Barnett Waddingham

ACA Regional Meeting - Glasgow

Hutton

The beginning of the end, or the end of the beginning?

March 2011

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Agenda

- Quick reminder
  - Hutton's remit
  - Initial report
- Final report recommendations
- Some missed tricks?
- Questions and discussion

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Hutton's remit

- To conduct a fundamental review of public service pension provision and make recommendations on pension arrangements that are

- Sustainable and affordable in the long term
- Fair to workforce and taxpayers
- Consistent with the fiscal challenges
- Protect "accrued rights"

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Have regard to

- Disparity with private sector (pensions envy)
- Assist in recruitment and retention
- Fair across the workforce
- How risks should be shared between employee and tax payers
- Which employers allowed in
- Transition issues
- Encourage adequate saving and longer working lives

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Initial report – key messages

- Fairer balance required
  - current taxpayers and public sector employees
  - current and future generations
- Increase in member contribution rates
  - Targeted at high earners

- Public sector pensions are not gold plated
- No race to the bottom
  - Public service pensions should become benchmark for the private sector to aim for
- Final salary pensions are no longer a robust and fair mechanism

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Initial report – key messages

- Need model that provides
  - A fair sharing of risk between the employer and employee
  - And adequate pensions for members

- DC is not the answer
- Future pension ages need to reflect longevity changes
- Retain unfunded nature of existing schemes
- No reason to de-fund existing funded schemes such as the LGPS
- Final report is to consider alternative structures such as career average, collective DC and hybrids

Final report – call for evidence

- 25 Questions
- Key themes
  - Risk sharing
  - Adequacy of benefits
  - Employee Understanding and Choice
  - Transferability
  - Costs and efficiency
  - Plurality of schemes
  - Transition

Some of final report’s 27 recommendations

- Career Average for future service
  - Earnings revaluation rather than CPI
- Maintain final salary basis for past service
- Single benefit design across income range
- Pay more as you earn more
- Pension age linked to State Pension Age
- “Public service staff” only
- Disappointingly no real risk sharing
  - Continue with cap and share
- Improved governance and transparency

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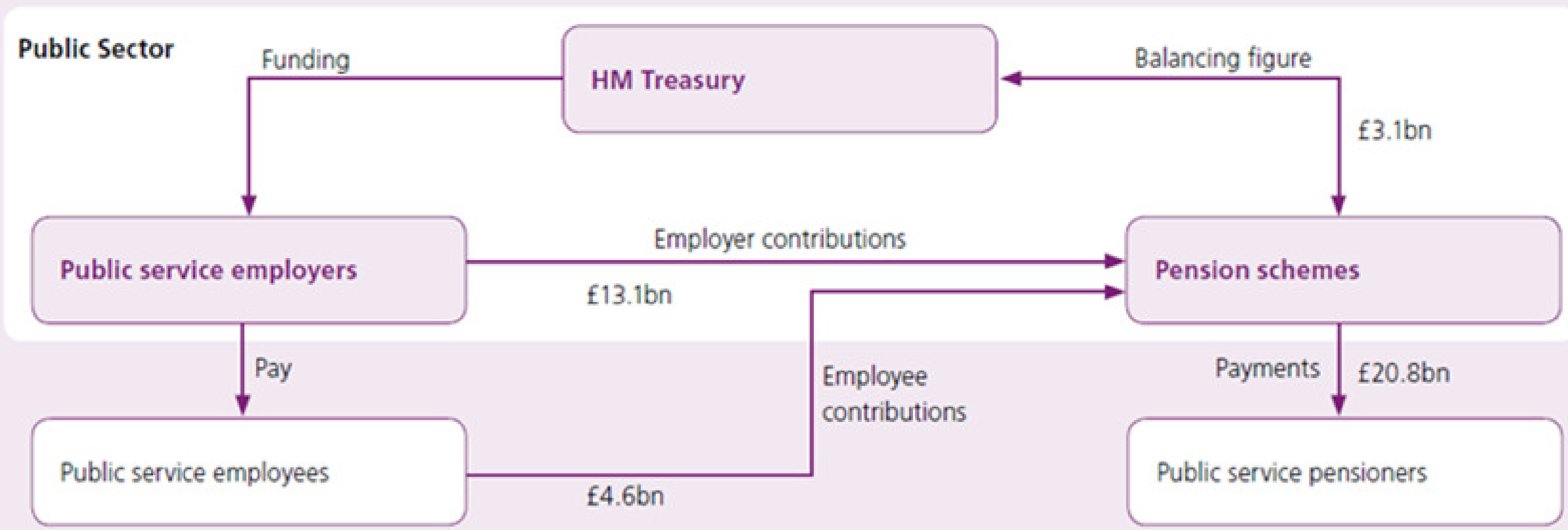
Key challenge (for Government)

