

PENSION FUNDING LEVELS

There is a considerable amount of debate in the Press regarding the future of the Local Government Pension Scheme, particularly having regard to its current solvency.

The first thing to realise is that the Local Government Pension Scheme is a long established, well managed, funded final salary scheme. There is no immediate “crisis” and the work currently being carried out by the Office of the Deputy Prime Minister through its Stocktaking exercise is intended to ensure its sustainability into the longer term.

The Local Government Pension Scheme is administered at a local level by administering authorities, such as the West Midlands Pension Fund.

The West Midlands Pension Fund provides pension benefits for local government employees across the West Midlands excluding uniformed Police, Fire and Health Service employees. There are also other organisations who provide public services and whose employees are members. At the date of the last actuarial valuation of the Fund, the employing bodies had contribution rates that ensured there was no funding gap between assets and pension liabilities (96% funded).

The Fund, like all similar public and private sector funded schemes, has seen a gap open up between its assets and pension liabilities due to the increasing liabilities (people living longer) and the 2001 and 2002 poor investment markets.

The scheme pays an average pension of £3,800 per annum and the average employee is on a salary of approximately £13,000. The Fund has a three year valuation to review contribution rates, the next one is due this Autumn. Fund Actuaries are currently working on the assessments. The Fund currently has a strong net cash inflow and the valuation exercise is to ensure sums are put aside on a regular and managed basis to meet liabilities in the future that could be forty years away.

The funding gap will be bridged by a combination of modest increased employer contribution rates and reduced benefits for contributors in the future eg., reduced pensions for early retirers and a later normal retirement date. This approach will allow relatively modest incremental increases to employer's contribution rates and mitigate against any damaging impact on future Council Tax levels. The Government is considering other measures such as an increase in employee contribution rates. Employers pension contribution rates should be seen in the context of the employees overall remuneration arrangements.

The impact in employer contribution rates will vary according to individual employer practices. The changes are not unexpected and should already be reflected in the medium term financial plans of the major employers.