

Lord Hutton
Chair, Independent Public Services Pensions Commission
1 Horse Guards Road
London
SW1A 2HQ

13 December 2010

Dear John

Call for evidence for final report of the Public Service Pension Commission

Thank you for your letter of 1 November inviting further evidence and views from the Local Government Association to assist you in preparing the final report of the Public Service Pensions Commission. The LGA is a voluntary membership body and our 422 membership authorities cover England and Wales. A specialist company Local Government Employers is part of the LGA Group and leads on workforce issues through pay, pensions and employment solutions.

Our response to the 25 questions you have posed in your call for further evidence is attached. The LGA Group would of course be very pleased to provide you with any additional information or background you consider helpful.

As an employer representative body, the LGA has an interest in not only the Local Government Pension Scheme (LGPS) but also the Teachers' and Firefighters' Pension Schemes. Whilst our response concentrates primarily on the LGPS, most of our answers to the 25 questions are generic and apply equally to the Teachers' and Firefighters' Pension Schemes.

As far as the LGPS is concerned we would wish to impress upon you again that it is totally different to most other pension arrangements operating in the public sector and should not get swept up in catch-all remedies based on solving the problems of non-funded schemes. The LGPS may be under-funded but it is not an unfunded scheme. So it is particularly important that our perspectives on this are clearly understood. The LGPS is distinctive and can be reformed within its own parameters. For example, Funds have demonstrated sensible management of deficits, resulting in long-term stability, and can continue to achieve efficiencies and savings by means of a variety of available tools.

It is also important to note that the future of pensions as part of a total reward strategy is crucial to the development of local government services in the future. The position of the LGA is that any pension scheme must be sustainable and affordable and we have regularly lobbied government on that

basis. Whilst the review of the LGPS that commenced in 2001 led to some changes to the scheme in both 2006 and 2008 we are of the view that, whilst there is no immediate crisis, the current opportunity to introduce changes that will make the scheme sustainable and affordable for the long term should not be lost. This is equally true for the Teachers' and Firefighters' Pension Schemes.

Given the discussion that you and I have previously had about all this I would be very happy to meet you personally during this final phase of your enquiry if it would be helpful. The issues you are considering have been given the highest political authority by the association and we do want to find a workable solution to the issues posed in your letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Ransford', with a stylized, cursive script.

John Ransford

Part I – Executive Summary of the LGA Submission

Having considered the Independent Public Service Pensions Commission's initial report, the 25 questions subsequently posed by the Commission and the context, post the Spending Review, within which public service pension reforms need to take place, the Local Government Association is pleased to respond to the Commission's call for further evidence.

Our full response is set out in Part II but, in summary:

- we support the Government's commitment to continue with a form of defined benefit pension scheme. This is important as we recognise the value of the pension scheme as part of the overall pay and rewards package and its importance in our ability to recruit and retain an effective and motivated workforce
- we are strongly of the view that a major, and overarching, objective should be to keep the design of any new scheme as simple as possible in order to aid better employee and employer understanding and avoid overly-complex / costly administration for employers and administering authorities
- we do not support combination or hybrid schemes, as these fail to meet the above objective, and we do not support Collective or Notional Defined Contribution schemes
- we recommend that the appropriate scheme should be a Career Average Revalued Earnings (CARE) scheme with a CPI revaluation rate. A CARE scheme would complement the pay and occupational structure in local government
- the core package should be kept simple but if scheme members wish to personally increase their benefits, there should be facilities for them to do so
- we are not in favour of a pension restriction or cap for high earners but if, for financial or political reasons, this is deemed necessary, then any reduction in the pension accrual rate or the introduction of a cap on pensionable pay should only apply to earnings above a reasonably high figure. Choosing too low a figure would suggest the need to introduce a hybrid scheme (which, as stated above, we do not support)
- we are in favour of linking normal pension age to the state pension age and do not believe there is a need for there to be a lower normal pension age for some public sector employees

- our preference would be that any new pension arrangements should apply to **all** (i.e. existing and new) staff and that benefits accrued in the 'old' scheme should be treated as a deferred benefit which would increase in line with an appropriate index. However, the huge administrative burdens for employers and pension scheme administrators that would result from an exercise to award deferred benefits to such large numbers of scheme members should not be underestimated
- adequate time must be allowed for pension reform to be delivered, for software systems to be developed / tested, for communication materials to be produced and distributed, and for pensions staff to be trained, etc.
- the LGPS should continue to be a funded scheme and continue to be available to a broad range of employers (not just local authorities). However, mechanisms need to be further developed to protect the LGPS Funds from employers who cease (for whatever reason) to participate in the scheme from walking away from any underfunding liabilities
- we believe that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option in the LGPS for contractors to enter into an admission agreement should be retained
- whilst, in principle, we might support the concept of new employees in other parts of the public sector being entered into a funded public service pension scheme, this would be subject to the Government providing a categorical assurance that no additional costs would fall to be met by employers and local tax payers compared with leaving those staff in a separate, unfunded, scheme(s)
- we do not support any move to impose consolidation of LGPS pension scheme administration and / or of the LGPS Pension Funds. Combining or reducing the number of administering authorities / Pension Funds would appear to run counter to the localist agenda. There are other options that might be more usefully explored such as partnership working.

In terms of the recommendations that are to emerge from phase 2 of the Commission's review we believe they should:

- not impose a detailed 'one size fits all' solution on individual schemes
- provide a strategic policy framework within which the public service schemes can conduct their own reforms with full recognition given to their occupational, financial, governance and administrative contexts

- recognise in full the individual distinctiveness of each scheme, including its pay and occupational / gender characteristics
- make simplicity a major objective
- recognise the already strong localist credentials of the LGPS and the distinctiveness of the funded LGPS from the unfunded and notionally funded public service pension schemes. This point is covered in detail at the beginning of Part II of our submission.

Part II – The Full LGA submission

In this Part of our submission we expand on the points made in Part I by:

- providing a brief introduction to the LGPS – and why it is different to the unfunded and notionally funded public service pension schemes
- answering the 25 questions posed by the Independent Public Service Pensions Commission in its call for further evidence.

A brief introduction to the LGPS – and why it is different

The LGPS is a final salary, defined benefit scheme with, at the end of March 2010, 4.33 million members in England and Wales (1.81 million contributors, 1.21 million pensioners and 1.31 million deferred pensioners).

Several thousand employers participate in the LGPS. Employers participating in the scheme include not only large authorities, but small Parish Councils, a whole range of public bodies, educational establishments, charities and contractors undertaking a function outsourced by a best value authority.

Unlike virtually all of the other main public service pension schemes, the LGPS is a funded scheme, in common with private sector defined benefit pension schemes.

At the end of March 2010 the market value of the 88 LGPS Funds in England and Wales was £140.5 billion (in investments and assets), enough to pay benefits for over 20 years.