- Employees to pay more for less
  - Lower pensions for most
  - Higher employee contributions

- Enormous care required to avoid opt out
  - Increase Government cost for unfunded schemes
  - Increase burden on future tax payers
- LGPS already had earnings related contributions
  - The more you earn the more you pay
  - Ahead of the game
- Chancellor decides an extra 3% required
  - Why?

Unfunded Scheme Cashflows

Diagram: Payments and contributions in pay-as-you-go pension schemes



Source: The cost of public service pensions, National Audit Office. Figures from Resource Accounts 2009-10.

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Unfunded Scheme Cashflows

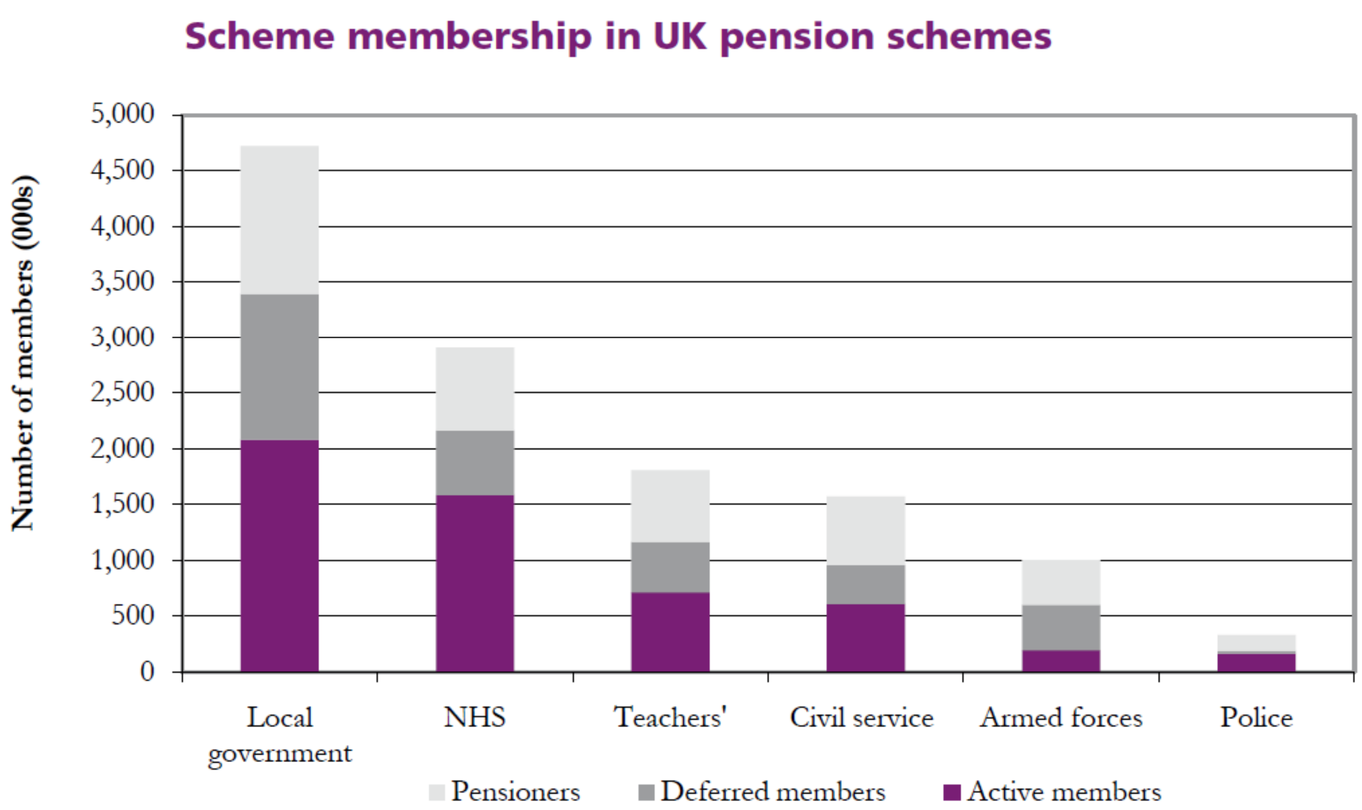
OBR Budget 2010 forecast: net cash expenditure

