Barnett Waddingham

Barnet Council Pension Fund

LGPS Update

December 2011

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Agenda

LGPS reform
- Background

Long term reform
- Where are we?

Short term reform
- Changes from 2012

One Barnet
- Pensions Issues

Public Sector pensions costs to “double”

OBR Budget 2010 forecast: net cash expenditure

Year	Net cash expenditure (£bn)	Benefit payments (£bn)	Contributions received (£bn)
2008-09	3.1	22.5	19.4
2009-10 (estimate)	3.1	24.3	21.2
2010-11 (forecast)	4.0	25.4	21.3
2011-12 (forecast)	5.1	26.8	21.6
2012-13 (forecast)	5.8	28.3	21.5
2013-14 (forecast)	7.3	29.9	21.5
2014-15 (forecast)	8.9	31.3	21.4
2015-16 (forecast)	10.3	32.9	21.6

Source: OBR

a Forecasts from 2012-13 onwards include a £1 billion saving from cap and share.

Hutton's Recommendations – from 2015

- ✓ Move to career average for future service
- ✗ Retain final salary/retirement age etc link for past service
- ✓ Future retirement age to link to State Pension Age
- ✗ ✓ Cost ceilings for employers/tax payers
- ✗ ✓ Better governance
- ✓ LGPS to remain funded
- ? Sorted by 2015

A tricky one for Treasury

Employees to pay more for less?

- Lower pensions for some?
- Wait longer for them?
- Higher employee contributions for some

Enormous care required to avoid opt out

- Increase Government cost for unfunded schemes
- Reduce private pension provision
- Increase burden on future tax payers

Short term employee contribution increases

Less than £15k FTE	• No increase
Between £15k and £21k FTE	• Max increase of 1.5%
Over £21k FTE	• Max increase of 6%
Transition	• Increases phased in between 2012 and 2015
Average increase of 3.2% required	• Only 3% in LGPS
Concern over “opt out risk”	• Increase Government cost for unfunded schemes • Increase burden on future tax payers

LGPS – a special case

Unfunded schemes

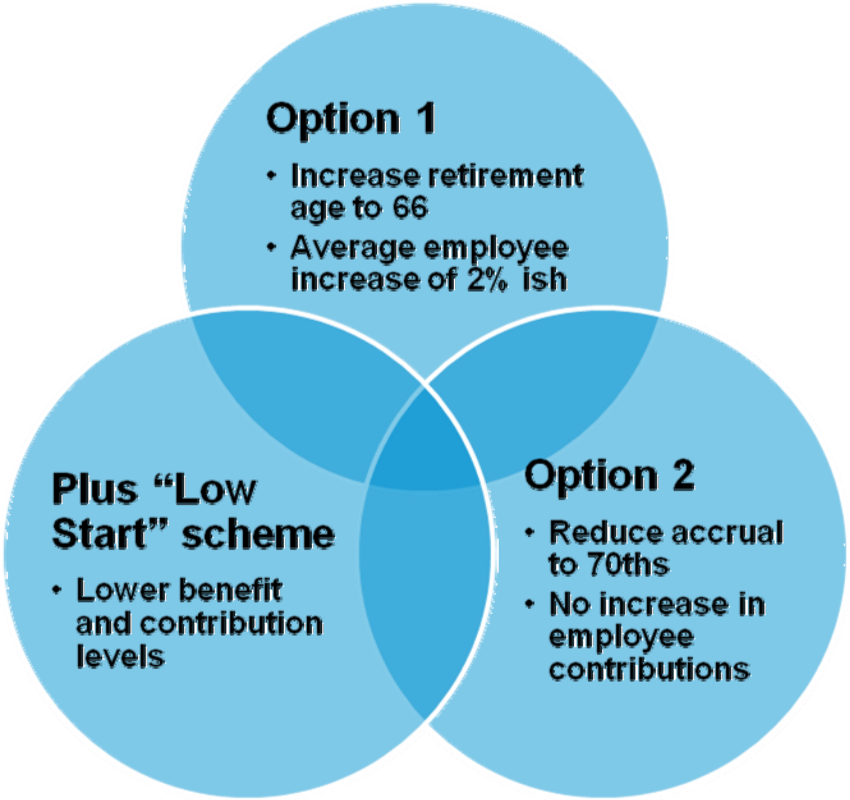
- Cash cost is net cashflow
- Benefits in payment less employer/employee contributions