In 2009/10 the scheme has income from investments and contributions that exceeded expenditure on benefits and administration expenses by £3.8 billion. Each year, the additional net assets (income less expenditure) are therefore available for investment so that the Fund continues to grow to meet the employers' pension liabilities in the future.

Given the size of the LGPS Funds it can be seen that they are a not an insignificant investor in the UK and world economies.

As it is a funded scheme, the LGPS is fundamentally different from the unfunded public service pension schemes, such as the civil service, NHS, armed forces, police, firefighters' and teachers' pension schemes. The unfunded schemes have no pot of investments to pay for pensions, and are instead paid for out of current employer and employee contributions and general taxation. The Government Actuary calculates that the liabilities of the unfunded public sector pension schemes amount to £770 billion.

The LGPS is run by 88 different administering authorities across England and Wales¹ but the rules governing the scheme, including the benefits payable and the contributions payable by employees, are contained in a standard set of scheme regulations.

Councillors sitting on the Pensions Committee in each of the 88 administering authorities in England and Wales are responsible for the management and investment of the Pension Funds. Thus, as well as being funded, and funded locally, the LGPS is governed, administered and invested at individual pension fund authority level by elected members representing the council taxpayers and others who stand behind the LGPS. This means that decisions are taken by democratically elected local councillors working within the restraints of local authority budgets. The administration of the LGPS is a good example of local democratic accountability working well.

The scheme is run to deliver pensions in the long term, and the Funds are managed so as to mitigate the effects on council tax resulting from short term fluctuations in the value of the Pension Funds.

The LGPS is fully transparent, far more so than any other public service pension scheme, and is an integral part of local government finance. The Pension Fund has to produce and publish audited accounts, an annual report, a governance compliance statement, a funding strategy statement, and a statement of investment principles; it has to publish its triennial fund valuation report; it is subject to internal and external audit; and data on the scheme is collected and published by the Department for Communities and Local Government (SF3 data). Decisions taken by the Pension Fund Investment Committee are open to public scrutiny (not least by the local or national media). The operation and conduct of the Committee is subject to both local government law and local standing orders. Councillors sitting on the Committee are subject to a duty of care in exercising their duties and powers².

¹ This includes the Fund for the Environment Agency. If the Funds for the South Yorkshire Passenger Transport Authority and the West Midlands Passenger Transport Authority are added, the number of Funds in England and Wales would be 90. There are also 11 Funds in Scotland and 1 in Northern Ireland.

² i.e. they must have regard to the principle contained in *Roberts v Hopwood*. In that case, Lord Atkinson said "A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business like manner with reasonable care, skill and caution, and with a due and alert regard to the interests of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others."

Section 151 of the Local Government Act 1972 places a duty on local authorities to make arrangements for the proper administration of their financial affairs (which, in the case of authorities administering the Pension Funds, includes the financial affairs of the Pension Fund). The Pension Fund must also publish a statement of policy concerning communications with scheme members and participating employers and may also publish a pensions administration strategy. Furthermore, employers participating in the scheme must publish policies on the exercise of various discretions permitted under the LGPS Regulations.

Through its statutory triennial valuations, with employer contribution rate adjustments being in place within one year of the valuation date, and the funding strategy statements, the LGPS transparently and locally manages its deficit recovery programmes while protecting council taxpayers.

The experience, expertise and structures of the individual LGPS pension fund administering authorities are an integral part of local government. They operate separately and distinctively from the unfunded schemes and within their own distinctive financial and regulatory frameworks.

As shown in the table below, the future service costs for the scheme which are to be met by councils are between 12 and 14 per cent of pensionable salary – equivalent to many other open defined benefit pension schemes in the private sector.

	Existing Members	New Entrants
Total cost	20.6%	18.2%
Less average employee rate	6.3%	6.3%
Employer rate	14.3%	11.9%

Although many authorities are currently paying more than the above future service rates (with an average rate of around 18%), the extra contributions are to cover the underfunding of benefits that have already accrued. That underfunding cost has to be met regardless of future changes to the scheme. The average employer contribution to defined benefit schemes in the private sector in 2008 was 16.6%³.

Employees make a significant contribution into the Local Government Pension Scheme. Employee contributions to the LGPS in England and Wales vary between 5.5 per cent of salary for the lowest paid (those earning up to £12,600 a year) to 7.5 per cent for staff earning over £78,700 a year⁴. When the new LGPS was introduced in 2008 this equated to an average employee

³ Source: [Office for National Statistics Occupational Pension Schemes Annual Report, 2008 Edition](#)

⁴ The same employee contribution rates apply to the LGPS in Northern Ireland. In Scotland, the employee contribution rates to the LGPS are based on a five tier contribution system, with contributions based on how much of an employee's pay falls into each tier.

rate of 6.3%. This compares to an average employee contribution to defined benefit schemes in the private sector in 2008 of 4.9%⁵.

The average pension paid under the scheme is £4,235 a year⁶. The average reflects the wide range of pensions that are paid, from very small pensions paid to those scheme members who have had a short period of low paid service to very much larger pensions paid to long-serving higher paid employees. The West Midlands Pension Fund has produced figures showing that 71.64% of their pensioners receive a pension of less than £5,000 with only 0.36% receiving a pension of greater than £33,000. The Audit Commission states that half of all LGPS pensions in England are below £3,000.

Unlike the other main public sector pension schemes, all the changes made to the LGPS following the last review of the main public sector schemes, impacted on current as well as future scheme members. It should be noted that unlike the majority of the other public service pension schemes the Local Government Pension Scheme has always had a normal retirement age of 65. The former “85 year rule” which allowed members who retired early from age 60 (voluntarily) or age 55 (with employers consent) to take their pension entitlements without actuarial reduction if the sum of their age and length of membership equalled 85 years or more, was removed from 1 October 2006 (but with some protections for older members). In the longer term the Scheme will be more affordable than the other public sector schemes which had a retirement age of 60 and granted full age 60 protection to all existing members at the date the normal retirement age in those schemes was increased to age 65.

So, in summary, the LGPS is a well-managed scheme with contributions from employees and from a diverse range of employers. Its Funds are invested in business, property and the markets. It should remain a funded scheme as, compared to the unfunded public service schemes, it is arguably a better model to reduce the liability on the public purse in the longer term.

The matters upon which the Pensions Commission is seeking further views

Q1) What is an appropriate scheme design for public service pensions? Why?

We agree with the statement in the Commission’s interim report that *“Long-term structural reform is needed as [the current] issues cannot be dealt with through provision of traditional final salary defined benefit schemes. But neither can they be dealt with appropriately through a funded, individual account, defined contribution model for all employees, which would place a*

⁵ Source: [Office for National Statistics Occupational Pension Schemes Annual Report, 2008 Edition](#)

⁶ [SF3 data](#) published by Communities and Local Government for England and for Wales.

major financing burden on taxpayers, ignore the ability of Government as a large employer to manage certain types of risk and increase uncertainty of post-retirement income for scheme members, which is difficult in particular for the low paid to manage.”