Year	Net cash expenditure (£bn)	Benefit payments (£bn)	Contributions received (£bn)
2008-09	3.1	22.5	19.4
2009-10 (estimate)	3.1	24.3	21.2
2010-11 (forecast)	4.0	25.4	21.3
2011-12 (forecast)	5.1	26.8	21.6
2012-13 (forecast)	5.8	28.3	21.5
2013-14 (forecast)	7.3	29.9	21.5
2014-15 (forecast)	8.9	31.3	21.4
2015-16 (forecast)	10.3	32.9	21.6

Source: OBR

a Forecasts from 2012-13 onwards include a £1 billion saving from cap and share.

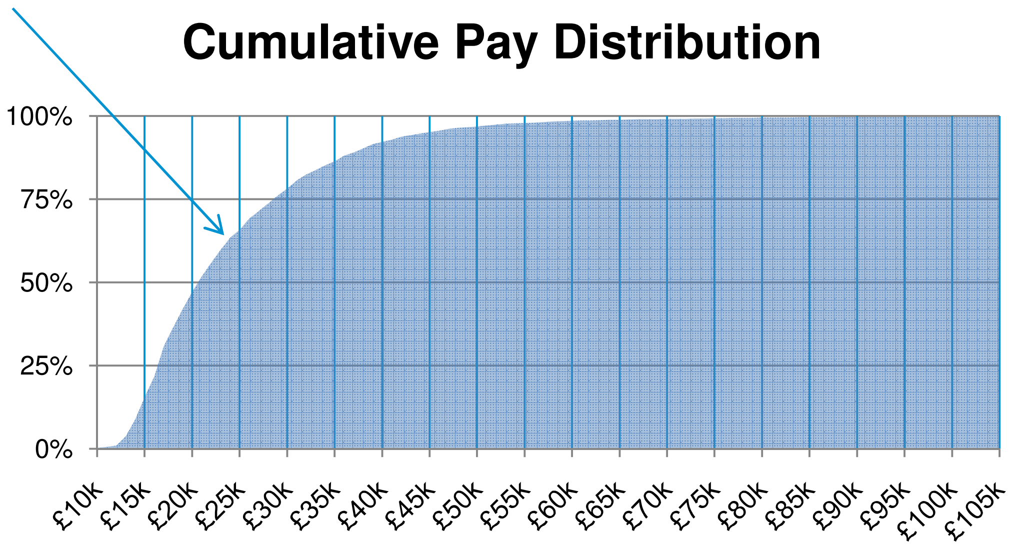
What does this mean for LGPS?



Source: IPSPC analysis of resource accounts and scheme data returns

What does this mean for LGPS?

