

Pension Fund Administration Sub-Committee

Meeting to be held on 5 July 2011

Electoral Division affected: None

Report on Membership of the Local Government Pension Scheme

(Appendix 'A' refers)

Contact for further information:

Diane Lister, 01772 534827, County Treasurers Department

diane.lister@lancashire.gov.uk

Executive Summary

At its meeting on 15 June 2010 the Pension Fund Administration Sub-Committee considered a report on the relatively low take up of the Local Government Pension Scheme.

It was agreed that the Sub-Committee should revisit this matter in 2011 with a view to a promotional campaign being undertaken and resolved that a further report on proposals to raise awareness of the Local Government Pension Scheme be presented to a meeting of the Sub-Committee in 2011.

In order to focus awareness on specific groups of employees not in the Scheme, an analysis of Lancashire County Council employees has been carried out. Based on this analysis, a promotions campaign could successfully target a number of specific groups during 2011.

In the longer term, the introduction of Auto-enrolment could also be used as an opportunity to promote continued membership of the Local Government Pension Scheme.

Recommendation

The Sub-Committee is asked to agree the proposals to undertake promotions campaigns to encourage membership of the Local Government Pension Scheme as set out in the background section of this item.

Background and Advice

The level of take up of membership of the Local Government Pension Scheme is essentially a matter for individual employers. However, it does represent a significant issue for the Administering Authority and the Fund as a whole as the level of membership within the Fund has a significant impact on the long term viability of the Fund, as the greater the number of contributing members the longer the Fund is likely to remain cash flow positive.

A recent study undertaken by GMB indicated that on average around one in four Council workers eligible to join the LGPS has opted out. It is unlikely that the take up rate for membership of the Local Government Pension Scheme across any employer will achieve 100% due to the wide profile of employments and variations in salary within Local Government. However, in order to understand the issues around take up of LGPS in Lancashire membership research has been undertaken on the position within the County Council as the largest single employer.

Low Take up – Lancashire County Council

On starting employment all eligible employees are automatically enrolled into the Scheme (i.e. those not eligible to join another public sector pension scheme such as the Teachers Pension Scheme) with the exception of those employed on a contract of less than 3 months duration and those aged 75 or over. Employees may elect at any time to 'opt-out' of the Scheme (they may choose to rejoin at a later date providing they are still eligible).

An analysis of eligible employees within Lancashire County Council was carried out in May 2011 and revealed that currently 25% of Lancashire County Council employees eligible to join the LGPS are not in the Scheme. This is consistent with the recent GMB survey. (It should be noted that previous estimates produced a much higher figure of around 40% due to the inclusion of casual employees as eligible members. Following a regulatory change casual employees are no longer eligible and therefore these employees are no longer included in the figures). An additional analysis of opt-out rates for County Council employees revealed an opt-out rate of 36% of new starters during 2010/11. The profile of employees not joining/opting out, as identified in the analyses, is set out below. (A more detailed analysis can be seen at Appendix 'A'):

- Of 31,680 posts eligible to join the LGPS, 7,941 (25%) are not members of the Scheme;
- 83% of non members are female.
- 79% of non members work less than 30 hours per week
- 84% of non members earn less than £10 an hour
- 72% of non members take home less than £10,000 pa
- 53% of non members work in or around schools

Auto-enrolment

During 2012 new regulations concerning Auto-enrolment and the introduction of a new national 'NEST' Pension Scheme will come into force. A formal consultation was planned by DWP for July 2011 but at this stage it is not exactly clear how the new regulations will work. However, it is assumed that the Fund's scheduled employers will 'choose' the LGPS as their default pension scheme (broadly these are Local Authorities and FE and HE institutions previously spun out of local authorities). The position for admitted bodies is less clear, but the Hutton review puts the future position of smaller admitted bodies within LGPS in doubt in any event.

At this point it is understood that any existing employees who are not current scheme members, but who have been and continue to be eligible to join the scheme, do not

need to be auto-enrolled. However, these members could be encouraged to actively join the scheme during the transitional staging period of Auto-enrolment (i.e. between October 2012-September 2016 (staging for LCC is expected to be January 2013)).

Implications of Low Membership Take Up

The level of membership of the Fund is fundamentally important, the wider the contributor base the greater the difference between pensions in payment and incoming contributions is likely to be. This means that the Fund will have more positive cash flow available for investment for a longer period of time.

There are a number of factors which are currently pulling in the opposite direction and perhaps encouraging opting out or non-take up. Some of these are wider issues, for example, the impact of the student loan system is perceived to be discouraging new graduates from pension saving. However, the greatest perceived threat to current levels of take up is any proposal to increase employee contribution rates, which in LGPS currently average 6.5% of pay. There are various estimates of the impact of the suggested 3% increase in contributions on take up, although at best these can only be described as educated guesses. The common factor in all these is that Funds in general would very quickly (perhaps within 5 years) move to a cash flow negative position (i.e. needing to run down the capital value of the Fund). Such a change would require very rapid changes in investment policy, in particular a significant de-risking through a movement out of equities and into bond type investments. Such changes would have very significant economic consequences given the scale of LGPS funds as investors in UK equity markets.

Recommendation

In line with LGPS Regulations Lancashire County Pension Fund maintains a Communication Policy Statement which states that: -

'The administering authority undertakes to promote the LGPS to employing authorities. In particular the authority will target prospective members i.e. the employing authority's new employees and current employees who are eligible to join the Local Government Pension Scheme and are not currently members of the Scheme.'

Therefore in light of the recent analysis of non-take up, and in view of the potential impact of non-take up as noted above, a campaign to promote Scheme membership should be undertaken during 2011/12. This campaign will be specifically aimed at targeting the profile of employees not in the Scheme as identified above. A progress report will be presented to the next Pension Fund Administration Sub Committee meeting.

Further to this, and to coincide with Lancashire County Council's staging of Auto-enrolment, expected to begin in January 2013, a campaign will be undertaken to promote Scheme membership. Similar campaigns will be launched in respect of other participating employers as the Auto-enrolment process progresses. Progress

will be reported to the Pension Fund Administration Sub Committee at an appropriate future meeting

Consultations

N/A

Implications:

The exercise will be carried out by the Administering authority with the agreement of LCC as the employing authority and in particular with the support of LCC's Corporate Communications Service. The cost of the campaigns can be met within existing Budget constraints.

Risk management

As set out in the report.

Local Government (Access to Information) Act 1985 List of Background Papers

N/A