We therefore support the statement by the Chancellor of the Exchequer in the Spending Review that *“the Government will commit to continue with a form of defined benefit pension”*. This is important as we recognise the value of the pension scheme as part of the overall pay and rewards package and its importance in our ability to recruit and retain an effective and motivated workforce.

Of the various options being considered by the Commission we believe that, in relation to the public service pension schemes in which we have an interest (the LGPS, the Firefighters’ Pension Scheme and the Teachers’ Pension Scheme), a Career Average Revalued Earnings (CARE) scheme would be the most appropriate model. A CARE scheme complements the pay and occupational structure of the local government workforce (and is the type of scheme already provided to local authority Councillors). Such a scheme is relatively easy both to administer and for employers and scheme members to understand, and it addresses the inherent inequality of the current final salary scheme arrangements which favour those who progress through the salary scales and, particularly, those who obtain a promotion shortly before retirement.

We strongly feel that one of the overarching objectives of any scheme design should be to ensure it is kept as simple as possible in order to aid better understanding by workers and employers and avoid high opt-out levels due to over-complexity.

For that reason, we do not support combination schemes i.e. schemes where a member simultaneously earns benefits that are part Defined Benefit (DB) and part Defined Contribution (DC) on the same income. In our view such arrangements lead to unnecessary complexity, lack of understanding, additional cost and, potentially, a longer implementation phase.

We have similar concerns over hybrid capped schemes.

Although we are not in favour of a restriction or cap, if some form of restriction or cap is deemed to be necessary for financial or political reasons (even in a CARE scheme which, when combined with the new Annual and Lifetime Allowances, would already address concerns over high earners), then we would prefer this to be delivered in one of two relatively simple ways:

- a) reduce the accrual rate in respect of pay above a certain level, or
- b) provide that pay above a certain level is not pensionable in the main scheme. However, the employee could choose to pay Additional Voluntary Contributions (AVCs) on the excess pay (to which the employer could also make a contribution via a Shared Cost AVC, provided the employer is willing to justify making such a payment) or the member could pay Additional Regular Contributions (ARCs) to

purchase additional pension. AVC's, Shared Cost AVCs and ARCs are concepts that are already understood within the public sector (although our experience is that, compared to AVCs, the take up of ARCs has been very limited).

In terms of the level at which a restriction or cap, **if any**, should be set, our view is that it should be reasonably high in order that it only impacts on the relatively high paid.

For example, if (b) above were chosen, the Conservative Party concept of limiting pensions to £50,000 would indicate, if the scheme were a final salary scheme, that there should be a pensionable salary cap of around £75,000⁷ for future service accrual i.e. after 40 years in a 60ths final salary scheme, the employee would have built up a pension of $40/60$ ths of £75,000 = £50,000. The figure of £75,000 is clearly indicative as, in a CARE scheme, a pensionable pay cap of £75,000 for future service accrual may not generate a pension of £50,000. It would seem sensible to increase any pensionable pay cap each year in line with an appropriate index.

Capping pensionable pay at a lower level would, in our view, lead to pressure to deliver a full hybrid scheme which would introduce an unnecessary level of complexity. As we have already stated, one of our main objectives must be to ensure that any new scheme design is as simple as possible in order to aid better understanding by workers and employers and ease administration.

Capping pensionable pay would be preferable to capping the actual amount of pension payable at, say, £50,000. Capping the amount of pension payable would mean that different employees would reach the pension cap after different lengths of service e.g. in a 60ths final salary scheme someone on £100,000 would reach that level after 30 years ($30/60 \times £100,000$) whereas someone on £200,000 would reach it after 15 years ($15/60 \times £200,000$). This is not a sensible way to proceed. It would mean that highly paid public sector workers would no longer wish to remain in their pension scheme once their pension entitlement reaches £50,000 a year. The value of their overall remuneration package would then drop (as they would be accruing no further pension and the employer would not be contributing any contributions on their behalf to a pension scheme). Assuming that this is not then compensated for by an increase in pay (and thereby negating any point to such a pension reform) it would create a sharp cliff edge in the remuneration package at the point the maximum pension is reached. This could make negotiations about the remuneration package of higher paid people much more complicated depending on their length of service.

⁷ 0.22% of the local authority workforce excluding teachers, or 0.17% of the local authority workforce including teachers, earn more than £75,000. It should be noted that the old HMRC earnings cap for 2009/10 was £123,600.

Q2) Which risks associated with pension saving should the scheme members bear, which by the employer and which should be shared? Why?

Under a cost sharing arrangement the cost of any increases in the cost of a Defined Benefit scheme are shared between employees and employers. This could be subject to a limit (a cap)⁸ on the level of the employer contribution. It would be necessary to define whether all, or only some, of the items that could result in increases in pension costs are to be shared and, if only some, which elements are not to be shared but are to be met wholly by the employer or wholly by the employee. Of the elements to be shared it would be necessary to decide in what proportions the costs are to be shared (e.g. 50/50 or 60/40) and whether each of the elements that impact on costs would be shared in the same proportions.

Under the cost sharing mechanism being considered for the Local Government Pension Scheme the following was proposed:

- Shared costs
 - Longevity (or could all be borne by employees)
 - Other demographics (turnover, ill health rates, etc)
 - Pay increases in excess of expectations (or could all be borne by employers)
 - Effects of options taken by scheme members (e.g. commutation)
 - Changes to benefit structure (but this should be considered on a case by case basis if as a result of overriding legislation)
- Non-shareable costs (to be met by employer only)
 - Investment returns
 - Financial assumptions
 - Actuarial methodology

This could be used as a template. However, it should be recognised that it takes time for the effects of such an approach to feed through and the concept is difficult for employers and, particularly, scheme members to understand. For example, how would one explain to scheme members that, although as a result of increases in the stock market (a non-shareable item) the value of the LGPS Funds had markedly increased to the extent that they were in surplus, the employees contributions had still to go up because of an underlying increase in costs due to, for example, an increase in longevity (a shareable item).

⁸ The Teachers' Pension Scheme and the NHS Pension Scheme have set a cap on employer contributions of 14%.

Q3) What mechanisms could be used to help control costs in public service schemes? For example, is there merit in flexible normal pension ages linked to changes in longevity?

There are various ways that risk can be shared between the taxpayer and employee. These may be summarised as follows:

Cost sharing arrangement

Under such an arrangement any underlying increases in the cost of a Defined Benefit scheme is shared between employees and employers. This could be subject to a limit (a cap) on the level of the employer contribution, with increases above that level all falling on employees via increased contributions or reduced benefits. Whilst we support the principles of cost sharing it should be recognised, as we mentioned earlier, that it takes time for the effects of such an approach to feed through and the concept is difficult for employers and, particularly, scheme members to understand.

Linking the scheme's normal pension age to the state pension age

Longevity risk could be better managed by linking a scheme's normal pension age to the state pension age and we would support this. The state pension age was set to rise to 66 between 2024 and 2026, then rise by 1 year in each subsequent decade until reaching 68 in 2046. In the Spending Review the Chancellor of the Exchequer announced that the state pension age would now rise to 66 between December 2018 and April 2020 and that there was likely to be further change to the planned rise to age 68.

