

pensions reform

Lord Hutton's Review of Public Service Pensions – Summary of recommendations March 2011



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The following is a summary of the recommendations which Lord Hutton is making to the government:

Chapter 1: the case for reform revisited

- 1 Role of public sector pensions is to ensure adequate levels of retirement income.
- 2 Employers should consider an employee's **total reward** (pay, pensions, benefits).

Chapter 2: The deal

- 3 **Adequacy:** Full state pension and scheme benefits should provide an "adequate level of income" for members that have a full career in the public sector.
- 4 **Accrued rights:** Full protection; retaining the final salary link and retirement age.
- 5 **Existing members** should move to new scheme for **future service** as soon as is practical.
- 6 Data produced to common standards and methodologies should be regularly published by all schemes, enabling simple comparisons to be made across the schemes.

Chapter 3: The design

- 7 A **career average** revalued earnings (CARE) scheme for all public sector schemes.
- 8 Pre-retirement revaluation should be in line with **average earnings**; post-retirement increases should be linked to **prices**; government to decide pre-retirement revaluation for deferreds (earnings or prices).
- 9 A single benefit design. Contributions tiered by earnings (well paid live longer and benefit more).
- 10 **Choice** for members: Not ancillary benefits. **Flexible retirement** with actuarial adjustments for early and late retirement. Removal of abatement and removal of caps on pension accrual.

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Chapter 4: The controls

- 11 Normal **retirement** age should be linked to **State Pension Age**. The link should be reviewed to ensure it remains appropriate but should be maintained if possible.
- 12 Cap and share principles where costs exceed a **fixed cost ceiling**. Apply **default changes** where agreement cannot be reached.

Chapter 5: Applying the design

- 13 No recommendation of a single public sector scheme, but encouragement to **move towards a common framework**, except for uniformed services.
- 14 A new normal pension age of 60 should be set for **uniformed** schemes. This should be reviewed regularly.
- 15 **Common scheme design** features to apply to all schemes. The LGPS should remain **funded**.
- 16 **Eligibility**: Undesirable for future non–public service workers to have access.

Chapter 6: A transparent and effective system

- 17 **Pension Boards** for every scheme (and each LGPS fund), to include member nominees. A **policy group** should be set up for each scheme at national level to consider major changes.
- 18 All schemes should issue annual **benefit statements** to active members, with more emphasis on the use of technology for communication with members and employers.
- 19 **Scheme wide oversight** by, for example, the Pensions Regulator (TPR) or some other body: improved governance and transparency would be achieved by establishing a framework to oversee governance, administration and data.
- 20 The Office for Budget Responsibility (OBR) should **publish regular analysis** of the implications for public finances (across all schemes including the LGPS).

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- 21 **Centrally collated data**, covering all LGPS funds should be published, including fund comparisons.
- 22 Standards of **good administration** should be defined. A benchmarking exercise should be carried out to assist in raising standards.
- 23 Monitor the benefits of **shared services** within the LGPS. Extending, where appropriate, across all local authorities. Consider shared services and outsourcing for unfunded schemes.
- 24 Primary legislation to introduce a new common UK **legal framework** for all schemes.

Chapter 7: Delivering the change

- 25 **Consultation process** should be centrally co-ordinated: to set the cost ceilings and timetables for the consultation and implementation. Consultation on the detail should be conducted scheme by scheme involving employees and their representatives.
- 26 **Timescale**: Aim to introduce the new scheme before the end of this Parliament.
- 27 **Best practice governance** arrangements for business as usual and the transformation process

For further information, or to discuss any matter raised by the Briefing Note, please speak to your usual contact at Hymans Robertson LLP.

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