

West Midlands Pension Fund

Employers Consultation

16 November 2011



Lord Hutton – Chair

Independent Public Sector Pension Commission (IPSPC)

- To conduct a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary on pension arrangements that are sustainable and affordable in the long term, fair to both the public service workforce and the taxpayer and consistent with the fiscal challenges ahead, while protecting accrued rights.
- Interim report published in October 2010.
- Final report published in March 2011.



Outcome of Hutton

- Main recommendations and conclusions
 - Retain defined benefit arrangements
 - Retain funded status for LGPS
 - Move away from final year salary arrangements to CARE
 - Defined contribution ruled out – no race to the bottom
 - Move members into new scheme for future service
 - New schemes to be in place by 2015
 - Maintain final salary link for accrued service
 - Greater transparency and understanding for members and public
 - New legislation framework
 - Explore scope for efficiency savings, including fund management



Outcome of Hutton cont...

- Achieve short term savings by increasing member contributions

“The most effective way to make short-term savings is to increase member contributions and there is a clear rationale for doing so”.

BUT

“It is a matter for the Government to decide the manner and level of any increases in contributions necessary. However, the Commission feels that any increase should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates”.



Government Response

- Accepted Hutton Recommendations leading to engagement with TUs and consultation on:
 - Hutton Phase 1 – Employee Increases from April 2012
 - Hutton Phase 2 – new LGPS operating with a cost envelope from April 2015
 - Hutton Phase 2(a) – 2nd November Revised Government Proposals



Hutton Phase 1 – Consultation Options

	Option 1	Option 2	LGE Option
Increase in Employee Contributions: Starting	April 2012-2014	April 2012 – 2014	April 2014
Increase in contribution	<£15,101 no increase	<£15,101 no increase	<£15,101 no increase
	0-5% by 2014	0-5% by 2014	1.5% £15K-£21K
	2012 0.0 to 2.5% 2013 0.1 to 4.5% 2014 0.1 to 5.0%	2012 0.0 to 2.0% 2013 0.1 to 4.3% 2014 0.1 to 5.0%	2.0-2.5 > £21k {20:40:40} if phased over 3 years
Accrual rate	1/64 th April 2013	1/67 th April 2014	Option earns < £15K can reduce contribution from April 2014 by moving to accrual of 1/67 th
Normal pension age	65	65	66 from April 2014



Hutton Phase 2

- Cost envelope now 20.4% of payroll
- Assume 3% contribution increase on current contributions
- New scheme entirely
- CARE
- Accrual rate a key driver
- Accrued rights protected
- NPA linkage with SPA
- Cost ceiling on employers' costs to be developed
- New arrangements operational from 1 April 2015
- LGPS to stay funded
- Some governance and administration improvements required
- More operational partnerships, outsourcing, joint procurements
- LGPS scheme may still be open to discussion in several respects



Benefit Structure Discussions

2015 scheme design elements	Government's Position	For Discussion?
DB Structure	Career average revalued earnings	Yes
Accrual Rate	1/60ths	Yes
Revaluation for active member	Earnings	Yes
Revaluation for deferred member	Prices	Yes
Indexation of pensions in payment	Prices	No
Normal pension age	Linked to SPA	Yes
Employee contribution rate*	Current rate + 3% (assumed)	Yes
Lump sums	Optional commutation at 12:1 to HMRC max	Yes
Ancillary benefits	Same as in current scheme	Yes
Rejoiners	Rejoiners in 5 years can link	Yes
Transferees from Club schemes	Treated as having continuous service	Yes
Early and late retirement	Cost neutral basis	Yes
Abatement in existing schemes	Current scheme rules apply	Yes
Accrued rights	Fully protected with final salary link for past service	No
Start date	April 2016	Yes
Transition	Protection of accrued rights + final salary link	Yes

* Government cash savings target must be met.



Hutton Phase 2(a)

- New cost ceiling for LGPS – 20.4% of payroll
- More generous transitional protections for those close to retirement
- Better accrual rate of 1/60ths
- Guaranteed, inflation-proofed CARE pensions
- Entitlements to be protected by final salary linkage
- Retirement age to be linked with SPA
- A deal to last for 25 years
- LGPS statutory consultation can bring forward Hutton-related reforms e.g. accruals, link with SPA
- Scheme specific discussions to the end of 2011
- Government states new offer is:
 - Generous – among the best available
 - Fair – career average is fairer for most
 - Flexible - occupational relevance important