Funded schemes

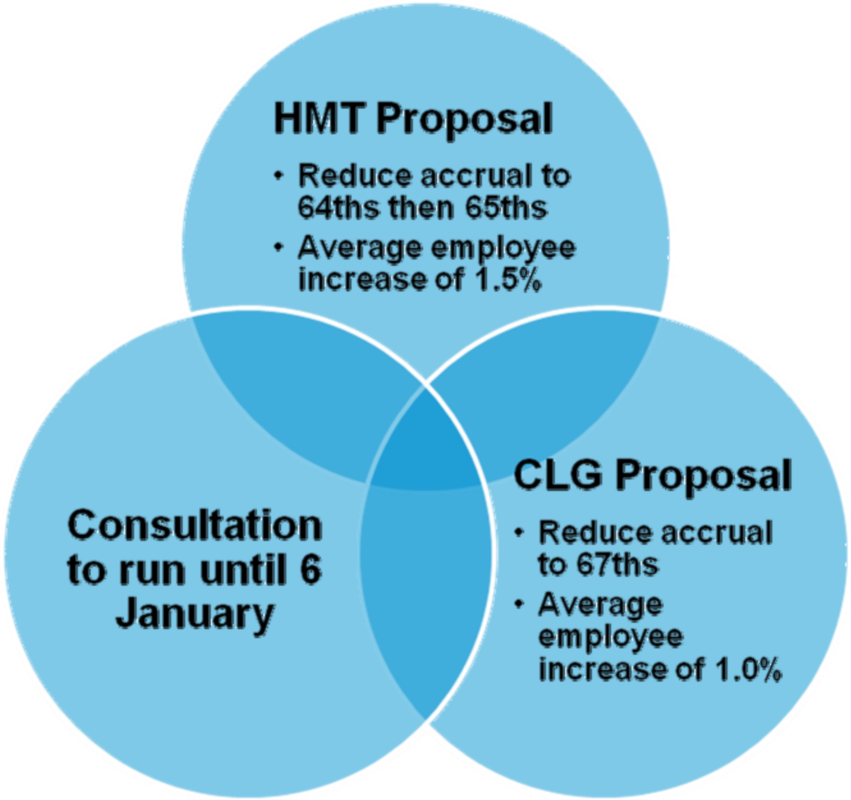
- Cash cost is actuarial cost of benefits promised
- Reduce costs by reducing future benefit promise
- Employers and CLG produce possible solutions

Short term proposals 2012 - 2015

LG Employers



Government



Long term changes – post 2015

Applies to all public service schemes for service after 2015	Teachers, NHS, etc	and LGPS
Government "Reference Scheme Mk I"	65th CARE Scheme	Retirement age linked to State Pension Age
Government "Reference Scheme Mk II"	60th CARE Scheme	No change for those "within 10 years of retirement"

Summary so far

Hutton recommendations post 2015

- CARE design
- Later retirement age (or access to post 2015 pension)
- No change to existing benefits – (some still payable from 60)
- Members to pay a bit more

Short term changes to 2015

- Unfunded scheme members to pay extra 3.2%
- LGPS to save 3% via contribution and benefit changes
- CLG Consultation until 6 January 2012

Long term changes after 2015

- Probably still CARE and later retirement ages
- But a "known unknown" at this stage....

"One Step" Proposal for LGPS ?

