lgps
look forward with confidence

Falkirk Council

Pensions Newsletter

DECEMBER 2012

THEO SAYS "I'M IN" TO AUTO ENROLMENT

Auto Enrolment is the UK Government's new Pensions Initiative. It became law on 1st October, 2012 and one way or another, it affects most of us, so please read on…….

The Government wants to ensure that citizens make adequate pension provision for themselves and have introduced a policy known as ***auto enrolment.***

Under the new rules, if you are not already in a workplace pension scheme, your employer will have to enrol you into a pension scheme automatically and then contribute towards that pension. You may even have seen BBC Dragon's Den star Theo Paphitis declaring "I'm In" as part of the Government's publicity campaign.

As a member of the LGPS, you have already been enrolled into a pension scheme that complies with the auto enrolment rules and, happily, you don't need to worry too much about it. However, we think it is best that you know what all the fuss is about because your employer will still be required by law to give you some basic information about auto enrolment.

Auto enrolment is being introduced on a phased basis across the UK with larger employers being the first to implement the new rules. For example, the first employer in the Falkirk Fund to have to operate the new rules will be Falkirk Council itself with a start (or "staging") date of 1st April, 2013. Other fund employers will have later staging dates.

Just to complicate things, there are options for employers to delay certain aspects of auto enrolment until October, 2017 at the latest. Your employer should tell you if this is going to be happening.

So what does all this mean in practical terms?

The answer is that from the staging date, employers will have to bring the following non members into the LGPS automatically:

- **Employees between the ages of 22 and State Pension Age who earn more than £8,105 p.a.** (or £156 p.w. or £676p.m.)

This group of persons are known as ***Eligible Jobholders.***

All individuals are entitled to opt out if they would prefer not to be scheme members, but employers are obliged to re-enrol ***all eligible jobholders*** at least once every three years.

Irrespective of auto enrolment, the rules of the LGPS require that all new entrants are enrolled into the pension scheme. The exception to this rule are employees with contracts of less than 3 months. Although, they are excluded from the scheme at present, rule changes are underway to allow them full participation in the scheme.

Inside this issue:

Auto Enrolment	1
Partners Pensions	1
Pensions Reform	2
Fund Governance	3
Police & Fire	3
Corporate Governance	3
New Pensions Website	3
Summary of Accounts	4

Maths of the Day

£1.3 billion	Size of Pension Fund
12,500	current scheme members
560	"orphaned" deferred members who have failed to keep us updated with their new addresses
£1,250,000	the tax free lifetime allowance from 2014/15the
£40,000	the tax free annual allowance from 2014/15

DON'T FORGET ABOUT YOUR PARTNER

Are you sure that you are providing pension cover for your partner?

If you are Married or in a Civil Partnership, then the scheme automatically provides a pension for your surviving partner in the event of your death. However, if you are living with someone but not married to them, they can only be considered for a survivor's pension **if you and your partner have completed a Nomination Form.** Remember your Partner's Nomination is completely separate from any Lump Sum Death Benefit nomination you may have made.

If you have made a nomination, the details will be included on your Benefit Statement.

You can get partner and lump sum nomination forms at www.falkirkpensionfund.org

Public Sector and LGPS Pensions Reform THE STORY SO FAR . . .

If you have been a pension scheme member for the last few years, you will know that the LGPS has been subject to an array of changes, including:

- abolition of the rule of 85
- tiered contributions for members
- pensions for partners
- change in accrual rate from 80ths to 60ths
- Minimum retirement age of 55.

Despite this, it seems that the era of scheme reform is far from being over.

When it came to power in 2010, the UK Government commissioned a report into Public Sector Pensions under the chairmanship of Lord Hutton.

This was in response to concerns that the schemes were expensive, were placing an unfair burden on taxpayers and were not sustainable given improvements in life expectancies.

PUBLIC SERVICE PENSION BILL

The Public Service Pensions Bill, currently making its way through Parliament, is the Government's response to the Hutton recommendations.

It has a UK wide application and contains various provisions to which schemes will have to conform by 2015.

Key proposals are as follows:

- The current Final Salary Schemes (like LGPS) to be replaced with new Career Average Schemes
- New Schemes to be in place for April, 2015
- Scheme pension age to be aligned with an individual's State Pension Age
- Protection for members who are within 10 years of retirement
- Final salary link to be maintained for "old" scheme membership
- Upper ceiling to be placed on employer costs
- Schemes' costs to be subject to HM Treasury agreement

Pensions Regulator to have greater oversight over all public sectors schemes

LGPS REFORM IN ENGLAND AND WALES

In anticipation of the proposals in the Bill (and to avoid any immediate member contribution increases), employers and Unions have struck a deal to implement a new version of the LGPS in England and Wales from April, 2014.