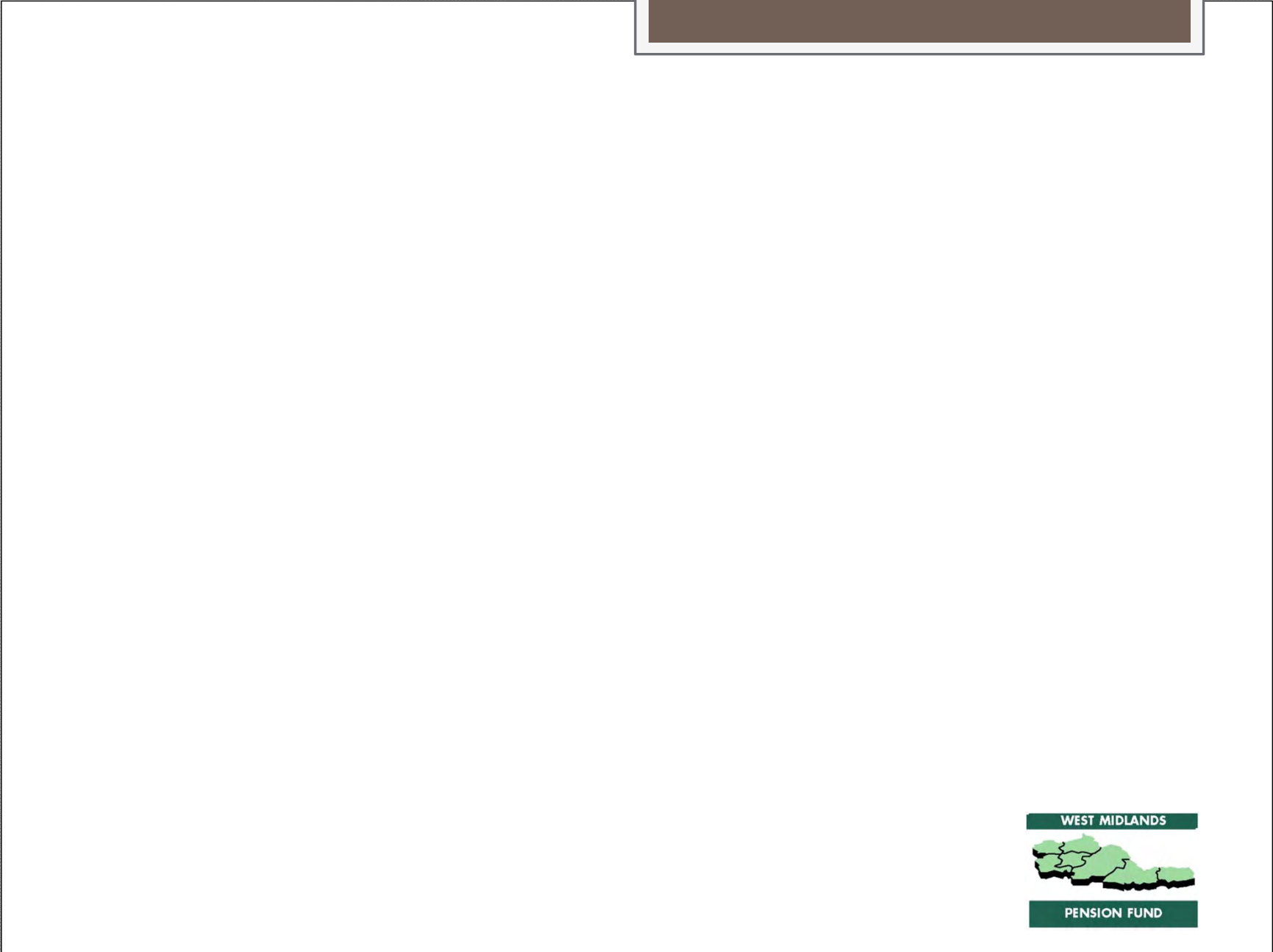


Over to the Fund's Actuary...



Paul Middleman.
A Principal at Mercer
& Fund Actuary





WEST MIDLANDS



PENSION FUND

Going Forward...

- After the industrial action...
 - Outcome?
 - Further options to be considered, proposed by trades unions
- Legislation Timetable...drafts Statutory Instrument and final Statutory Instrument
- Operational Timetable
- Final Statutory Instrument
- Communication Challenges
 - Employers
 - Employees
 - The reliable source (mailing to all scheme members – March/April/May)
- Auto Enrolment
- 2013 Valuation
 - Outcomes
 - Early Hutton adoption?