Much confusion over short term/long term reforms	• Combine into one set of reforms
Benefits	• Retain current benefit structure until 2014? • Move to CARE Scheme 1 year early?
Employee Contributions	• Defer contribution increases until 2014? • Out of line with unfunded schemes • No employer savings until then?
"Cost envelope" still to be agreed	• 20.4% ? / 18.9% ? • Will depend on average employee increase

One Barnet - Background

TUPE aims to protect employment terms and conditions on transfer

↓

Pensions excluded from the TUPE protections

↓

Government concern about potential constructive dismissal claims

↓

Fair Deal guidance issued 1990s

Background

New employer should offer "broadly comparable" pension scheme

- Similar type and range of benefits
- Available at same sort of time
- Similar level of employee contribution

Problems

- Employees concerns over security
- Transfer previous benefits decision not easy

Admission body route in LGPS introduced in 1999

Open or Closed Agreement?

Closed agreement usually contractor's preference

- But "two tier" workforce
- More complex future transfers

Matures the Fund with potential management and investment strategy issues

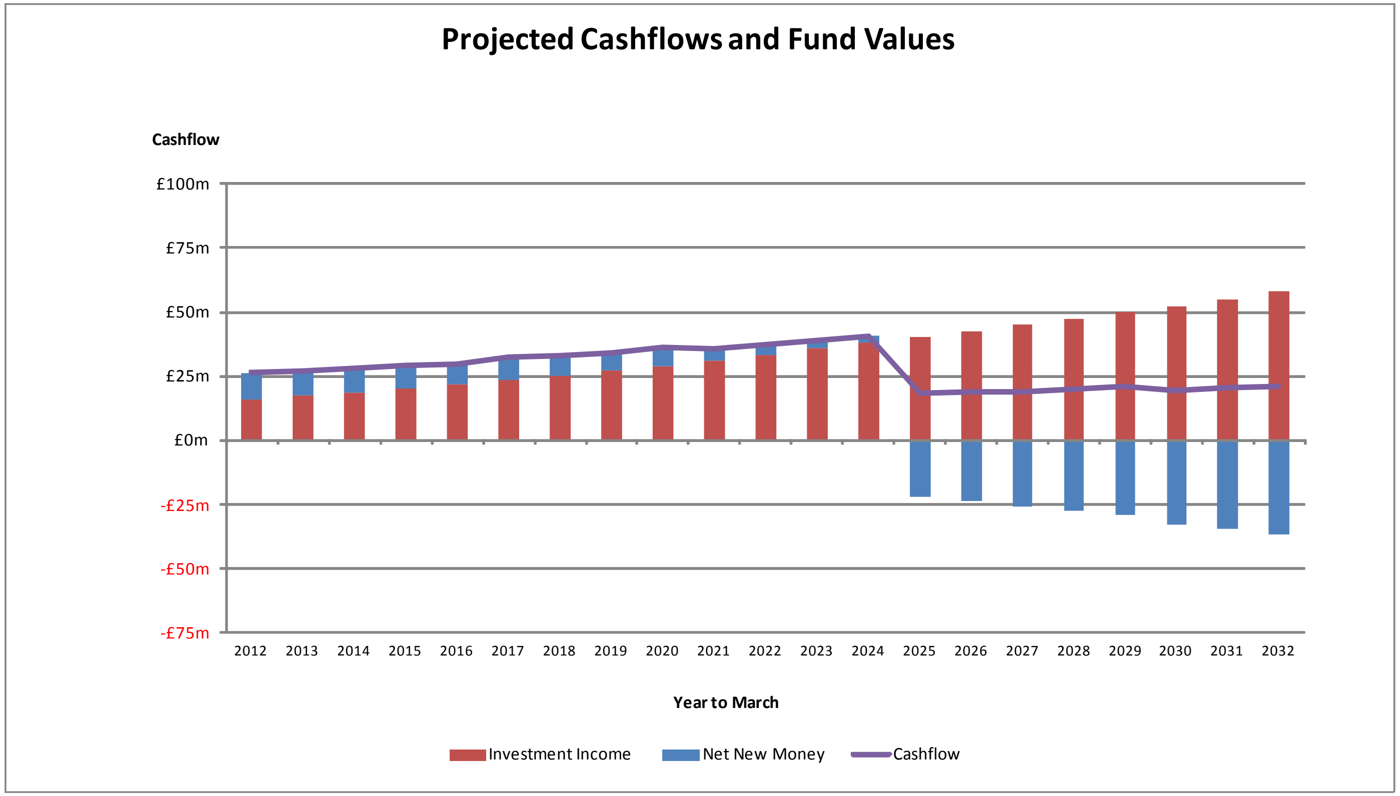
- Investment more difficult once outgo more than income
- And more volatile and potentially higher employer contributions

Open agreement more "socially responsible"?

