

Not so gold plated

– putting the costs of pensions in perspective



Anthony Mayer, Chairman



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Never before have public sector pensions faced such a barrage of criticism in the media. Tales of unfair, unaffordable and 'gold plated' benefits being paid out to public servants while employees in the private sector face poverty in retirement are rife, whilst informed, thoughtful debate on the real issues is conspicuously absent.

The London Pensions Fund Authority, through its Chairman Anthony Mayer and Chief Executive Mike Taylor, is committed to proactive and constructive input to the debate on the future of public service pensions and in particular the Local Government Pension Scheme (LGPS). Both Anthony and Mike will be tackling the subject at a number of upcoming conferences and their message is summarised here.

It should go without saying that workplace pensions are a good thing. They encourage individuals to take responsibility for income in later life, provide employers with an important recruitment and retention tool and reduce the strain on the public purse of state funded benefits in retirement.

So if pensions are such a good thing what is the problem and why the hue and cry from the media? At the heart of the issue is the long-term affordability of pensions due to increasing longevity. Life expectancy since the war has increased by two years every decade, but retirement ages have remained broadly unchanged. Without structural changes, therefore, pension schemes will become unsustainable.

The Government has done little in recent years to make pension fund provision more attractive. From the abolition of tax credits on Advance Corporation Tax in 1997 to recent proposals to withdraw tax concessions for the higher paid, government measures – however well-intentioned – have often discouraged saving for pensions. Together with the accounting profession's obsession with mark to market accounting based on highly volatile factors, the result has been closure of private sector defined benefit schemes and the passing of future liabilities from individuals and employers to the state.

So is this the end of defined benefit pensions? No, but if good quality DB schemes such as the LGPS are to continue to thrive, we need to clear away some of the fog surrounding the debate and place it in a clear factual context.

Firstly and unlike all other public sector pensions the LGPS has a large fund behind it with significant investment income (£3.2bn in 2007/8) to offset employer contributions. Secondly the average LGPS pensioner gets less than £4,000 per annum. The perception of all public sector workers enjoying a gold-plated,

fat cat retirement is at best misguided and at worst insulting.

However, as much as the scare stories should be toned down the need for change is undeniable. The LGPS is not designed to pay benefits for ever increasing periods of retirement and without change will face extinction.

Any pension scheme is sustainable if the balance between contributions, benefit structure and retirement age is right.

Employer contribution rates take all of the strain of increasing liabilities in the LGPS. This situation cannot continue and employees must now bear a fairer share of the increasing costs.

An increase in the retirement age above 70 would by itself go a long way towards ensuring long-term sustainability. Lord Turner, whose recommendations as Chair of the Government's Pensions Commission informed the most recent legislation, recently admitted that he had not been radical enough in his proposals to raise the state retirement age and now suggests it should rise to 70 by 2030.

A defined benefit scheme based on Career Average Revalued Earnings (CARE) would be much fairer for the vast majority of employees. It would also remove the inherent unfairness of the large pensions granted to the handful of Chief Officers who may have had large pay increases in the final years of their employment.

There are a variety of other ways the benefit structure could be changed, both to maintain an attractive scheme and to save costs. This could involve a reduction in accrual rates, death cover, ill health benefits, lifetime guarantees, or eliminate automatic payment of pension on redundancy under the normal retirement age.

The right solution can only be found through careful consideration, leaving behind the prejudices and preconceptions that currently plague the debate.

About the LPFA

The London Pensions Fund Authority (LPFA) administers a £3bn pension fund providing Local Government Pension Scheme benefits to almost 20,000 employees of 200 not for profit organisations and over 33,000 pensioners many of whom used to work for the Greater London Council and the Inner London Education Authority.

As well as administering its own fund LPFA provides a comprehensive range of third party pension services from full administration and pensions payroll to staff placement, data cleanse projects, pension websites and benefit statements.

For more information see www.lpfa.org.uk

