



**Staffordshire
Pension Fund**
Local Government Pension Scheme

The Hutton Report

Last year the Government asked Lord Hutton, the former Secretary of State for the Department for Work and Pensions, to carry out a review of public sector pensions. Lord Hutton announced his recommendations on 10 March 2011. They are summarised below.

Lord Hutton's main objective

This was to make recommendations for a package of public sector pensions which are of good quality, sustainable, and fair to members and to taxpayers who pay towards them.

Ministers made it clear that when any new scheme is introduced, there must be a mechanism for protecting the benefits members had built up so far – see "Protecting past benefits" on the next page.

Type of scheme being suggested.

Lord Hutton's preference is for a *career average scheme*. This means that each year you are in the scheme you build up an amount of pension which is linked to your pay *for that year*. Those benefits are then "banked" and increased each year until you draw them. Here's an example of how this type of scheme can work –

Mary pays into a career average scheme for three years then retires. The scheme has a *pension build up rate* of 1/60th of her pay for each year that she pays in.

Year 1: Mary's pay is **£18,000**. So in this year, Mary earns **£300** of pension. This is increased in line with inflation next year and the year after, so that by retirement at the end of Year 3 it has reached **£318**.

Year 2: Mary's pay is now **£18,400**; it earns her a pension of **£307** in this year. It is increased next year, so that by retirement at the end of Year 3 it has reached **£316**.

Year 3: Mary's pay is now **£19,000**, which earns her a pension of **£317**. As it's her final year, this pension isn't revalued as part of the pension calculation, so it stays at **£317**.

The pensions from each year are then added together to give a total annual pension of **£951**. And if she likes, Mary could swap some of the pension for a tax free lump sum (as we can now). The total annual pension would continue to increase in line with inflation as permitted by Pensions Increase Acts and Orders.

What Lord Hutton hasn't spelled out is how the "maths" of the scheme would work – he just gives his preference for this type of scheme in general. In the above example, Mary builds up 1/60th of her pay for each year as a pension and we have assumed 3% inflation. But the real value of the scheme will depend upon two key factors: what *pension build up rate* is decided on (for example the 1/60th we have used above) and how each year's benefit is revalued as it is carried forward to the total annual pension. For example, will it go up in line with prices or with wages? These will be matters for the Government to decide, but Lord Hutton favours increases in line with wages.

Retirement age

Lord Hutton recommends tying in what he calls normal pension age with State pension age (so this would be 66 for all by 2020). That's not to say you would *have* to retire as late as this, but it would mean a reduction in benefits if you asked to go before then. Normal retirement age is already age 65 in the Local Government Pension Scheme.

Pensions Increase

Lord Hutton recommends that, once you have retired, your pension will increase each year in line with prices. The Local Government Pension Scheme already does this, so we don't expect any change there.

Protecting past benefits

This is the big issue for many long serving members. Lord Hutton recommends protecting the benefits you have already built up before the introduction of the new scheme – both in terms of *when* you can draw them, and *how* they are worked out. So he favours keeping a final salary system for past benefits, and importantly, using the final pay *when you eventually retire* – not final pay at the point of the switchover.

What about the other public sector schemes?

Lord Hutton *doesn't* recommend bringing in one big scheme to swallow up ourselves, the teachers, NHS, police, fire and the armed forces. Instead his recommendations are a framework which the various separate schemes will work towards.

Timing

Lord Hutton would like to see the new schemes up and running as soon as is practical, and feels this should be achieved by the end of this Parliament – in other words by 2015. In terms of the Local Government Pension Scheme this challenge will sit with the Department for Communities and Local Government who write our scheme rules (following consultation with employee and employer representatives).

How did Lord Hutton arrive at his recommendations?

Before making his recommendations, Lord Hutton hosted a series of roundtable events with various groups including trade unions, employer groups, academics and experts, think tanks, scheme administrators, local authorities, government departments and the private sector.

What the Government say

It's worth bearing in mind, though, that Lord Hutton is just making *recommendations*; The Chancellor of the Exchequer in his budget speech accepted Lord Hutton's recommendations as a basis for consultation with the proviso that there should be "no cherry picking on either side".

More information

A list of Lord Hutton's 27 recommendations and a link to the full report can be found on the Staffordshire Pension Fund website: www.staffspf.org.uk



 Staffordshire