- Better pensions for all means
- Wealthier future retired population
- Less burden on the State/tax payers

Cashflow / Investment Issues

Stable Active Membership



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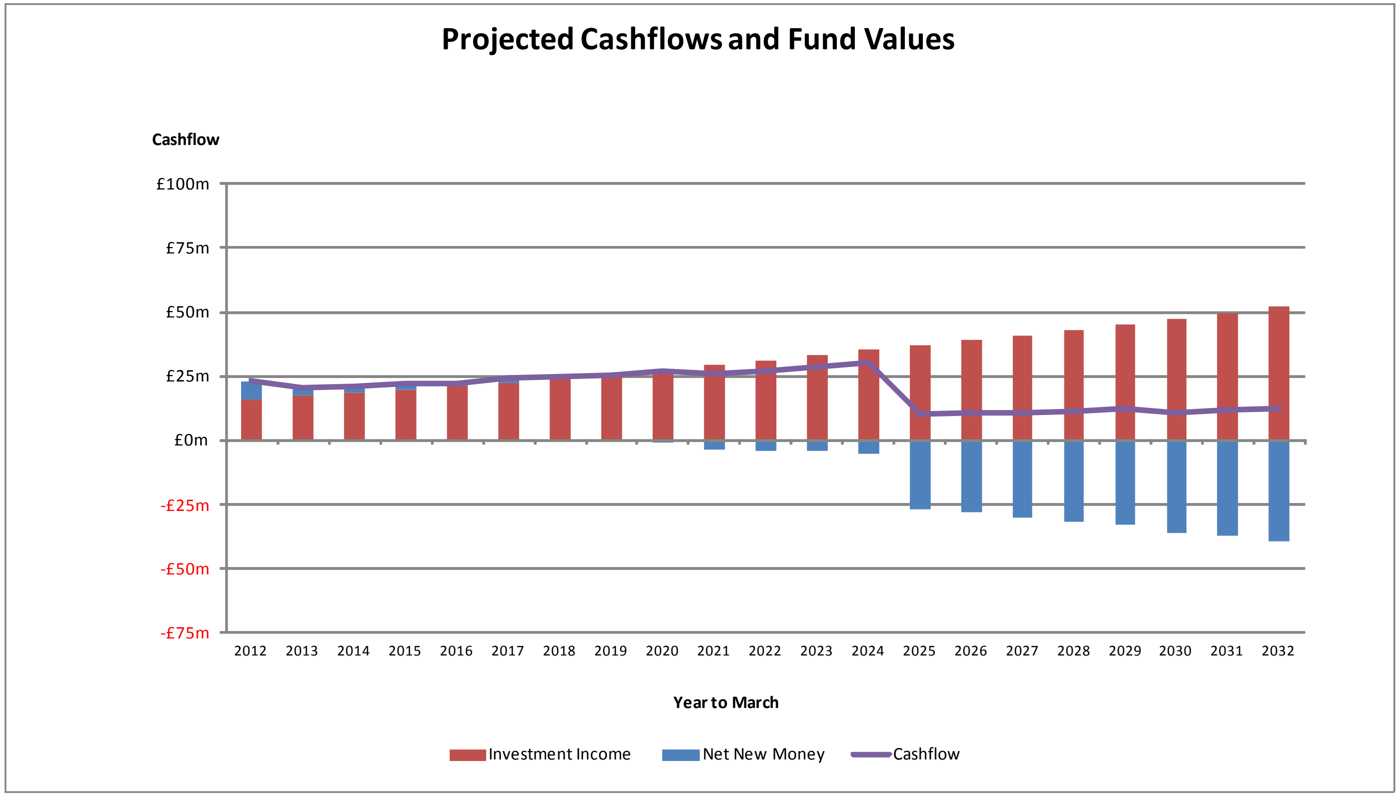
Cashflow / Investment Issues