Move to a Defined Contribution scheme

The fundamental difference between providing benefits on a Defined Contribution basis as opposed to a Defined Benefit basis is that the member, not the employer, bears the investment, annuity rate and longevity risks. The ultimate benefits are unknown and uncertain. Risk is a matter that lower earners are less likely to be able to ameliorate in other ways than high earners.

As mentioned earlier, however, we agree with the Commission's view that a move to a standard individual account Defined Contribution model is not appropriate. We also do not support a move to a Collective Defined Contribution or Notional Defined Contribution approach.

Move to a Hybrid scheme

The degree to which risk will be borne by employers and employees in a Hybrid scheme will reflect the relative mix and characteristics of the component parts of the Hybrid scheme. However, as stated earlier, we are not in favour of a hybrid scheme.

Revaluation rate

An appropriate revaluation index factor during employment and after leaving can be chosen to help control costs.

What indexation factor should be used in a career average type scheme to ensure a reasonable balance of risk between scheme members and taxpayers?

For the sake of simplicity, it would be helpful if the same indexation factor were used for both active members, deferred members and pensioner members (given that, for example, an active member may become a deferred member, rejoin the scheme and wish to combine the earlier benefits with the latter benefits). As CPI has been announced as the indexation factor for deferred and pensioner members from April 2011, this should be used as the indexation factor for active members.

The CARE accrual rate and the employee contribution rate(s) can then be set having regard to the chosen indexation factor.

Q4) Where and how have risks associated with pensions been effectively shared in private sector companies?

No comment.

Q5) Which international examples of good practice in the area of risk sharing should the Commission consider when compiling the final report? Why?

We have no particular comment to make on this question other than to say that other countries' systems are bespoke to take account of their state pension systems, social partnerships and their governments' priorities as regards public pensions.

Q6) What should the split between member and employer contributions look like?

We believe that an appropriate split between member and employer contributions for future service accrual would be in the range of fifty / fifty to one third member / two thirds employer, subject to any cap on employer contributions should there be an ongoing cap and share arrangement. However, the answer to this question will, of course, be influenced by the nature of the new scheme to be introduced and the degree to which risks are shared – see our answers to questions 1, 2 and 3.

Q7) Should there be different treatment of different professions (for example, lower normal pension ages for some public service employees)?

Given that the principal purpose of a pension scheme is to deliver a pension **in retirement** we do not believe there is an argument for having a lower pension age for some public service employees.

Multiplicity of pension arrangements:

Consideration should be given as to whether or not it is necessary to continue to have separate public service pension scheme rules for England and Wales, for Scotland and for Northern Ireland.

Also, would there be merit in considering a single set of scheme rules governing employees in the civil service, NHS, local government and teaching? Those working in local government could be in the funded section of the scheme, and those working in other sectors could be in the unfunded section of the scheme. However, whilst this might negate some of the problems currently encountered with transfers (and particularly TUPE transfers) between the various parts of the public sector, the pros and cons would need careful investigation and consideration with due recognition given to the fact that:

- the employers are separate employers with a diversity of employment types,
- they each have their own pay practices and term and conditions of employment,
- the pension schemes are an integral element of those pay and conditions packages,
- there is currently a significant disparity between the employee contribution rates in the various public service pension schemes, and
- the LGPS, unlike the other schemes, is a funded scheme.

Whilst, in principle, we might support the concept of new (non-LGPS) employees in other parts of the public sector being entered into a funded public service pension scheme going forward, this would be subject to the Government providing a categorical assurance that no additional costs would fall to be met by employers and local tax payers compared to leaving those staff in a separate, unfunded, scheme or schemes.

If separate schemes are to be maintained, thought should be given to how best the transfer of staff from one public service pension scheme to another following a machinery of government change could be simplified. At the present time, the receiving scheme often has to be amended to build in protections that are to be applied to the transferring staff in order to reflect differences between the sending scheme and the receiving scheme. This leads to overly complicated and costly pension arrangements which might be overcome if, for example:

- a) the transferred staff were allowed to continue contributing to their original scheme, or
- b) the receiving scheme was permitted to buy-out the differences, or
- c) all the public sector schemes moving forward were basically the same e.g. all CARE schemes with the same accrual rate, revaluation rate and normal pension age.

Q8) Should there be different treatment for those at different income levels?

In principle, the design of a scheme should ensure equality of treatment regardless of the level of income. For example, a CARE scheme (which we favour) would remove much of the perceived inequality inherent in a final salary scheme (which benefits longer serving career staff with higher earnings growth). We do not believe that the pension scheme should introduce distortions to wage rates and negotiations with staff.

Nonetheless, given that there is evidence to show that higher earners tend, on average, to live longer, there is an argument the higher paid members should pay a higher contribution rate on their pensionable pay.

A counter argument is that the pension element of the remuneration package should not be looked at in isolation from the rest of the total reward package. It is claimed that the pay for higher paid employees / professional staff is lower in local government than that of their equivalents in the private sector whereas it is claimed the pay for other employees is higher than that of their equivalents in the private sector. Thus, different (i.e. worse) pension treatment of high earners would not be justified when looked at in terms of the overall remuneration package. It should be noted, however, that as mentioned by the Institute of Fiscal Studies in their 2010 Election Briefing Note 169, “establishing whether the total remuneration of ‘comparable’ workers is actually higher or lower in the public sector than the private sector is extremely difficult – see Bozio and Johnson (2010) for a discussion¹⁰”.

Another inequality often pointed to is the level of tax relief that applies dependent upon the level of earnings. This, however, is a matter that requires resolution within the tax regime rather than in the design of the pension scheme.

If, for political reasons, it is felt that there should be different treatment for high earners (for reasons other than those in the second paragraph above) then please see the points we make in relation to a restriction / cap in our answer to question 1.

⁹ Source: Institute of Fiscal Studies briefing note on [Pensions and Retirement Policy](#)

¹⁰ A. Bozio and P. Johnson (2010), ‘[Public sector pay and pensions](#)’, in R. Chote, C. Emmerson and J. Shaw (eds), *The IFS Green Budget: February 2010*,h

Q9) What is the appropriate normal pension age for the different public service schemes? Should this vary across schemes and, if so, why?

Please see our response to question 2 (linking the normal pension age to state pension age) and our response to question 7.

Q10) How should the Commission think about measuring adequate levels of resources in retirement?

Q11) What should be considered an adequate level of resources in retirement?

The Pensions Commission, headed by Lord Turner, designed a set of benchmark replacement ratios to assess whether an individual had an adequate level of income in retirement to maintain his / her current standard of living, reflecting lower taxation, housing costs, and expenditure including travel costs in retirement. We would support the conclusions of the Pensions Commission shown in the table below.

