

**Initial Briefing from West Midlands Pension Fund on  
Consultation on Proposed Increases to Employee Contribution Rates and  
Changes to Scheme Accrual Rates effective from 1 April 2012**

(CLG letter of 7 October 2011)

1. The Fund welcomes the opportunity to comment upon the consultation proposals and helpful details provided.
2. The Fund is considering supporting the proposal submitted by the Local Government Group attached as Appendix B to the Consultation letter. It is considered that this option better balances the conflicting pressures and interests than other options. The £900m saving will be achieved, the integrity of the scheme maintained, and contributing members have real choice and incentives to continue making a pension provision.

It is recognised that the option could be administratively difficult to implement where contributing members are given a choice of either paying an increase and maintaining their pension level, or making a sacrifice in their pension through a revised accrual rate to obtain an easing of their contributions. Members should all be placed in the position of a lower accrual rate as the base position and then given the right to vary it to achieve a higher pension, funded with higher contributions by themselves. This makes administration simpler by being able to inform all contributors of their new position and then only managing variations, rather than trying to obtain an option choice from every contributor.

3. In respect of the specific questions asked:

- **Question 1** - Do the proposals meet the policy and objectives to deliver the necessary level of savings to the LGPS?

It is believed the LGG option and two CLG options have been compiled to ensure these objectives are met.

- **Question 2** - Are there any consequences or aspects of the proposals that have not been fully addressed?

There are administrative issues referred to above and the issue of how many contributing members and potential future members will opt out, or opt not to join. This in turn may present a potential serious problem of funds maturing much quicker with associated increase in costs and the broader consequences of people retiring on low income levels requiring increased State support.

- **Question 3** - Is there a tariff or alternative measures which consultees think would help to further minimise any opt outs from the scheme?

None have been identified within the constraints established by Government.

- **Question 4** – Are there equality issues that could result in any individual groups being disproportionately affected by the proposals? If so, what are considered to be the nature and scale of that disproportionate effect? What remedies would you suggest?

Low pay contributors may opt out and therefore reach retirement with inadequate income disadvantaging them relative to other income groups.

- **Question 5** – Within the consultation period, consultees' views are invited on the prospects of introducing into the LGPS a link with state pension age as recommended to the Government in Lord Hutton's report.

The link to state pension age is supported, but individuals should be given sufficient notice so that they have a reasonable period in which to accommodate a change. Individuals should have the option to retire earlier from, say, 60 years of age on an actuarial reduced pension so there is no cost to employers. Individuals could increase their pension savings to give themselves this option and thus reduce any reduction.

4. The Fund has concerns over the proposal to produce regulations to allow an interim actuarial valuation in order to reflect the changes in employee contributions and accrual rates in the contributions made by employing bodies. The 2010 valuation indicated that the LGPS would be impacted by the Government's declared intention to implement the Hutton Report recommendations. This would lead to reduced pressure on the liabilities, allowing an impact to flow into the contribution risk analysis and subsequent contribution rates. An interim valuation would need to not only look at a scheme change since 2010, but all other key assumptions which could potentially lead to increased funding pressures and a larger funding gap than that which existed at the 2010 valuation. How could a reduction in employer contributions be justified if the actuarial funding gap has increased?