Adequate income in retirement
Normal Pension Age
Cost ceiling

Uniformed scheme differences
5.18-25
NPA set to age 60 but to kept under review

Recommendation 14

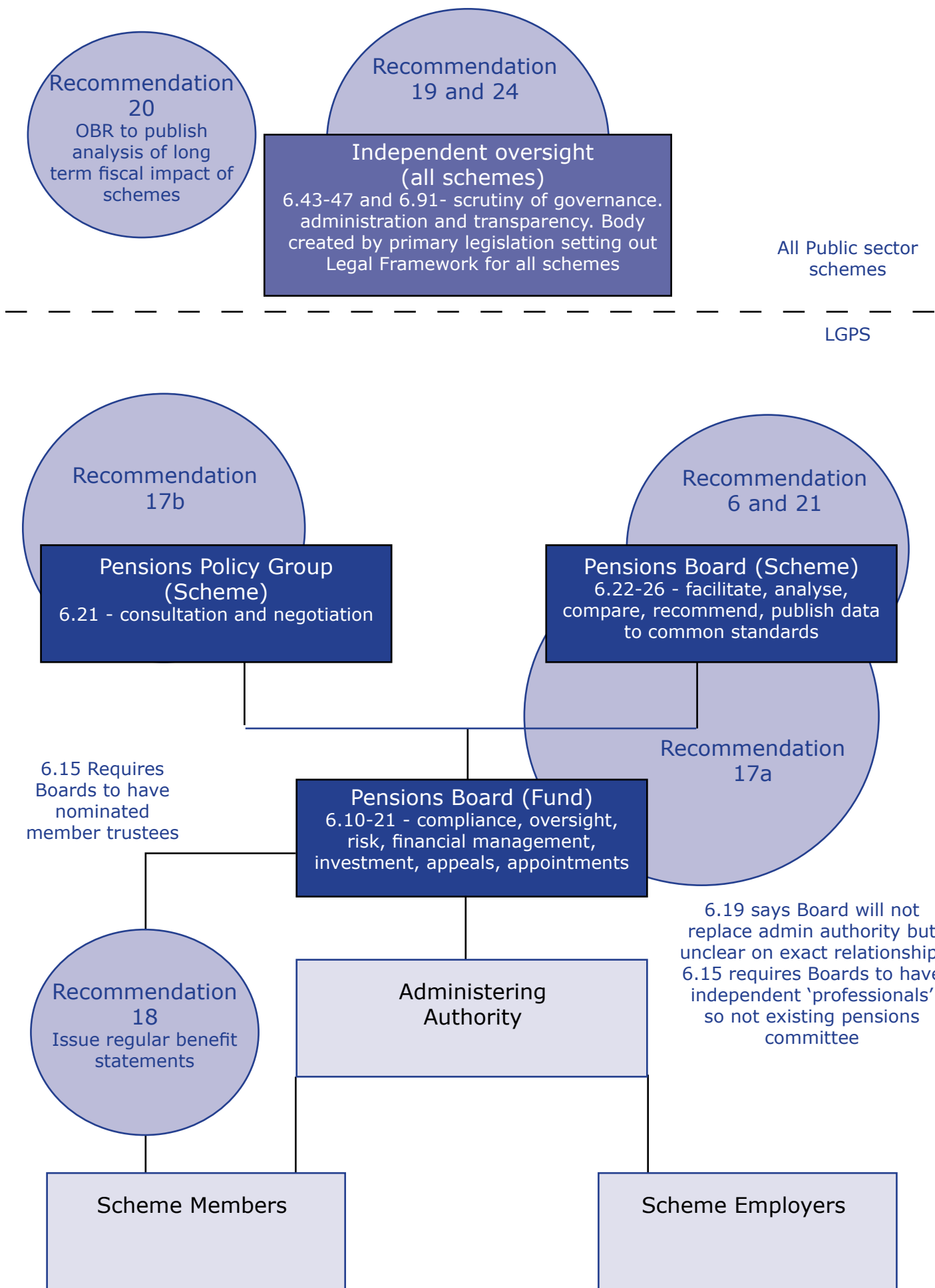
Recommendation 16

Restrict access to membership
5.37-59
Although left to government for final decision report considers access to schemes for non public service employees to be 'undesirable'

