

PENSIONS INVESTMENT COMMITTEE			
REPORT TITLE	The Independent Public Service Pensions Commission Final Report - The Hutton Report		
KEY DECISION	No	Item No:	8
WARD	N/A		
CONTRIBUTORS	Executive Director for Resources		
CLASS	Part 1	Date:	15 June 2011

1. Executive Summary

1.1 In March 2011, the final report of the Independent Public Service Pensions Commission, chaired by Lord Hutton was published. The Commission was appointed by the Government to examine the sustainability of current pension provision within the public sector in the context of continuing improvements in life expectancy.

1.2 This structure of this report is as follows:

2. Recommendations
 3. Background
 4. The Hutton Report Recommendations
 5. Next Steps
 6. Implications for Council
 7. Financial Implications
 8. Legal Implications
 9. Crime and Disorder Implications
 10. Equalities Implications
 11. Environmental Implications
- Appendix 1: The Hutton Recommendations

2. Recommendations

2.1 The Pensions Investment Committee is recommended to note the contents of this report.

3. Background

3.1 In June 2010, the Independent Public Service Pensions Commission, chaired by Lord Hutton was established by the Government to 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 fiscal challenges ahead’.

3.2 The review encompassed:

- the growing disparity between public service and private sector pension provision;
- the need to ensure that future pension provision is fair across the workforce;
- how risk should be shared between the taxpayer and employee; and
- wider Government policy intended to encourage adequate saving for retirement and longer working lives.

3.3 In October 2010, the Commission issued an interim report and the final report was issued on the 10 March 2011. The recommendations provide a general set of principles for the future structure of public sector pensions without establishing the level of pension provision and cost. The Government has yet to determine the cost envelope within which the revised schemes incorporating the Hutton principles will operate.

4. The Hutton Report Recommendations

4.1 In total, the Commission made 27 recommendations relating to the provision of occupational pensions within the public sector. A summary of the recommendations have been set out at Appendix 1.

4.2 There is a wide range of schemes operating within the public sector with cost and benefit structures reflecting the services provided. The Hutton recommendations which have particular relevance for Local Government Pension Scheme (LGPS) are as follows:

- The LGPS is to remain a funded scheme and to be administered by separate local authorities as at present. It does however recommend extension of shared services and the publication of comparative data on funds performance.
- The benefits structure should migrate from that based on final salary to a Career Average Revalued Earnings (CARE) basis. This change is justified on the basis of equity in that the pension benefits of the final salary scheme accrue disproportionately to the higher paid. The Commission consider that the notional “pension cash balance” accrued by each individual should be uplifted annually by an index related to the average increase in earnings. The Commission however have not recommended the rate at which benefits are to be accrued, indexation or employee contributions because these impact on cost and affordability which are determined by the Government.
- To address the continuing improvements in life expectancy the Commission recommends that the Normal Retirement Age (NRA) in the LGPS to that for receipt of the State Pension. The current NRA for new entrants to the LGPS

is 65 which corresponds to the State Retirement Age. However the age for state retirement is scheduled to increase in steps to 68 by 2046.

- The LGPS to be restricted to employees of Local Authorities effectively removing the provision which enabled charitable and private sector bodies engaging in Council functions to participate in the LGPS as admitted or scheduled bodies.
- A maximum level of employer contributions expressed as a proportion of employee pay is to be set. If this limit is exceeded then there should be a consultation process to either increase employee contributions or reduce benefits to restore the limit. A automatic default change would be implemented if agreement could not be reached.

4.3 It is not envisaged that the proposed changes arising from the Hutton report recommendations will impact on individuals' accrued pension entitlements at the time of the change. These will continue to be calculated on the basis of the final salary at the point of retirement. However, entitlements from that date will be on the revised scheme.

5. The Next Steps

5.1 Members should note that the Commission's report has indicated that the proposals should be implemented by the end of the current Parliament in 2015.

5.2 In the Chancellor of the Exchequer's Budget Statement in March 2011, the Government indicated that it accepted the recommendations of the Commission and intends to issue proposals in the Autumn, as a basis for consultation.

6. Implications for the Council

6.1 The financial implications for the Council are difficult to assess until the Government sets the level of funding it considers affordable. Whilst this principally relates to the 'pay as you go' schemes which are payable out of general taxation, the Government will inevitably apply this to the funded Local Government Pension Scheme (LGPS).

