MYTHS EXPOSED

Inaccurate information and misleading statements about the Local Government Pension Scheme (LGPS) are rife in the media. This guide highlights the most prevalent and erroneous of these myths and sets out the realities of the LGPS.

MYTH: *Workers in the private sector have to pay for the LGPS while local government workers reap the benefits*

REALITY: Everyone pays for everyone else's pension. Companies with occupational pension provision for their employees include pension costs when pricing their goods and services. All taxpayers pay for the cost of inadequate pension saving (increasingly prevalent in the private sector) through the tax and national insurance spent on increased take up of state benefits and demand on NHS and council care services.

MYTH: *25% of council tax is spent on the LGPS*

REALITY: This misrepresentation deliberately ignores the fact that 75% of local authority income comes from sources other than council tax. The true figure as reflected by the Society of County Treasurers is around 5% (£65 a year for the average council taxpayer).

MYTH: *LGPS costs are soaring and the scheme is unsustainable*

REALITY: The cost of the LGPS to employers for service from April 2008 (2009 in Scotland and Northern Ireland) was reduced during the reforms to the scheme that included changed benefits and higher average member contributions. Member contributions on average increased by 0.5% and have continued to rise since, now approaching 0.7% above the old scheme's member contribution rates. The introduction of cost sharing in the new scheme is designed to manage future funding volatility. Costs associated with service before the new scheme was introduced should have been funded by employers in the past. These costs cannot be reduced by changing the scheme for current or future members.

MYTH: *The employer contribution rate in the LGPS is too high*

REALITY: There is not one employer contribution rate in the LGPS. There are over 7,000 participating employers in the scheme and each has their contribution set by the private sector actuary employed by the relevant one of the 100 funds in Great Britain. Current employer contribution rates range from 14% to 25% with an average of 18%. Given the level of past underfunding that remains to be contributed by many employers to the scheme this is a reasonable level. At the 2010 valuation the level may change because the future service cost has dropped as a result of the 2008 reforms but the legacy of past underfunding by employers remains in many, although not all, funds.

MYTH: *Local government pensions are paid directly by the taxpayer*

REALITY: The LGPS, like all private sector defined benefit schemes, is a funded scheme with real investments in UK and overseas business and tangible assets such as property all generating returns to the 101 funds that make up the Local Government Pension Scheme in the UK. The taxpayer funds a proportion of the employer contribution to the funds through local and national taxation.

MYTH: *The LGPS is only nominally funded*

REALITY: The LGPS has more than £100bn in real assets: property, investments in UK and overseas businesses, cash and government bonds. Four out of the largest 20 pension funds in the UK measured by asset level are Local Government Pension Funds [Hewitt 2010]. Total income to the scheme exceeds expenditure by £4-5bn every year [CLG 2009], even in the current climate of poor economic performance. Even in the depths of the recession LGPS investments provided nearly £3 billion for the LGPS in England alone, accounting for 27% of that scheme's income. Another factor contributing to the ongoing viability of the scheme to this is the increase in member contributions. Yield from employees increased by 15% in the last year as a result of the new contribution rates in the 2008 Scheme [CLG 2009].

MYTH: *Scheme members retire on gold-plated pensions, protected for life*

REALITY: Around half of LGPS pensions in payment are below £3,000 a year [Audit Commission 2010]. The mean average pension is £4,033 with the average for women only £2,600 [CLG 2009]. As with any pension scheme member's accrued rights, it was generally held that pensions already paid for were protected for life, however, the unilateral cut in the indexation of pensions from RPI to CPI has brought this into question for both public and private sector pensions. As a result of the Tory-Lib Dem budget LGPS members are likely to lose a quarter of the value of their pensions over the next 25 years pushing many more on to means tested benefits.

MYTH: *High earners in the LGPS receive unreasonably high pensions*

REALITY: In local government highly paid employees are in the same pension scheme as the workers near the minimum wage. In the private sector many company directors and senior managers set up their own exclusive defined benefit schemes on extremely generous terms while their employees have only a low value defined contribution scheme. The average accrued pension for a director in the private sector is £227,726pa, 56 times higher than the average LGPS pension [TUC PensionsWatch 2010]. Some members of the LGPS retire on very high pensions as a result of receiving very high salaries (236 local government employees earn more than £142,500pa), not as a result of an over-generous pension scheme.