Gross income	Benchmark gross replacement rate (%)
Less than £9,500	80
£9,500-£17,499	70
£17,500-£24,999	67
£25,000-£49,999	60
£50,000 and above	50

Source: Pensions Commission.

Q12) Should a full state pension and a full public service pension ensure people have adequate resources in retirement? Or should room be left for individuals to make their own arrangements?

We believe that targeting replacement ratios along the lines of the figures in our answer to Q11 above would be appropriate and adequate for an individual with a full state pension and full public service pension entitlement.

Nevertheless, regardless of whether or not an employee will have a full state pension and a full public service pension, an employee who wishes to make arrangements to pay for additional pension, either through the scheme (e.g. via AVCs or ARCs) or by taking out additional pension arrangements outwith the scheme (e.g. via a stakeholder pension, personal pension, or free standing AVC), should be permitted to do so.

Q13) How should this change where people work part careers in public service?

There should be no difference of approach. Those who have a part career in the public service will have the opportunity to build up other pension rights in any other employment they have had or may have in the future.

Q14) How much do workers value and understand pensions? Is there any evidence this differs between groups (for example, by age, by income)?

In 2003 a survey of 20 local authorities showed that around one third of local government employees did not join the LGPS even though entitled to do so¹¹. These tended to be lower paid workers and younger members of staff as shown in Appendix 1. The Institute for Fiscal Studies has shown¹² that the reason the bulk of the ‘unpensioned’ are not paying into a pension scheme is because of other urgent calls on their money (not because they inherently do not want to pay). The Local Government Pensions Committee survey in 2003 of 554 employees who had decided not to join the Scheme (see Appendix 2) supported the findings of the Institute of Fiscal Studies.

Q15) Which forms of scheme design will encourage employees to save for their retirement?

In our view the answer is “those schemes that are transparent and simplest to understand”. This ties in with the overarching principle of ensuring any new scheme is as simple as possible – the less complex it is, the easier it will be for employees to understand.

Is there any evidence from pension scheme reforms influencing opt out rates in the private sector?

No comment.

Q16) What best practice exists in the private sector around communication of benefits with scheme members?

We have no comment on best practice in the private sector. However, the assumption that best practice only exists in the private sector is somewhat disparaging.

¹¹ When the very low paid (i.e. those earning less than £3,900 per year) were removed from the figures, the take up rate (based on the sample of 20 authorities) was approximately 80%; amongst full-time staff over age 25 the rate was approximately 88%. The 20 authorities that provided data were large local authorities. As these employ a higher proportion of part-timers than, say, District Councils, the overall percentage of employees who are members of the Scheme nationally is likely to be higher than the figures quoted.

¹² [Partnership in Pensions; an Assessment: Institute for Fiscal Studies, 1999.](#)

For example, in the LGPS, administering authorities issue guides, leaflets, annual benefit statements, and newsletters; they hold meetings for scheme members and employers, have Fund AGMs, run mid-life and pre-retirement courses, and may have employer and scheme member representatives sitting on the Pensions / Investment Committee.

The LGPS administering authorities are also required to prepare, maintain and publish a written statement setting out their policy concerning communications with -

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) employers.

In particular, the statement must set out their policy on –

- (a) the provision of information and publicity about the Scheme to members, representatives of members and employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

Q17) Should any new scheme design offer members a degree of choice in the level of contributions paid and benefits received? For example, should members be able to receive a higher pension if they want to take the pension later? Why?

The core package should be kept simple. The message should be that if a member voluntarily retires and chooses to draw benefits before the scheme's normal pension age the benefits will be actuarially reduced (because the pension will be drawn for longer) and if the member retires after the scheme's normal pension age, or chooses to draw benefits after then, the benefits will be actuarially increased (because the pension will be drawn for a shorter period of time).

If scheme members wish to personally increase their benefits, there should be facilities for them to do so (although consideration would need to be given to the number of choices available in the scheme in order to avoid complexity – again the message is to keep things relatively simple to aid employee understanding).

Q18) Whether and how public service pensions could be structured to support a more level playing field between the public and private sectors when tendering for contracts?

The Cabinet Office Statement of Practice (or COSOP): *Staff Transfers in the Public Sector*, issued in January 2000, and the Annex to it, *A Fair Deal for*

*Staff Pensions*¹³ laid down a framework governing all public sector outsourcings. This framework included the principle that there should be appropriate arrangements to protect occupational pensions of staff who were transferred as part of the outsourcing.

We can see that this framework may discourage some contractors for bidding for contracts within areas of the public sector as, in areas other than local government, the successful bidder would have to provide any transferred staff with access to a pension scheme that is broadly comparable to the public sector scheme they were in prior to transfer. This can be costly and we assume that this is the “unlevel playing field” that the Commission is referring to in its question. However, there is much more of a level playing field in local government

Although the Statement of Practice is not directly applicable to local government, the Code of Practice on Workforce Matters in Local Authority Service Contracts which was contained in Annex D of Circular 03/2003 (Local Government Act 1999: Part 1 Best Value and Performance Improvement) issued by Communities and Local Government in 2003 specifically states that Local Authorities will apply the principles set out in the Statement of Practice. Furthermore, since 1 October 2007, parts of the Statement of Practice have been given statutory footing. The Best Value Authorities Staff Transfers (Pensions) Direction 2007 issued under section 101 of the Local Government Act 2003 brought into operation section 102 of that Act confirming the requirements for the protection of the occupational pensions of the transferring staff. The Direction applies to best value authorities in England (and the police authorities in Wales). It applies to such bodies when letting or re-letting service contracts on or after 1 October 2007 (to contractors or to the third sector).

The Direction requires that transferring Local Authority employees must be offered secure pension protection. Pension protection is secured if, after transfer, the transferring employee has a right to acquire pension future benefits and those rights are the same as, or broadly comparable to, or better than those that the transferring employee had when he was an employee of the Local Authority. This can be either via the contractor entering into an admission agreement with the LGPS so that the transferring staff can remain in the LGPS or by the contractor providing a scheme for the transferring staff that is certified by an actuary as being broadly comparable to the LGPS.

In this respect, the LGPS is far more open than other public service pension schemes which generally do not permit staff transferred to contractors to continue to participate in the scheme for the duration of the outsourced contract. The option of an admission agreement means that there is a much more level playing field in local authority outsourcings than in other public service outsourcings.

¹³ The [guidance](#) was revised in November 2007.

