



# STOP PRESS

## Independent Public Service Pensions Commission

The Chancellor invited John Hutton to chair the Independent Public Service Pensions Commission. The commission will undertake a fundamental structural review of public service pension provision by Budget 2011. The commission will make recommendations on how public service pensions can be made sustainable and affordable in the long-term, fair to both the public service workforce and the taxpayer, and ensure that they are consistent with the financial challenges ahead. Existing accrued pension rights will be protected.

The commission, on 7 October 2010, produced its interim report, considering the case for short-term savings within the Spending Review 2010 period, consistent with the Government's commitment to protect those on low incomes.

This note provides an update on the current situation with regards to the Hutton report, and is the Fund's understanding of the situation at the current time. Further detailed information can be found at [http://www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)

## Current pension service and benefits

The report is clear in stating pension rights under current Scheme rules will not be affected:

*“Pensions are long-term commitments and any reform I propose must protect the rights that public service workers have already accrued. The recommendations in my final report will ensure these rights are protected, and I am taking advice on how this might best be defined. However, I am clear that protecting accrued rights does not extend as far as protecting current terms for future pension accrual.”*

This means the figures shown in your annual benefits statement for 2010, under the heading 'current position', are not affected. However, the projection between the date of the current position, 31 March 2010, and the figures quoted at age 65 are likely to be affected, as they presume that the accrual rate and benefit structure will remain the same between now and then.

## Future changes to the Local Government Pension Scheme (LGPS)

*“It is my clear view that the figures in this report make it plain that the status quo is not tenable. I believe we need to adopt a more prudent approach to meeting the cost of public service pensions in order to strike a fairer balance, not just between current taxpayers and public service employees but also between current and future generations. In the short term, however, I consider there is also a strong case for looking at some increase in pension contributions for public service employees, to better meet the real costs of providing these pensions, the value of which has risen in recent years with most of these extra costs falling to taxpayers.”*

*“I consider that the public sector should continue to set a good standard as an employer and this includes a good standard of pension provision that seeks to avoid widespread opt-out of public service employees from these pension schemes. Promoting a responsible approach that encourages employees in the public sector to save for their retirement should be uppermost in our minds.”*

*“This downward drift in pension provision in the private sector does not, however, provide sufficient support or justification in my view for the argument that pensions in the public sector must therefore automatically follow the same course. I regard this as a counsel of despair. In making clear I believe there is a case for further reform, I have therefore rejected a race to the bottom as the only answer, and hope that reformed public service pensions can be seen as once again providing a benchmark for the private sector to aim towards.”*

This means there will be comprehensive pension arrangements for the public sector that will look to protect the benefits already built up in existing schemes, including the LGPS. However, it is likely that higher paid staff will have to contribute more, and final salary arrangements may be replaced with new arrangements built upon a career average earnings that may also possibly include some element of a defined contribution. The accrual rate (the rate at which benefits are built up) may also be subject to review.

The Hutton report does not have an impact on any pensions that are currently in payment from the Fund.

At the current time the Fund understands that the next announcement will be the short-term measures which will be announced as part of the spending review due on the 20 October 2010, and that the main Hutton report will be published in time for Budget 2011, which is due in March 2011.

As more information becomes available, the Fund will ensure the necessary steps are taken to inform members and other stakeholders with an interest in the LGPS.

# Other issues

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## Are you a Local Government Pension Scheme member, with previous membership that you have previously elected to retain separately?

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Members now have a limited opportunity to join all earlier periods of LGPS membership into that currently accruing in the West Midlands Pension Fund until 30 September 2011.

Following the introduction of the new-look Scheme from 1 April 2008, the department for Communities and Local Government (CLG - the Government department responsible for the LGPS) have considered, for some time, the ability to provide members a one-off, time-limited opportunity to address possible Scheme transition issues.

Recent amendments to the Scheme were issued as part of the Local Government Pension Scheme (Miscellaneous) Regulations 2010 [SI 2010/2090] which were laid before Parliament on 25 August 2010.

The amendments allow all re-employed and rejoining deferred members, ie, current active members, the chance, in the period 30 September 2010 to 30 September 2011, to elect to join any non-aggregated membership, ie, have pre-2008 membership calculated against post-2008 final salary.

In some instances, this may allow the member who had chosen previously not to aggregate membership to now have the opportunity to reverse this decision.

If you wish to take advantage of the option to now combine the membership which you chose to retain separately elsewhere, you should contact the Fund on **0300 111 1665** immediately for an enquiry form, or download this from the Fund's website.

It should be noted that if you are considering combining membership, you need to take account of any potential tax implications; for example, the proposal to reduce the annual pension tax allowance, and other associated changes which may be introduced during the tax year. You are advised to seek guidance as the Fund is not in a position to advise you on tax matters.

If a member has two deferred benefits in different funds, and wants to aggregate them in the new (third) fund, CLG have expressed an opinion that the member can ask the two funds to transfer benefits direct to the current (third) fund.

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## Reform of pensions tax relief from April 2011 and impact on additional voluntary contributions (AVCs)

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You'll be aware that the Government is committed to tackling the financial deficit, and is using austerity measures as a way of raising money. One such measure includes restricting tax relief on pension contributions made after 6 April 2011.

The detail of the Government's intended approach is not yet known, but looks likely to include a significant reduction in the annual allowance (the amount of pension benefits you can accrue each year and receive tax relief on) and changes to the way your Local Government Pension Scheme benefits are valued for HMRC (Inland Revenue) purposes. The effect of this would be to dramatically restrict the amount of additional retirement savings many members could make through AVCs or other vehicles from 6 April 2011. From April 2011, some members may find themselves unable to make any AVC savings at all without incurring a tax charge. The Government has not indicated that the increased tax liability will apply to contributions paid on or prior to 5 April 2011.

Remember, under current rules, an extra £100 per month in AVC savings will cost a basic rate taxpayer £80 and a higher rate taxpayer only £60, and you can potentially contribute up to 50% of your salary.

If you're keen to use AVCs to top up your tax-free cash at retirement or other pension benefits then don't delay. Prudential, the Fund's AVC provider, supports the take-up of AVCs, and experienced consultants are on hand to talk you through your options.

Simply call the Pension Connection on **0845 607 0077** to find out how you can take advantage of this opportunity before it's too late. Lines are open from 9am to 6pm, Monday to Friday. Calls may be monitored or recorded for quality and security purposes.

This information is provided to assist members and is the Fund's understanding at the time of going to print (8 October 2010). Members are advised to seek guidance from an appropriate source as relevant.

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