MYTH: *Local government workers have a job for life and better pay than everyone else*

REALITY: The average length of membership in the pension scheme is only six years in stark contrast to the vision of a job for life. Existing jobs are often part time and low paid with minimal opportunity for overtime and other mechanisms common in the private sector to boost income. When comparing full time workers who are saving for retirement through an occupational pension scheme, public sector workers actually earn £22 per week less than their private sector comparators. The 'total reward figure', which is gross pay and employers' pension contributions, in the private sector is £666 and in the public sector is £644 per week [ONS 2010]. Local government pay is also low in the public sector context with two thirds of local government workers earning less than £21,000 a year.

MYTH: *To make pensions fair public sector provision must be reduced to the level common in the private sector*

REALITY: This would increase the number of older people forced to live in poverty which in turn will increase the cost to the taxpayer of state benefits, health and care services. It is never the right solution to inequality to stoop to the level of the lowest common denominator. In education the solution to problem of good schools and bad schools is not to worsen the good schools so all children are poorly educated. In pensions the solution is not to worsen the good schemes but to raise the standard of the inadequate schemes. In fact defined benefit pension provision in the private sector attracts a future service employer contribution of 15.6% [DWP Pension Trends] compared with less than 14% in the LGPS.

MYTH: *LGPS benefits need to be cut or member contributions increased because of deficits in the funds*

REALITY: The LGPS is estimated to be at least 75% funded with sufficient assets to pay all pensions due for the next 20 years without any further contributions [Audit Commission 2010]. Where deficits exist they relate to past service and underfunding by employers. One reason for current deficits is that LGPS funds were between 1990 and 1993 encouraged by the then Conservative government to fund only to 75% so the pension scheme could fund lower poll tax bills. Now deficits are measured against a 100% funding requirement, the cost of this historic underfunding is clear. Changes to benefits would only affect the future service cost which, as set out above, is already below the private sector average for defined benefit provision.

MYTH: *The current economic situation means member contributions to the LGPS need to be increased*

REALITY: Benefits already earned by members have to be paid, whatever changes are made to the scheme. There are no short term cost savings to be made from making radical benefit cuts. Increases to member contribution rates would not aid the Treasury's finances unless the government introduced a specific tax on LGPS members (which would be contrary to their stated commitment to encourage pension saving). Instead any increase would be transferred into LGPS funds which have already been valued, without going through a valuation revision an increase in member contributions is unlikely to have any impact on employer contributions for at least three years.
Members are currently subject to a three year pay freeze, without the protection for the lowest earners that exists in other parts of the public sector. Some members of the LGPS earn only 37p an hour above the minimum wage and many lower earning potential LGPS members opt out of the scheme on grounds of affordability. This trend is particularly common among part time workers (the vast majority of whom are women), in Greater Manchester, one of the larger funds, only 10% of full time staff opt out of the LGPS compared with 30% of part time staff.

MYTH: *LGPS members retire at 60 and get a pension for nothing*

REALITY: The normal retirement age in the LGPS is 65 and has been for many years. Members of the scheme contribute between 5.5% and 7.5% of earnings depending on salary, averaging over 6.4% overall. This is more than double the amount the average member of a defined contribution scheme contributes.

MYTH: *The new LGPS only affects new starters while existing members have their own preferential scheme*

REALITY: Reforms to the LGPS affected all contributing scheme members, existing and new. The LGPS is not a two tier scheme, the LGPS 2008 is the scheme for any one of the two million people working in LGPS covered employment whether they started ten years ago, ten minutes ago or are due to start tomorrow. Existing members sacrificed benefits and increased their contributions in order to keep the scheme sustainable. The LGPS is the largest pension scheme in the country with more than 1.7m contributing members, 1m deferred members and a further 1m pensioner members.