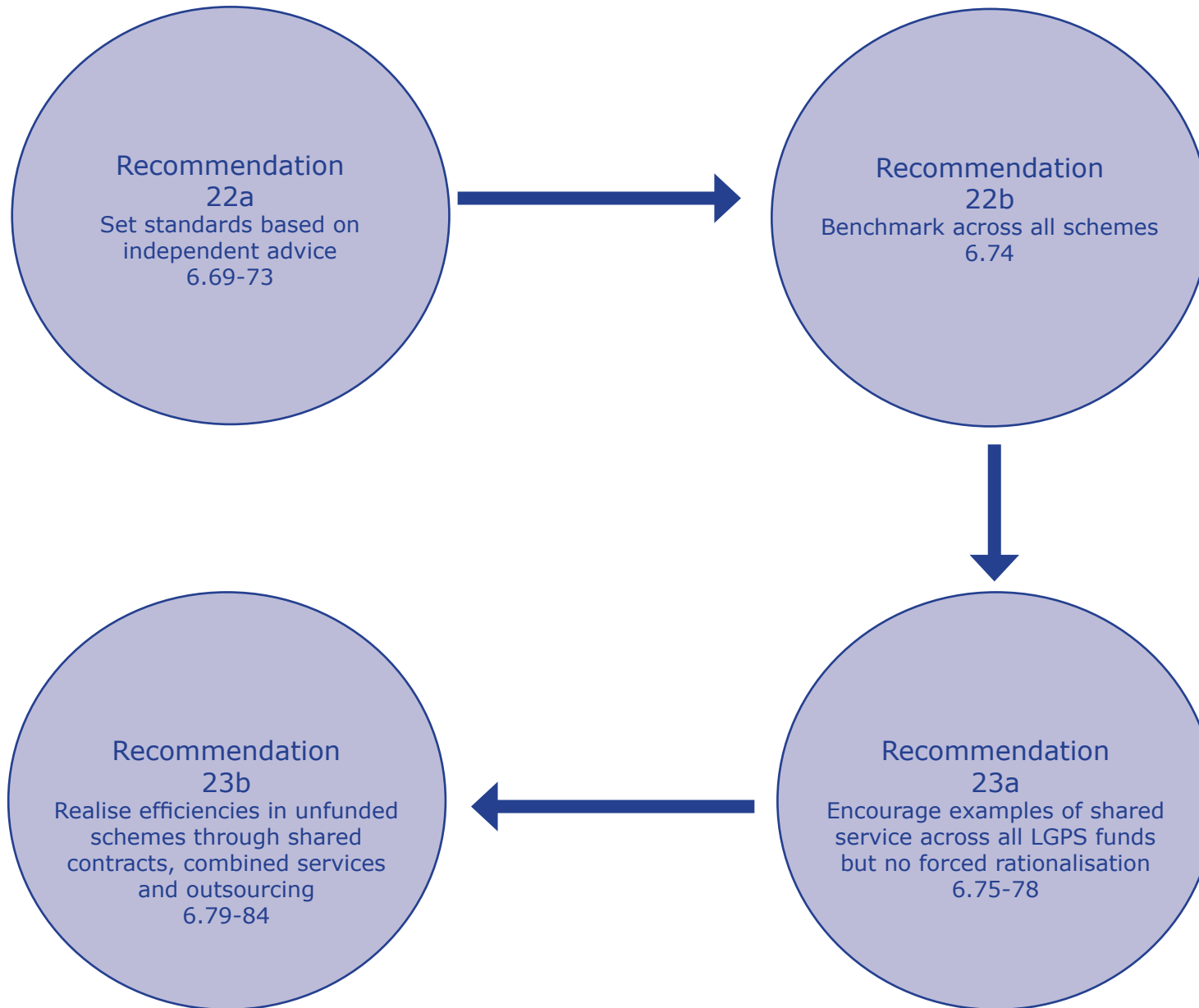
Recommendation 15b

LGPS remains funded
5.34-36
funded status remains due to danger of increased deficits and position of non LG employees in the scheme

Hutton Report - Governance and Transparency



Hutton Report - Administration and rationalisation



Hutton Report - Implementing change

Transition starts by agreeing report then applying central control to set parameters for new schemes including cost ceilings, framework principles, limits to variations allowed and timescales 7.1-7. The following process then takes place.

