

Future of Public Sector Pensions: Employer's perspective

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Independent Public Service
Pensions Commission:
Interim Report

7 October 2010



Independent
Public Service

Pensions Commission

- § Generally welcomed
– “Sound, sane, sensible”

but ...

- § Fails to recognise LGPS distinctiveness
- Funded
 - Well managed
 - Sustainable

Lord Hutton's Principles



- § Affordable and sustainable ✓
- § Adequate and fair ✓
- § Support productivity ✓
- § Transparent and simple ✓

Lord Hutton's Conclusions

- § Case for change ✓
 - “no change not an option”

- § Recognised modest nature of pensions ✓
 - “half of pensioners receive less than £5,600 a year”

- § End of final salary basis ✓
 - “inherently unfair”

Lord Hutton's Conclusions (cont'd)



- § Rejected downward drift to follow private sector ✓
 - “rejected race for the bottom”

- § Long term structural reform needed ✓

- § Rejected wholesale Defined Contribution basis ✓
 - “need adequate pension to members”
 - “need fair sharing of risk”

Options

- § Career average (CARE) ✓
- § Hybrid DB DC arrangements ?
 - Notional DC
 - Cash balance
 - Collective DC
 - Pensionable earnings cap
- § Reduce accrual rates ?
- § Link pension age to longevity ✓

Principles of new scheme

- § Pensions are part of pay and conditions and must be
 - § Aid to recruitment and retention
 - § Affordable
 - § Fair
 - § Between taxpayers and contributors
 - § Between contributing members
 - § Easy to understand for fund members
 - § Simple to administer

LPFA Employers' View



§ LGPS needs to remain affordable	98%
§ Excellent recruitment and retention tool	68%
§ Encourage staff to join	64%
§ Support final salary	63%
§ Employees pay more	58%
§ Support early drawdown options	50%
§ Adjust benefits to reduce costs	48%
§ Offer alternative lower cost scheme	48%
§ Increase retirement age	47%

Source: LPFA survey November 2010

- § If hybrid DB/DC, what is a high earner?
 - § Above average wage £26k
 - High rate taxpayer £45k
 - Link to possible maximum pension of £50k – implies pay of £75k
- Defining “preserving accrued rights”
- Fair deal
- Simplifying admin

- § Gradually move all schemes to funded basis
- § Government accounting improvements needed
- § Independent Pensions Chamber
 - § Take to politics out of pensions