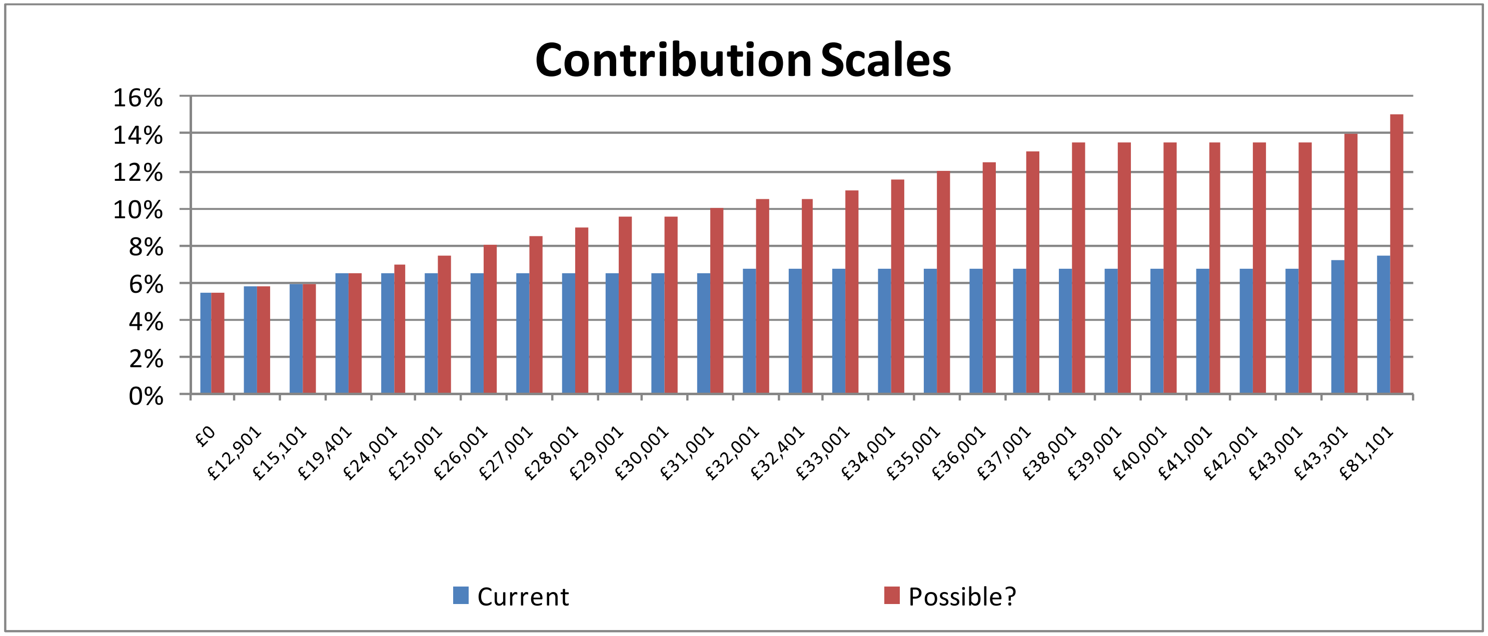
- Typical LGPS Fund



Percentile	FTE	PTE
10%	£14,309	£3,486
25%	£16,393	£8,285
50%	£20,647	£16,718
75%	£28,636	£25,557
90%	£37,685	£35,718
Average	£23,961	£18,555
Median	£20,647	£16,718

- If £24k is starting point then extra 3% to be funded by just over a third of membership

What does this mean for LGPS?



- Too much to ask?
- Other ways?
  – Increasing retirement age to 66 would reduce 3% to extra 1.5% ish
- Lower threshold to £18k?

Hutton missed a trick or two?

- Average earnings revaluation
  - Bigger pensions for low flyers
  - Lower pensions for high fliers
  - Consistent with GDP and affordability

- CPI revaluation (with higher accrual rate)
  - Bigger pensions for leavers
  - Lower pensions for stayers
  - Equal treatment of leavers and stayers
  - More pension (initially) for more contribution

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Hutton missed a trick or two?

- Accrued rights
- Maintaining final salary link
  - "Safe" definition of accrued rights
  - More complexity
- Average earnings or CPI increase?
  - More than pay increases short term
  - Simpler
  - Less costly long term if CPI
- Really tricky stuff to follow
  - Agreeing the detail.....
  - ...by 2015?

Questions and Discussion

Graeme Muir FFA