20% active membership reduction



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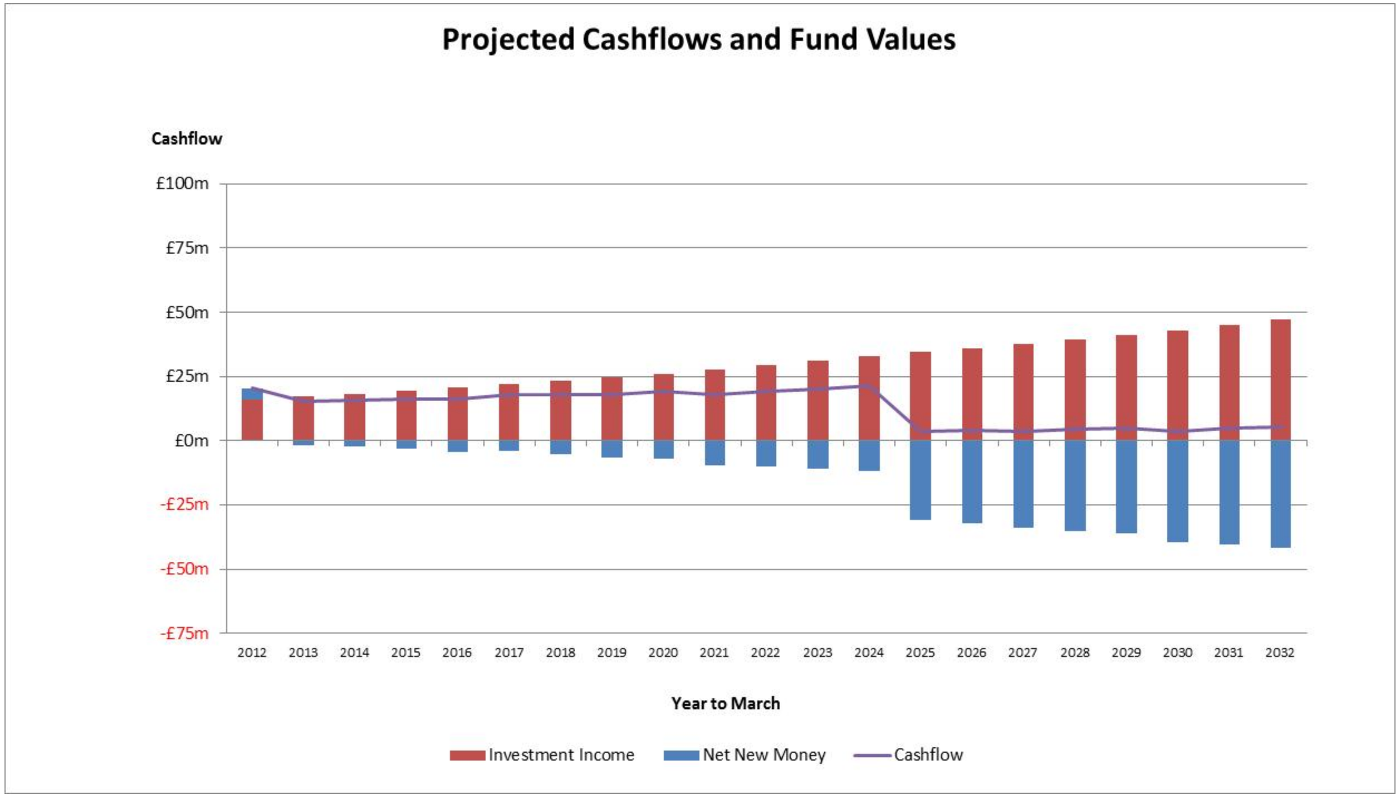
Cashflow / Investment Issues