The effect of the Statement of Practice and its Annex (A Fair Deal for Staff Pensions) and, for best value authorities, the Directions Order is that the ongoing pension rights of staff transferred from the public sector to the private sector are better protected than those of staff involved in private sector to private sector transfers. In the latter types of transfer, transferred employees are covered by sections 257 and 258 of the Pensions Act 2004 together with the Transfer of Employment (Pension Protection) Regulations 2005 SI 2005/649. These protect the pension position of employees who are involved in a business transfer when the TUPE regulations apply by placing a duty on the new employer to offer either membership of an occupational pension scheme or a stakeholder arrangement as follows:

EITHER

(a) an Occupational Pension Scheme, being either:

- (i) a money purchase scheme with the employer matching employee contributions up to 6% of basic pay; or
- (ii) a non-money purchase scheme (generally a final salary or cash balance scheme) providing either:
 - a final salary scheme that meets the "reference scheme test" for contracting out of the state second pension (generally providing a pension of 1/80 of contracted-out earnings for each year plus provisions for spouses); or
 - a scheme that matches employee contributions up to 6% of basic pay; or
 - a scheme that entitles members to benefits worth at least six per cent of pensionable pay (defined in the schemes rules as the pay that is used to determine the amount of contributions and benefits) per annum, plus the value of the employees' own contributions (and in this case, employees cannot be required to contribute in excess of 6% of pensionable pay per annum).

OR

(b) a Stakeholder Pension Scheme that matches employee contributions up to 6% of basic pay.

The effect of removing "Fair Deal" and the Directions Order and moving to the position that applies in the case of private sector to private sector transfers would be that contract prices could be lowered and contractors would not be faced with potentially having different pension arrangements for different groups of staff. Additionally, it may be that the pool of potential bidders would widen (as those that had previously been deterred from bidding due to the pension implications would now enter the fray). However, there would be some significant downsides e.g. :

- industrial relations would suffer and it would be more difficult to “sell” the transfer to affected staff
- in-house bids would be at a disadvantage as contractors would be able to factor lower pension costs into their bids (whereas the in-house bidder would have to offer the higher cost public sector scheme e.g. local authority in house bids would have to offer access to the LGPS). This would create an uneven playing field
- a worsening of pension provision (to, say, a Stakeholder Pension Scheme, with employers matching employee contributions up to 6% of basic pay) would have long term consequences for the staff involved and for the tax payer if the result were ultimately to be an increased reliance on State (means tested) welfare benefits
- the number of active members of the LGPS would reduce thereby increasing the speed at which the LGPS Funds would become mature

Our view is that the principles of Fair Deal should be retained but be simplified for all parties whilst ensuring, as far as possible, that there is a level playing field. The option in the LGPS for contractors to enter into an admission agreement should be retained.

Q19) Which non-public service employees should be eligible for membership of public service schemes?

Of the three schemes we have a particular interest in (the LGPS, Teachers’ and Firefighters’ Pension Schemes), this question appears to relate more to the LGPS.

The LGPS is a broad church with several thousand participating employers. These range from large authorities, to small Parish Councils, and include a whole range of public bodies, educational establishments, charities and contractors undertaking a function outsourced by a best value authority. The government's opening up of the LGPS to contractors thereby making it an industry wide scheme has been welcomed and the CBI has expressed the view that this is a model that other public service pension schemes should follow¹⁴. This has helped to keep a broad active member base at a time when the core of what local government delivers directly is diminishing.

If the LGPS were in the future to become a scheme for local authorities only (apart from those employers already participating in the scheme), there would be some advantages e.g. :

- the Scheme would be simpler to administer (due to the smaller number and types of employer);

¹⁴ Source: CBI brief (April 2010) – [Getting a grip: The route to reform of public sector pensions](#) and CBI report (June 2009) – [A question of balance: reforming pensions practice in public services contracting](#).

- problems associated with Community Admission Bodies (where they struggle to meet the employer contributions or, worse, cease to trade) might be overcome.

but there would be considerable downsides e.g. :

- the size of the scheme's customer base would diminish, leading to a loss of potential contributors who are the lifeblood of a scheme, and to the increased maturity of the Funds (with adverse consequences for ongoing employer contribution rates);
- there would be consequential industrial relations issues when outsourcing a function, as transferred staff would no longer be eligible for continued participation in the LGPS via an admission agreement and, if transferred staff had to be provided with a broadly comparable scheme (but the contractor did not have the option of access to LGPS) this could limit the range of contractors potentially willing to bid.

The LGPS should, therefore, continue (as now) to be available to a broad range of employers (not just local authorities). However, mechanisms need to be further developed to protect the LGPS Funds from employers who cease (for whatever reason) to participate in the scheme from walking away from any underfunding liabilities. The Department for Communities and Local Government are already undertaking a consultation on this to determine what, if any, changes to the scheme are necessary to provide appropriate and adequate protections.

Q20) What evidence is there on administration costs (excluding fund management costs) of private sector pension schemes? How do these compare with those in the public service schemes?

The CIPFA Pensions Administration Benchmarking Club 2010 compares administration costs for 63 local authority LGPS funds. The average administration cost for local government is £18.88 per scheme member compared to private sector in-house costs of £47.00 per member and private sector outsourced costs of £41.00 per member.

Q21) How do private sector schemes ensure that there is good quality and efficient scheme administration? Which measures can be applied to public service schemes?

No comment.

Q22) Is there scope for rationalising the number of local government pension funds? If so, how could this be achieved?

At the present time there are 88 LGPS Funds in England and Wales¹⁵, 11 in Scotland and 1 in Northern Ireland, each of which is responsible for the management and investment of its pension fund and for the administration of the scheme (i.e. maintenance of pension records, payment of pension benefits, etc).

What would be the benefits / disadvantages of consolidating the pension scheme administration into a single administering body, or a number of, say, regional administering authorities?

In general terms, the pros and cons of this might be:

Pros

- economies of scale e.g. on printing costs, system costs, central overhead costs, etc
- reduction in committee member costs (due to reduction from current 100 separate pension committees, pensions advisory committees, etc)
- big reduction in number of separate policies required (each of the 100 funds currently has to have policy /strategy documents on such matters as governance compliance statement, funding strategy statement, pensions administration strategy, communication policy, abatement of pensions policy, etc)
- greater strength in contract bargaining e.g. for computerised pensions administration system¹⁶
- standardisation e.g. use of a standard pensions administration system, standard pensions payroll system, standard forms and procedures, consistency in approach to accounting for administration costs, consistency of approach in interpretation and application of the pensions regulations, standardisation of information provided to scheme members and employers
- greater technical specialism
- more able to cope with workflow peaks and troughs (smaller pension sections may struggle to cope with workflow peaks and also with loss of experienced staff)
- easier collation of national data (currently data has to be obtained from 100 different administering authorities)

¹⁵ This includes the Fund for the Environment Agency. If the Funds for the South Yorkshire Passenger Transport Authority and the West Midlands Passenger Transport Authority are added, the number of Funds in England and Wales would be 90.

¹⁶ 82 of the 100 LGPS administering authorities throughout the UK already use a standard pensions administration system from a single software supplier. The majority of the other administering authorities currently use one of two other pensions administration systems. Savings from moving to a single system might not, therefore, be significant.