6.2 The Government has already indicated that it proposes to increase the contributions payable by scheme members and this will inevitably impact on participation levels and potential salary claims.

6.3 In addition, the pension scheme is a valuable aid to the recruitment and retention of staff. Therefore, changes in contribution rates or perceived comparative benefits will impact on this.

6.4 There are a number of governance related issues which will require responses by the Council in particular the requirement to consider shared service arrangements and the provision of comparative performance data.

7. Financial Implications

The comments of the Executive Director for Resources have been incorporated into the report.

8. Legal Implications

There are no legal implications directly arising from this report.

9. Crime and Disorder Implications

There are no crime and disorder implications directly arising from this report.

10. Equalities Implications

There are no equalities implications directly arising from this report.

11. Environmental Implications

There are no environmental implications directly arising from this report.

12. Conclusion

Officers will continue to follow the progress of the Commission's review and update Members accordingly on the Government's proposals. These proposals from the Government are expected to be issued in the Autumn.

BACKGROUND PAPERS

The Independent Public Services Pensions Commission – Final Report –
March 2011

APPENDICES

Appendix 1 – The Hutton Recommendations

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact Selwyn Thompson, Group Manager Budget Strategy on 020 8314 6932.

Appendix 1: The Hutton Recommendations

The case for reform revisited

1. Public sector pensions to provide adequate levels of retirement income.
2. Employers should consider pension provision as part of an employee's total remuneration

The deal

3. Full state pension and scheme benefits should provide an "adequate level of income" for members that have a full career in the public sector.
4. Full protection; retaining the final salary link and retirement age.
5. Existing members should move to new scheme for future service as soon as is practical.
6. Data produced to common standards and methodologies should be regularly published by all schemes, enabling simple comparisons to be made across the schemes.

The design

7. A career average revalued earnings (CARE) scheme for all public sector schemes.
8. Pre-retirement revaluation should be in line with average earnings; post-retirement increases should be linked to prices; government to decide pre-retirement revaluation for deferreds (earnings or prices).
9. A single benefit design. Contributions tiered by earnings (well paid live longer and benefit more).
10. Choice for members: Not ancillary benefits. Flexible retirement with actuarial adjustments for early and late retirement. Removal of abatement and removal of caps on pension accrual.

The controls

11. Normal retirement age should be linked to State Pension Age. The link should be reviewed to ensure it remains appropriate but should be maintained if possible.
12. Cap and share principles where costs exceed a fixed cost ceiling. Apply default changes where agreement cannot be reached.

Applying the design

13. No recommendation of a single public sector scheme, but encouragement to move towards a common framework, except for uniformed services.
14. A new normal pension age of 60 should be set for uniformed schemes. This should be reviewed regularly.
15. Common scheme design features to apply to all schemes. The LGPS should remain funded.

16. Undesirable for future non–public service workers to have access.

A transparent and effective system

17. Pension Boards for every scheme (and each LGPS fund), to include member nominees. A policy group should be set up for each scheme at national level to consider major changes.
18. All schemes should issue annual benefit statements to active members, with more emphasis on the use of technology for communication with members and employers.
19. Scheme wide oversight by, for example, the Pensions Regulator (TPR) or some other body: improved governance and transparency would be achieved by establishing a framework to oversee governance, administration and data.
20. The Office for Budget Responsibility (OBR) should publish regular analysis of the implications for public finances (across all schemes including the LGPS).
21. Centrally collated data, covering all LGPS funds should be published, including fund comparisons.
22. Standards of good administration should be defined. A benchmarking exercise should be carried out to assist in raising standards.
23. Monitor the benefits of shared services within the LGPS. Extending, where appropriate, across all local authorities. Consider shared services and outsourcing for unfunded schemes.
24. Primary legislation to introduce a new common UK legal framework for all schemes.

Delivering the change

25. Consultation process should be centrally co-ordinated: to set the cost ceilings and timetables for the consultation and implementation. Consultation on the detail should be conducted scheme by scheme involving employees and their representatives.
26. Timescale: Aim to introduce the new scheme before the end of this Parliament in 2015.
27. Best practice governance arrangements for business as usual and the transition process.