

## Technical Bulletin

### Independent Public Service Pensions Commission (IPSPC)

**Lord Hutton's final report**

**10th March 2011**

This morning Lord Hutton of Furness published his final report of the Independent Public Service Pensions Commission (IPSPC).

The interim report of the IPSPC was published in October and set out the case for further reforms to public service pensions. The newly published final report now sets out how Lord Hutton believes it is possible for public service employees to “continue to have access, for the foreseeable future, to good quality, sustainable and fairer defined benefit pension schemes”.

We have produced this technical bulletin setting out some of the key points and recommendations in the final report which we think may be of particular interest.

#### Benefits

- A big headline is the recommendation “that Government should replace the existing final salary pension schemes with a new career average scheme”.
- “Pension benefits should be uprated in line with average earnings during the accrual phase for active scheme members.” This is because indexation in line with prices is “unfair between younger and older members”.
- “Post-retirement, pensions in payment should be indexed in line with prices to maintain their purchasing power and adequacy during retirement.”
- “Flexible retirement should be encouraged and abatement of pensions in its current form for those who return to work after drawing their pensions should be eliminated.”
- “...the introduction of a cap on pensionable earnings or hybrid schemes ... does not seem attractive”. “A single benefit design should apply across the whole income range. The differing characteristics of higher and lower earners should be addressed through tiered contribution rates.”
- “The Commission is not recommending specific levels for accrual rates, indexation and employee contributions as these determine cost, which is a matter for the Government.”
- “The Commission takes as given the use of the Consumer Prices Index as the measure of inflation”, as well as the “imminent rise in employee contributions.”
- Public service employers should “take greater account of public service pensions when constructing remuneration packages and designing workforce strategies.”

## Risk management

- “..... longevity risk is the principal risk that needs to be managed”. In response to this risk “Government should increase the member’s Normal Pension Age in the new schemes so that it is in line with their State Pension Age”.
- “The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees’ pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached”.
- “It is in principle undesirable for future non-public service workers to have access to public service pension schemes, given the increased long-term risk this places on the Government and taxpayers.”

## Governance

- “A framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes” would improve “Governance and the availability and transparency of information.” “Transparency and effective oversight of public service schemes is required for public service workers and taxpayers to have confidence in the system.”
- “Every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration.”
- There should be “a pension policy group for each scheme at national level for considering major changes to scheme rules.”
- “Government should set what good standards of administration should consist of in the public service pension schemes based on independent expert advice.”
- “All public service pension schemes should issue regular benefit statements to active scheme members, at least annually and without being requested.”
- Schemes “should regularly publish data which, as far as possible, is produced to common standards and methodologies and is then collated centrally.” Simple comparisons could then “be made across Government, between schemes and between individual Local Government Pension Scheme (LGPS) Funds.”
- “The Government should introduce primary legislation to adopt a new common UK legal framework for public service schemes.”
- “The Office for Budget Responsibility should provide a regular published analysis of the long term fiscal impact of the main public service pension schemes (including the funded LGPS).”

## Implementation and transition

- “Members of the current defined benefit public service pension schemes should be moved to the new schemes for future service.”
- “The Commission recommends maintaining the final salary link for past service for current members.”
- “The Commission’s expectation is that existing members who are currently in their 50s should, by and large, experience fairly limited change to the benefit which they would otherwise have expected to accrue by the time they reach their current scheme normal pension age.”
- “Over time public service pensions should move towards a common framework for scheme design”. However “there may need to be limited adaptations to this framework” in particular the Government should “consider setting a new Normal Pension Age of 60 across the uniformed services.”
- Implementation of the scheme based recommendations “should be centrally co-ordinated to set the cost ceilings and timetables for consultation ... However, the consultation on details should be conducted scheme by scheme involving employees and their representatives.”
- The Report accepts that “These reforms cannot be achieved overnight and the journey to implementation may well be a difficult one”. Nevertheless, “It should be possible to introduce the new schemes before the end of this Parliament and we would encourage the Government to aim for implementation within this timeframe.”

## The Local Government Pension Scheme

- “The common design features laid out in this report should also apply to the LGPS. However, it remains appropriate for the Government to maintain the different financing arrangements for the LGPS in future, so the LGPS remains funded and the other major schemes remain unfunded.”
- “Centrally collated comprehensive data, covering all LGPS Funds, should be published including Fund comparisons, which, for example, clarify and compare key assumptions about investment growth and differences in deficit recovery plans.”
- “Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities.”

If you would like to discuss any of these points in more detail or have any other questions please get in touch with your usual GAD contact.

The full final report (and the interim report) can be found on the following webpage:

[http://www.hm-treasury.gov.uk/indreview\\_johnhutton\\_pensions.htm](http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)

GAD also produced a Technical Bulletin on the interim report. That bulletin listed the schemes covered under the terms of reference and can be found at:

[http://www.gad.gov.uk/Publications/Technical\\_Bulletins.html](http://www.gad.gov.uk/Publications/Technical_Bulletins.html)

