

Future of Public Sector Pensions

Neil Sellstrom

CIPFA Pensions Network

neil.sellstrom@cipfa.org.uk

Pensions Landscape

Independent Public Service Commission Principles

- Affordable / Sustainable
- Adequate / Fair
- Support Productivity
- Transparent / Simple

Pensions Landscape

Hutton's 27 Recommendations

Fall into 3 basic categories

Pension
Principles

Scheme
Design

Scheme
Governance

Pensions Landscape

Pension Principles

- Adequate levels of retirement income
- Pension part of remuneration
- O. Of B.R. Long term financial impact reporting
- Primary Legislation / introduce scheme by 2015
- Consultation centrally co-ordinated but details scheme by scheme
- Common framework for all public sector schemes
- No access for non-public sector workers
- Government to set cost envelope for schemes

Pensions Landscape

Scheme Design

- Accrued rights protected
- CARE / Tiered Contribution Rates
- Average earnings revaluation for actives
- CPI for Pensioners
- Flexible retirement / greater choice
- NRA linked to SPA
- Fixed cost ceiling
- LGPS to be funded
- Regular benefit statements / promote use of IT

Pensions Landscape Scheme Governance

- Competent Pension Board (member nominees)
- Pension Policy Group for each scheme
- Framework for independent oversight
- Common data for schemes to be published
- Establish and benchmark administration standards
- Monitor LGPS procurement/service sharing

Public Service Pensions Act 2013

- Creates new LGPS from 1st April 2014
- Requires new scheme regulations
- Introduces cost control mechanism
- Increased governance regime
- Sets out regulatory oversight
- Creates provisions around information

Features of LGPS 2014

LGPS 2008	LGPS 2014
Final Salary	Career Average
1/60 th Accrual Rate	1/49 th Accrual Rate
Normal Retirement Age = 65	Normal Retirement Age = SPA
Average member Contributions of 6.5%	Average member Contributions of 6.5%
Protected Rule of 85	Protected Accrued Rights
N/A	50/50 Option
Fair Deal (Employer)	Employee Choice
Salary based Revaluation	CPI Revaluation

Governance & Oversight

- National Scheme Advisory Board
- Local Pension Boards
- Local Scheme Manager
- The Pensions Regulator
- Streamlining LGPS governance and efficiency

Scheme Advisory Board

Time Line

- Public Service Pensions Act 2013 – April 2015 +
- Scheme Advisory Board – July 2013 +
- LGPS (Amendment) Draft Regulations – July 2014

Scheme Advisory Board

Membership

- **Chair :** Joanne Segars (NAPF)
- **Employers:** Cllr Kieran Quinn, Cllr Ian Bond, Cllr Denise Le Gal, Cllr Mary Barnett, Cllr Roger Phillips, Education Rep.
- **Members:** Jon Richards (UNISON), Chris Tansley (UNISON), Brian Strutton (GMB), Garry Warrick (GMB), Fiona Farmer (Unite), Dick Banks (Unite)
- **Advisers:** Actuary, Treasurer, Lawyer, Practitioner, CIPFA
- **Observers:** DCLG, Pension Regulator, NAPF

