



LGPS Consultation

Delivering Affordability, Viability and Fairness

This response is submitted by Unite. Unite is the UK's largest trade union with almost 2 million members across the private and public sectors. The Union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.

Unite welcomes the opportunity to comment on proposals whose main aim is to consolidate reforms intended to place the Scheme on a sustainable long term basis

Executive Summary

- The 2008 reforms have sought to establish a benefit and employee contribution structure which will endure for the long term – this further reform is designed to facilitate a more stable long term basis of employer funding which will serve the interests of the Council tax payers.
- Unite supports the proposal for the introduction of Financing Plans which will constitute an appropriate nationally determined but flexible framework for a funded public sector scheme which is much to be

preferred to present arrangements or the alternative concept of Local Funding Targets

- Unite supports the proposal for a Revised Employee Contribution Tariff which fine tunes the newly introduced tiered employee contribution structure by raising contributions for the higher paid and providing a more consistent structure for those on lower levels of pay

The Unite case in detail

Funding

1. The LGPS is a funded public sector scheme which along with its size makes it a unique arrangement in the UK. It is appropriate for its funding to be on a basis which is also unique finding a middle way between the path trodden by the unfunded public sector scheme and the altogether different path which private funded scheme are currently stumbling along.

2. The drivers of current funding behaviour in the private sector are not relevant to the LGPS and therefore it is wholly inappropriate for the scheme to model what has resulted from that simply because it is funded.

3. Private sector schemes are required to be funded because the companies and organisations making the pension promises may not be around in the long term to continue to guarantee them; no such considerations is really applicable to local government taken in the round.

4. Concerns about the consequences for private sector pensions in the event of insolvency allied to the recognition of scheme deficits as employer debt have driven have driven a wholesale shift towards a short term term perspective of funding, which has created inflated costs and a degree of volatility which private sector schemes have been struggling to cope with.

5. The short term focus of scheme valuations with funding determined by the particular juxtaposition of stock market prices and interest rates on the particular day of the valuation shows this whole system at its most nonsensical.

6. The next Valuation date for the LGPS is 31 March 2010. It is surely better that that valuation is guided by a prudent long term view of market returns than by the lottery-like chance of what outcomes the markets might dictate by their values on that day.

7. While the reform proposal may be influenced by the fears that valuations will be dragged down by the continuing fall-out from the credit crunch and consequent recession, it would be equally valid if exactly opposite economic condition prevailed which gave an unduly rosy picture.

8. Just as the assessment of funding and solvency needs to be viewed on the basics of long term assumptions so also should the adjustment to any identified deficit or surplus be consistently calculated over periods far longer than the private sector pattern.

9. However, requiring a mechanistic focus on calculating solvency levels and recovery plans, even on a long term perspective basis, is too narrow a basis on which to regulate the funding of local authority schemes. The Financing Plan framework could moderate this within the context of a sound long term funding plan involving a reconciliation with the particular financial circumstances of fund authorities in a prudent way taking account of the short, medium and long term considerations and the criteria in paragraph 31 of the consultation document .

10. There would seem to be scope within the overriding requirements of maintaining a prudent approach to admit some flexibility which will help in the objective of achieving a stable evolution of contribution rates within the overall context of local authority finances.

11. Financing Plans would appear to achieve greater consistency between the objectives currently specified in regulations, without in any way weakening their overall emphasis on achieving a prudent and stable outcome

12. It is important that this new approach proceeds within a carefully controlled nationally determined framework rather than allowing a proliferation of different and inconsistent practice as might be encouraged by Local Funding Plans.

Revised Employee Contribution Tariff

13. In a final salary scheme it is generally the case that over a career higher earners, who tend to be those whose careers progress the most, receive a disproportionate benefit return in relation to the contributions paid by them and on their behalf.

14. Unite recognises that the original tiered employee contribution tariff did not go far enough in advancing fairness by extending the higher rates of contribution. We therefore support fully the new higher contribution rates proposed in respect of those earning over £75,000

15. The revision of rates for those on lower levels of pay creates a much more consistent and logical structure and we particularly welcome the reduction in the contributions of those in the £18,000- £22,000 band (2b)

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