40% active membership reduction



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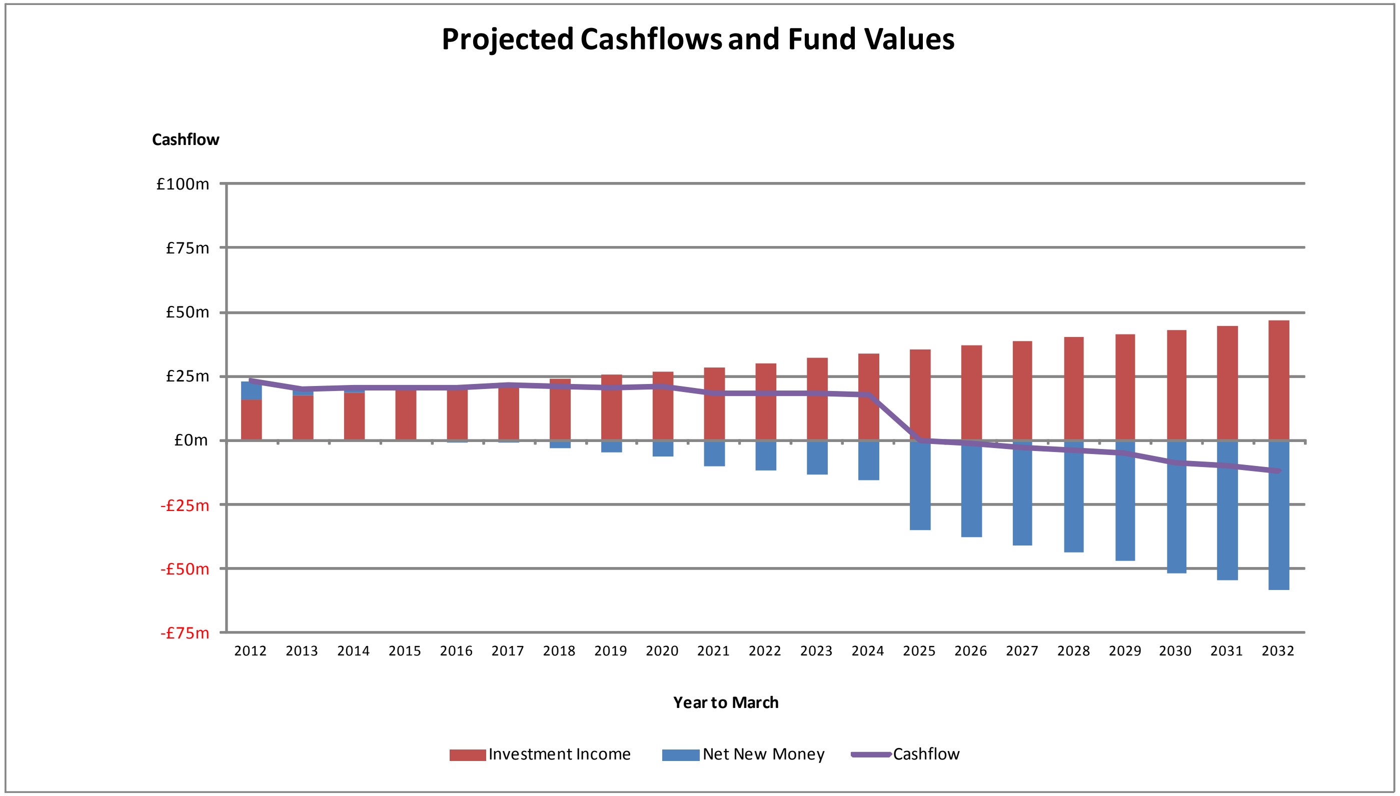
Cashflow / Investment Issues

20% Active Membership reduction plus 1,500 members are in closed admission agreements



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Conclusions

As Fund matures pensions will overtake contributions	• And investment income plugs the gap • Still 15 years away
Reduction in membership brings this time closer	• But investment income adequate for a while
Bigger membership reduction	• Investment income might not be enough • Need to sell assets • Not a huge concern but constraint on future investment strategy

Barnet's Policy

Contractors required to continue with LGPS	• No change in pension terms for transferred staff • Still subject to changes to LGPS though
Open or closed admission	• Case by case basis
Future transfers	• Same process as before

Questions?

Graeme Muir FFA