LOCAL GOVERNMENT PENSION SCHEME

Mythbusting guide

Many inaccurate statements made about the Local Government Pension Scheme have gone unchallenged by the media. This guide highlights the most common and erroneous of these myths and sets out the realities of the LGPS.

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

REALITY: Less than 6% of council tax revenue is used to fund the pension scheme which provides the average scheme member with a pension of £4,000 a year, just sufficient to keep most above the poverty level below which means tested state benefits (paid for by the taxpayer) are payable. The average women's pension is only £2,600.

***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, NHS and council care services.

***MYTH:* The current economic situation means the LGPS needs to be cut**

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. The LGPS is funded over decades and the pensions already built up by four million people in the UK must be paid for. This is much harder to achieve if the scheme is closed and no new money from members is payable. The costs of schemes closed to new entrants rise as the lack of new money causes cash flow and security problems over the long term as the pensions owed fall due. The LGPS 2008 is designed to be sustainable over the long term, recognising that while the scheme will result in savings to employers and taxpayers, these will not be evident immediately.

***MYTH:* Local government workers leave employment with big pay outs as well as guaranteed pensions for life**

REALITY: All defined benefit schemes provide pensions for life underpinned either by the Pension Protection Fund or statutory guarantee. Big pay outs on redundancy or early retirement are a feature of the highest earners in either the public or private sector. The average local government worker is no more likely to get a large redundancy payment than the average private sector worker. However, Chief Executives in both sectors have benefited from extremely generous exit packages. But a key difference in local government is that the highly paid executives are in the same 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.

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

REALITY: The costs of all defined benefit schemes fluctuate as do the benefits of defined contribution schemes. The LGPS is in a better position than most other schemes as it can – and should – plan its funding over a longer period, making it substantively less vulnerable to short term fluctuations. Year on year, the LGPS takes £billions more in contributions and investment returns than it pays out in benefits. In addition, the sustainability strategy being developed by government, employers and unions will ensure that the scheme is managed transparently and fairly to members, employers and taxpayers.

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. This is in stark contrast to the vision of a job for life. In addition 12,000 local government workers over the age of 50 have lost their jobs in the last year with many more redundancies planned across the country. 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. Many of the lowest paid jobs have been outsourced to the private sector, distorting the average pay figures. Despite the fictional impression often conveyed about council jobs, there are major problems in recruitment for some key jobs. For example, 57% of councils report increasing difficulties in recruiting social workers and 38% report difficulties in keeping the social workers they already employ. The LGPS is worth about 20% of a member's total remuneration package (including their own contributions) and is therefore an integral part of the recruitment and retention strategy across local government.

MYTH: Local government pensions are paid straight from the public purse

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. These all generate returns to the 101 funds that make up the Local Government Pension Scheme in the UK. The LGPS is worth over £100bn with individual funds investing millions of pounds every day in UK industry. Winding up this scheme would reduce at a stroke investment in the UK economy with potentially devastating consequences for the private sector. 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.

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 6.4% overall. This is more than double the amount the average member of a defined contribution scheme contributes. In fact, income from member contributions to the scheme in England last year increased by 15%.

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.

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

REALITY: Recent 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.

MYTH: LGPS funds don't have the same regulatory burden as private sector schemes

REALITY: Private sector defined contribution schemes have remarkably little regulation. However, defined benefit schemes, since the Maxwell scandal, have been regulated more heavily. While the LGPS hasn't always been subject to the same stipulations, instances of political short-termism in the recent past have cast long shadows over the scheme. One reason for current deficits is that LGPS funds were for some years encouraged by the Conservative government under Margaret Thatcher to fund only to 75% so the LGPS could fund lower Poll Tax bills. Now deficits are measured against a 100% funding requirement, the cost of this historic underfunding is clear.

For more information visit protectourpensions.org.uk

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