- some reduction in administration (e.g. if there was a single administering body there would be no need for much of the current paperwork involved when a scheme member transfers from one Fund to another Fund)
- more independent of county council / London Borough i.e. administration would likely be set up based on the South Yorkshire Pension Fund or London Pension Fund model where they do not sit within / form a function of a County Council or London Borough but are separate bodies with a sole remit to administer the pension scheme

Cons

- problems with exiting from existing contractual obligations e.g. may be tied into payroll contracts, pension administration contracts, pension system contracts, etc
- very large exercise in moving and collating scheme member data from various pensions administration platforms to, say, a single platform
- big exercise in moving and collating pensions payroll data from various pensions payroll platforms to, say, a single platform
- potential (serious) loss of experienced staff (currently based in 100 administering authorities around the UK)
- more remote from scheme employers, scheme members, local union officials etc (who would no longer simply be able to pop into the local office)
- loss of current knowledge of local employers' culture and ways of working
- possible increase in costs compared to the cost of some of the existing administering authorities
- cost savings arising from economies of scale may be offset by a need for local contacts / pensions liaison officers to maintain contact with employers and employees - similar to how the NHS scheme currently operates
- what to do with Police Pension Scheme and Firefighters' Pension Scheme administration where this is currently undertaken by the LGPS administering authority

The benefits / disadvantages of consolidating the Pension Funds into a single Fund or, say, a number of optimum sized Funds might be as follows:

Pros

- economies of scale and greater strength in contract bargaining e.g. for actuarial services, fund management charges, etc
- opportunities to use investment vehicles that may not be available to smaller Funds
- potentially, could employ an in house investment team whose costs could be less than the costs incurred on outsourcing to external fund managers
- increased 'clout' when voting at company AGMs etc

Cons

- issues with exiting from existing contractual obligations e.g. may be tied into actuarial and fund management contracts, etc
- loss of link between elected members sitting on Pensions Committee and local voters (e.g. if current Committee members make decisions resulting in increased employer contributions and hence rises in local council tax, local voters can choose not to vote for them at the next local election but where would this link be if the Pension Funds were at regional or national level)
- local councillors may not be able to influence decisions taken by the Pension Fund. Thus, decisions taken at regional or national level could impact on local council tax but with the local councillors not having control over the decisions taken by a regional or national Pension Fund
- risk would be spread over fewer Pension Funds
- a national or regional Pension Fund could have a major impact on a company or sector if it decided to stop investing in that company or sector
- size of membership of the Pensions Committee could become unwieldy

We do not support any move to impose consolidation of LGPS pension scheme administration and / or of the LGPS Pension Funds as we do not believe this is the most effective way forward. The LGPS is a good model for localism, with democratic accountability. Combining or reducing the number of administering authorities / Pension Funds would appear to run counter to the localist agenda. There are other options that might be more usefully explored such as partnership working which has many of the advantages and less of the disadvantages listed above.

LGPS administering authorities are already responding to the challenge of efficiency, procurement and partnership working and there are some excellent examples. For example, partnership working / collaboration is already being undertaken by a number of LGPS administering authorities and is being considered in detail by others, and framework agreements to procure services at the best price have also been developed (e.g. by authorities in London and authorities in the South West of England). Furthermore, LGPS administering authorities subscribe to the Local Government Pensions Committee which delivers those services that are best undertaken by a single unit e.g. production of standard literature / guides / communication materials, interpretation of the scheme rules, etc. The need to ensure effective delivery at a time of budget constraints is likely to further drive these processes.

Q23) How can the Commission ensure an effective transition to the new arrangements?

Should the government, as a result of the Commission's findings, implement new pension arrangement, one of the key issues that will need to be addressed is whether the new arrangements will be applied to all existing

active scheme members (for future benefit accrual), or only to new scheme members.

The advantages of applying any new pension arrangements to new staff only might be summarised as follows:

- existing active members will have based their retirement expectations / calculations on the current scheme arrangements and so it might be appropriate to allow them to continue in that scheme (with the option to move to the new scheme arrangements if they so wished for future service), and
- moving existing active members to the new scheme arrangements could act as a disincentive for retention of staff (if the new scheme arrangements were to provide significantly poorer benefits).

Conversely, the disadvantages of applying any new scheme arrangements to new staff only would be:

- any savings would take more time to come through,
- there would be a two tier workforce and intergenerational subsidy,
- the pension issues when a function is outsourced would be even more complex (with contractors having to deal with staff on two different sets of benefit provisions).

Our preference would be that any new pension arrangements should, to ensure equality of treatment and deliver sustainability, apply to **all** (i.e. existing and new) staff.

A half-way house would be to provide transitional arrangements such that, for example, those active members close to normal retirement age could remain subject to the current scheme arrangements (but perhaps only if prepared to pay additional contributions for the benefit of doing so). The problem with such an approach is that it suffers from the same disadvantages outlined above, is potentially divisive and can create cliff edges (i.e. those over a certain age are protected whilst those under that age are not).

As part of any implementation and transitional arrangements it will be necessary to define exactly what is meant by the commitment to protect existing rights. For example:

- (i) if the schemes were to move from being final salary Defined Benefit schemes to some other type of pension arrangement, would the benefits accrued up to the point of change be treated as:
 - a deferred benefit which would increase each year thereafter in line with CPI, or
 - a type of deferred benefit which would increase each year until leaving in line with that individual's rise in pensionable pay and after leaving in line with CPI?

- (ii) if the new scheme's normal pension age was different, would the benefits accrued up to the point of change still be payable / accessible at the old normal pension age or only from the new scheme's normal pension age?
- (iv) in relation to the LGPS, would the current transitional protections relating to what is termed the "85 year rule" which, in the present scheme, provide transitional protection for some members through to 2020, only apply to benefits accrued in respect of membership under the current pension scheme arrangements or would they continue to apply to benefits accruing in respect of membership under the new pension scheme arrangements?
- (v) alternatively, would the accrued rights of existing active members simply be valued and that value be used to purchase the members an actuarially equivalent value of benefits in the new scheme? How would this square with protecting any earlier age at which accrued benefits can be drawn?

Whilst these are matters of detail they will be of vital importance to scheme members and hence will need to be resolved as and when decisions about the future direction of the public service pension schemes are taken.

Our preference would be to close off the old schemes and simply provide a deferred benefit in those old schemes in respect of members' accrued rights which would increase in line with an appropriate index (for example, CPI). Whilst this would seem to be the 'cleanest' solution, consideration would need to be given to the practicalities of delivering such an approach, given that this would entail:

- a) employers having to provide final pay calculations for all active members at the date the old schemes are closed off, and
- b) pension scheme administrators having to process and award a very large number of the deferred benefits.

The significance of such a huge administrative task should not be underestimated.

Finally, adequate time must be allowed for pension reform to be delivered; for software systems to be programmed, tested and implemented; for communication materials to be developed, printed and distributed to scheme members and employers; and for pensions administration staff and employers' pension liaison staff to be trained; etc.

Q24) What can the Commission learn about moving to a new scheme from best practice in the private sector and internationally?

No comment.

Q25) How have accrued rights been protected or transferred during changes in schemes in the private sector?

No comment.

Appendix 1 – 2003 Survey of members / non-members of the LGPS by age, by employment type (full-time, part-time, casual) and by income.

