WILTSHIRE COUNCIL
Wiltshire Pension Fund
County Hall, Trowbridge, BA14 8JJ
Tel: 01225 713620 Fax: 01225 713645
www.wiltshirepensionfund.org.uk

The LGPS Pension Team
5/G6
Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU

1 December 2011

Dear Mr Crossley,

<u>Consultation on proposed increases to employee contribution rates and changes to scheme accrual rates, effective from 1 April 2012 in England and Wales</u>

Please find below the responses from the Wiltshire Pension Fund in regards to the above mentioned consultation.

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

Both proposals do appear to meet the parameters set out by the Government but concerns remain that any increase in employee contributions during this current period of members pay freezes and high inflation may lead to short term decisions being made, namely to opt out of the scheme.

This not only has a detrimental impact on the employees future pension provision, which ultimately may have to be picked up as means tested benefits but could also affect the long term cost to employers if schemes become cashflow negative as a result, forcing them to convert to a less “risky” investment strategy to meet benefit costs, ultimately pushing up employer contribution rates which in the majority of cases are funded by the local taxpayer.

Another major concern for the Fund, is the additional complexity of having short term changes to the scheme for three years that are not only difficult to explain to the membership but again may confuse them in their decision making. Therefore, if changes need to be made, dovetailing these with the 2015 changes would be most practical.

We believe serious consideration should be given to bringing forward the changes to the LGPS scheme due for 2015, i.e. 2014-15 instead of 2015-16. It is anticipated that based on the cost envelope already announced that these changes would achieve the required £900m savings as a minimum. This would be a simpler message to communicate and from an administration viewpoint only involve a single change.

There is recognition that implementing the 2015 changes a year early may pose its own difficulties and this may not be a workable solution. In this case, we recommend serious consideration is given to keeping contribution increase levels to a minimum, even if this means reducing the accrual rate further than outlined in the two proposals.

From an administration viewpoint this would be more straightforward to implement, while assisting members in the short term by not having to find additional money to pay increased contributions.

Although the Government have indicated that employee contributions need to increase, the fact that the LGPS is funded, allowing the flexibility to find savings elsewhere, must be kept in mind along with the knowledge that rates across the LGPS are already, in many cases, higher with later retirement dates.

If employee contribution rate increases are going to be mandatory in the short term then of the two options proposed within the consultation, option 2 would be the most favoured by the Fund. This proposes the lowest increase in employee contributions and requires only one change in the accrual rate.

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

There are genuine concerns over the potential complexity for members and the implementation of the changes for both the administering authorities and employer payroll providers with the timescales implied.

If either proposal is adopted, many members would end up with pre-2008, post-2008, post-2012 and post-Hutton benefits which could all have different accrual rates and retirement ages.

Pensions are at best difficult to explain to its members. These additional complexities will provide a massive challenge for communication teams especially in explaining the rationale and impact of both the short term changes (2012-2015) and longer term scheme redesign (2015 onwards). This is why dovetailing any changes in with the post 2015 scheme is viewed as being critical to provide a consistent message to ensure member’s buy in, enabling them to make better informed decisions.

The implementation timescale is also extremely challenging if these changes are to start from April 2012, three months after the consultation closes.

The most immediate problem is the impact on administration and employers payroll teams as the two proposals both increase the members’ contribution salary bandings from the current 7 to 11 by April 2012. The Fund’s view is a lead time of at least 12 months is more reasonable and would request that if the bandings have to increase then this takes place from April 2013 at the earliest to allow time for this to be communicated and payroll systems to be adapted. This was an issue for the 2008 Scheme changes where the implementation time was much longer.

Again, to maintain simplicity it would be most appropriate for members and administrators if any changes could at least dovetail as closely as possible with the post-Hutton reforms, i.e. in terms of contribution rates, accrual rates and retirement ages.

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

As mentioned above, we believe that a proposal that doesn't increase contribution rates would be the most beneficial way of reducing opt outs within the current economic climate, even if this means reducing the accrual rate.

There is the potential to also increase the retirement age sooner. The concern with this is that the recent proposals by the Government for the post 2015 scheme will offer protection with those members within 10 years of retirement which may conflict with the ability for this option to achieve the desired savings.

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?

The protection being given to the lower paid which accounts for over half of the scheme membership inevitably means that the remaining members have to pick up a proportionality higher increase in contribution rates. However, this will always be the case given the protection the Government wish to apply other than having no increase in contribution rates altogether.

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

Any increase in the Normal Retirement Age (NRA) will be a concern for members. However, given the empirical evidence that the workforce are living longer the current NRA is ultimately not sustainable without pushing up the cost of pension provision. Therefore, from an administration viewpoint this would be a sensible step for the post 2015 scheme design to ensure further changes aren't required in the short term.

In terms of the short term changes it could be an option to look at if it reduces the need an increase in members' contributions as long as it is consistent with the proposed redesign of the scheme in 2015.

Ultimately, a move away from the notion of a NRA should be considered as flexible retirement is promoted (members may wish / want to retire at different ages) in line with the Hutton recommendations, with benefits based on the age the member wishes to leave after the age of 60.

Yours sincerely,

David Anthony
Head of Pensions
Wiltshire Pension Fund