LOCAL GOVERNMENT
bulletin
OF THE PUBLIC SERVICES SECTION

GMB
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LGPS Deficit Myths

LGPS Finances

Reports of deficits and 'black holes' in LGPS finances still make headlines despite their lack of factual basis. The way the scheme is funded has a lot in common with private sector defined benefit schemes but as a statutory scheme (meaning the rules are set out in legislation) there are differences.

The financial health of pension funds can be measured in two main ways, both involve taking a snapshot of how much money the scheme holds (the assets) and how much it owes (the liabilities – the benefits members have built up):

1. The first method is known as the accounting method, this looks at the numbers without assuming much in the way of investment growth. This approach gives an artificially high figure for any shortfall which is why those who like to criticise the scheme use it. On this basis a pensions consultant claimed (and the BBC reported) the LGPS deficit is £100bn.

2. The second approach is the one used in the LGPS and the private sector for setting contribution rates. This measures how much money etc the scheme holds and estimates how much that is likely to increase over time given investment returns. This figure is then compared with the cost of the benefits members have built up and how this is expected to change over time. This gives the past service deficit/surplus and employer contribution rates are set to pay off any deficit in addition to funding the future benefits members will build up over the following year. On this basis LGPS funds expect the scheme valuations to be published in the Spring to show a £30-40bn deficit.

The fundamental point GMB has been repeatedly making in the press and in our submissions to the Hutton Commission and DCLG is that the future service costs are falling, rapidly, as a result of the reforms introduced in 2008. The increased member contribution agreed then which brought the average member contribution up to 6.4% reducing the share of that cost going forward being paid by employers. However, they still need to fund the past service deficit which should, if employers pay the contribution required of them, reduce the deficit to zero over time.

LGPS funds, like private sector schemes, get valued every three years to ensure they are financially on track to meet all their obligations. Every year certain key numbers are collected including the overall income to the scheme from investment returns and contributions and the amount paid out in benefits and administration. This has consistently shown that the LGPS receives more in income than it pays out in benefit, £4bn a year more.

GMB does not deny that there is a deficit but LGPS fund deficits differ widely across the country, and some funds are likely to show no deficit at all when the valuation results are published next year. The real threat that all the commentators are missing is that resulting from the act of pricing members out of the scheme. Imposing the tax on pension saving described in the last bulletin will reduce the income to the scheme leading to higher costs to employers as the income from member contributions falls dramatically.

GMB Survey

GMB is conducting a survey of scheme members to gauge whether members can or would be willing to continue participating in the LGPS if the 3% contributions increase is introduced. The survey only takes a couple of minutes and can be accessed here:

https://www.surveymonkey.com/s/publicsectorpensioncontributions

Hutton Submission

A joint submission to the Hutton Commission on the LGPS has been submitted by GMB, Unison and Unite. This and GMB's own submission will be available on the campaign page of the GMB website at www.gmb.org.uk/pspc

Brian Strutton

Brian Strutton
National Secretary - Public Services Section

Join GMB at www.gmb.org.uk/join

GMB NATIONAL OFFICE
22-24 Worple Road, London SW19 4DD Telephone: 020 8947 3131
www.gmb.org.uk

CONTACT: Brian Strutton
Tel: 020 8971 4255 Fax: 020 8944 6552
email: brian.strutton@gmb.org.uk