Sample of 20 authorities:

	Number in the LGPS	Number not in the LGPS	Total	% in Scheme	% not in Scheme	% Total
Full time male aged 16 to under 25	2000	930	2930	68.26	31.74	100
Full time male aged 25 to under 45	20452	2155	22607	90.47	9.53	100
Full time male aged 45 to under 65	22335	1693	24028	92.95	7.05	100
Full time male aged 65 and over	48	158	206	23.30	76.70	100
Total	44835	4936	49771	90.08	9.92	100
Full time female aged 16 to under 25	2956	1486	4442	66.55	33.45	100
Full time female aged 25 to under 45	23842	4653	28495	83.67	16.33	100
Full time female aged 45 to under 65	22515	3606	26121	86.20	13.80	100
Full time female aged 65 and over	26	168	194	13.40	86.60	100
Total	49339	9913	59252	83.27	16.73	100
Part time male aged 16 to under 25	672	1352	2024	33.20	66.80	100
Part time male aged 25 to under 45	2691	2489	5180	51.95	48.05	100
Part time male aged 45 to under 65	4174	3217	7391	56.47	43.53	100
Part time male aged 65 and over	94	615	709	13.26	86.74	100
Total	7631	7673	15304	49.86	50.14	100
Part time female aged 16 to under 25	2386	3156	5542	43.05	56.95	100
Part time female aged 25 to under 45	49911	22047	71958	69.36	30.64	100
Part time female aged 45 to under 65	46262	24782	71044	65.12	34.88	100
Part time female aged 65 and over	167	1032	1199	13.93	86.07	100
Total	98726	51017	149743	65.93	34.07	100
Male casual aged 16 to under 25	182	2895	3077	5.91	94.09	100
Male casual aged 25 to under 45	708	3771	4479	15.81	84.19	100
Male casual aged 45 to under 65	523	3426	3949	13.24	86.76	100
Male casual aged 65 and over	13	635	648	2.01	97.99	100
Total	1426	10727	12153	11.73	88.27	100

Female casual aged 16 to under 25	420	4894	5314	7.90	92.10	100
Female casual aged 25 to under 45	3196	16864	20060	15.93	84.07	100
Female casual aged 45 to under 65	1882	12551	14433	13.04	86.96	100
Female casual aged 65 and over	10	897	907	1.10	98.90	100
Total	5508	35206	40714	13.53	86.47	100

Some funds unable to provide figures for casuals

Grand total	207465	119472	326937	63.46	36.54	100
	incl 50062 people for whom no pay breakdown	incl 17726 people for whom no pay Breakdown	incl 67788 people for Whom no pay breakdown			

Males actual gross taxable pay per annum i.e. not F/T/E:

Less than £3,900.00	3038	14280	17318	17.54	82.46	100
£3,900.01 to £10,800.00	5556	3106	8662	64.14	35.86	100
£10,800.01 to £24,600.00	23976	2849	26825	89.38	10.62	100
£24,600.01 to £30,420.00	4531	252	4783	94.73	5.27	100
£30,420.01 and above	3471	136	3607	96.23	3.77	100
Total	40572	20623	61195	66.30	33.70	100

Females actual gross taxable pay per annum i.e. not F/T/E:

Less than £3,900.00	30488	67081	97569	31.25	68.75	100
£3,900.01 to £10,800.00	47140	19338	66478	70.91	29.09	100
£10,800.01 to £24,600.00	35540	5874	41414	85.82	14.18	100
£24,600.01 to £30,420.00	3091	310	3401	90.89	9.11	100
£30,420.01 and above	1668	112	1780	93.71	6.29	100
Total	117927	92715	210642	55.98	44.02	100

Grand total	158499	113338	271837	58.31	41.69	100
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Note: Grand totals differ due to a number of factors i.e. some authorities could provide a breakdown of the numbers of members and non-members by age bands but could not readily provide gross taxable pay breakdowns; some people included in the pay breakdown figures are not included in the member / non-member breakdown because vital information such as date of birth, sex indicator, or contractual hours were missing on the payroll.

Appendix 2 - QUESTIONNAIRE COMPLETED IN 2003 BY 554 EMPLOYEES WHO HAD NOT JOINED / WHO HAD OPTED OUT OF MEMBERSHIP OF THE LOCAL GOVERNMENT PENSION SCHEME IN ORDER TO GAUGE THEIR VIEWS

Question 1: Why did you not join / opt out of membership of the Scheme?

Note: the respondents were asked to tick all the boxes that were relevant

	Number ticked this box	As % of 554 responses
A. The contributions to the Scheme are too high	57	10.3%
B. There are other competing pressures on my income that I consider are of higher priority	145	26.2%
C. My earnings are so low that I think it will not be of benefit to me to join the Scheme	254	45.8%
D. I intend to rely on the State to provide benefits in my retirement	41	7.4%
E. I don't earn very much and need to maximise my take-home pay	241	43.5%
F. I intend to rely on my spouse's / partner's pension in retirement	72	13.0%
G. I intend to join the Scheme later when I can afford it	90	16.2%
H. I've lost confidence in pensions	81	14.6%
I. I think there are better ways to provide / save for old age	43	7.8%
J. The Scheme does not provide the type of benefits I want	4	0.7%
K. I want my own personal pension scheme	43	7.8%
L. I don't think I will stay in local government very long	83	15.0%
M. I haven't been informed that I could join the Scheme	64	11.6%
OTHER	35	6.3%

Question 2: Assuming there is no significant increase in your pay what might encourage you to join the Scheme?

Note: the respondents were asked to tick all the boxes that were relevant.

	Number ticked this box	As % of 554 responses
N. Better communication about the benefits of the existing Scheme	129	23.3%
O. A personal choice of the type of benefits I would receive for my contribution to the Scheme	75	13.5%
P. A lower rate of contribution to the Scheme but linked to a lower set of standard benefits from the Scheme	44	7.9%
Q. A lower rate of contribution to the Scheme but linked to a personal choice of lower benefits to be received from the Scheme	68	12.3%
R. A lower starter rate of contribution to the Scheme which increases to the full contribution rate after a certain length of membership, say after 5 years	75	13.5%
S. Better benefits from the Scheme in return for a higher rate of contribution	25	4.5%

Question 3: Further information

In order to put their answers into context the respondees were asked to also tick the appropriate boxes below (if they were willing to do so)

T. I am a full time employee	137	26.9%
U. I am a part time employee	300	58.8%
V. I am a casual employee	73	14.3%
W. My gross salary / wage (i.e. before tax and national insurance) is		
Less than £3,900 per year (less than £75 per week)	196	38.2%
Between £3,900 and £10,800 per year (£75 to £207 per week)	191	37.2%
Between £10,801 and £24,600 per year (£208 to £473 per week)	107	20.9%
Between £24,601 and £30,420 per year (£474 to £585 per week)	16	3.1%
Over £30,420 per year (over £585 per week)	3	0.6%