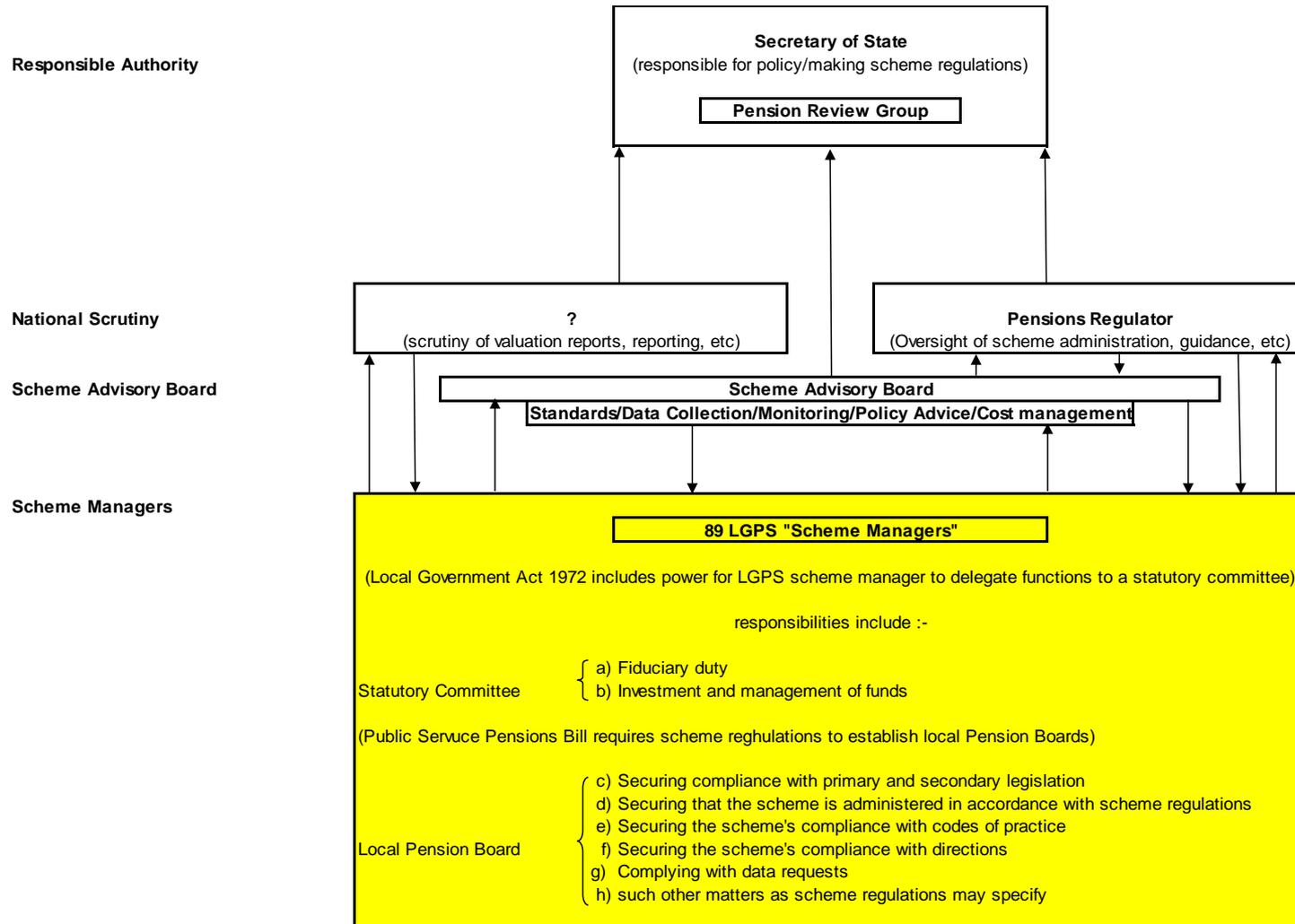
Scheme Advisory Board

Terms of Reference

To Advise:

- Secretary of State on desirability of scheme changes
- Scheme managers / local pension boards on effective and effective and efficient management

Governance - The Plan



SCHEME ADVISORY BOARD

SUB COMMITTEES

- Administration and Communications – 15 members
- Cost Management and Contributions – 16 members
- Governance and Standards – 13 members
- Value for Money and Collaboration – 12 members
- Investment and Engagement – 14 members

Plus

Working Groups

SCHEME ADVISORY BOARD

RECOMMENDATIONS CALL FOR EVIDENCE JANUARY 2014

- Government should consult asap
- Government and Board should agree a realistic timetable
- Board should complete work on a data baseline
- Government should analyse costs / benefits of more passive management, CIVs, in house investment

SCHEME ADVISORY BOARD

RECOMMENDATIONS LGPS OPPORTUNITIES – JULY 2014

- Comply or explain on passive management
- Examine funds / asset classes which consistently under perform
- Imposing index returns = reduced returns for out performers
- Pure passive difficult to define and enforce
- CIVs a positive step, but do not limit to two
- All forms of collaboration should be encouraged
- In house investment should be evaluated
- Recommendations could realise £1.1bn savings

SCHEME ADVISORY BOARD SUB COMMITTEE WORK INCLUDES:

Annual benefit statement guidance / ill health process review

Publication of March 2013 valuations

Publication Cost Management process including difference from HM Treasury

Review of GAD assumptions on initial running of cost management process

Making available CIPFA guidance

Preparing best practise guidance on local pension boards and fund separation

Obtaining Counsel advice on fiduciary duty and ultimate guarantor

Defining high level financial indicators

Publishing LGPS Annual Report and examining improvements to inter fund data

AND CIPFA'S PENSION PANEL

- Responses
 - Call for Evidence (January 2014)
 - LGPS Opportunities (July 2014)
 - LGPS (Amendment) Draft Governance Regulations (August 2014)
- Accounting for LGPS management costs (June 2014)
- Annual Report Guidance (August 2014)
- Role of CFO in LGPS (Autumn 2014)

Plus

- Advisor to the Shadow Board and Member of the Sub Committees
- Pressing for Investment Regulations Reform
- Exemplar Accounts 2014 2015 – publication later this year
- Updating all best practice advise