The new scheme will be a career average arrangement and have a normal retirement age equal to an individual's State Pension Age. This of course may now be anything from age 60 to age 68 depending on an individual's date of birth.

The new England and Wales Scheme will have an accrual rate of 1/49th with increases linked to the Consumer Price Index. It may seem strange that at a time when the scheme is being made less expensive, the existing "60th" accrual rate is being replaced with, what on the face of it, is an improved accrual rate of a "49th".

The answer lies in the fact that the career average benefits will increase in line with price inflation, whereas the existing scheme ties benefits into salary inflation. Because of this, over time, it is considered that the career average arrangement — even with the more generous accrual rate — will produce a significantly lesser benefit than the current final salary benefit. Only time will tell.

A further feature of the England and Wales Scheme is the so-called 50:50 option. Members will have the option to pay half their normal contributions and receive half the benefits in a bid to encourage members to remain in the scheme when they may be finding it difficult to pay the contributions.

LGPS REFORM IN SCOTLAND

The publication of the Public Service Pensions Bill has re-ignited the LGPS reform process in Scotland and discussions are now underway between the Scottish Government, the Unions and Cosla, The implementation date for the new Scottish scheme is likely to be April, 2015.

It remains to be seen how closely the Scottish LGPS matches the new England and Wales scheme, although significant similarity seems inevitable.

One thing that is certain going forward, is that members benefits are going to be even more complicated than ever, what with the mix of final salary and career average benefits, the myriad of accrual rates ranging from 49ths, 60ths and 80ths, not to mention different retirement ages for different slices of service. Calculators anyone!

The proposed LGPS will continue to be a defined benefit scheme but instead of benefits being calculated using final pensionable pay, they will be based on Career Average Revalued Earnings (CARE). In a CARE scheme, the member is credited with having bought an amount of pension each year which is then revalued in line with an inflation index. The proposed index is the Consumer Price Index (CPI).

Illustration of possible CARE Scheme

	Pay	Accrual Rate	Annual Pension	Year1 CPI 0%	Year2 CPI 3.1%	Year 3 CPI 2.5%	Year4 CPI 3.0%	Year5 CPI 2.0%	Revalued Pension
Year 1	£20,000	1/49th	£408	-	£13	£11	£13	£9	£454
Year 2	£21,000	1/49th	£429	-	-	£11	£13	£9	£462
Year 3	£22,000	1/49th	£449	-	-	-	£13	£9	£471
Year 4	£23,000	1/49th	£469	-	-	-	-	£9	£478
Year 5	£24,000	1/49th	£490	-	-	-	-	-	£490
Annual Value of the Pension after 5 years:									**£2,355**

New Fund Governance Arrangements

The Fund's Governance arrangements have been changed recently to give Employers. Trade Unions and Pensioners a bigger say in how the Fund conducts its business.

Formal decisions, such as setting the Fund's investment strategy, are made by the Pensions Committee. However, that Committee is now supported by an advisory Pensions Panel. Both Committee and Panel meet four times per year.

The Panel consists of 10 employer representatives, 3 Trades Union representatives and 2 Pensioner representatives.

The Pensions Committee consists of 6 Councillors from Falkirk Council plus 3 members co-opted from the Panel — one each from the employer, union and pensioner groupings.

All 9 members of the Pensions Committee are equal in terms of voting rights and access to papers.

In addition, as part of a shared service initiative with the City of Edinburgh Council, the Fund has entered into a service level agreement in which the Lothian Pension Fund will provide a range of investment related services to Falkirk. This includes monitoring and reporting upon the performance of Fund Managers.

The arrangement has been operational since January, 2012 and is working well.

Corporate Governance Matters

As a shareholder in many global companies, the Pension Fund has a responsibility to encourage good corporate practice.

The Fund maintains an awareness of the environmental, social and governance policies of companies through the engagement of a company called Pensions and Research Consultants Ltd (PIRC). PIRC exercise voting rights on behalf of the Fund at company AGMs and EGMs taking account of the Fund's own investment principles.

In addition to research and monitoring undertaken by PIRC, Falkirk Council Pension Fund is also a member of the Local Authority Pension Funds Forum (LAPFF).

LAPFF exists to promote the investment interests of local authority pension funds, and to maximise the influence of local authorities as shareholders.

The "shareholder spring", which saw a number of company revolts over executive pay has been an LAPFF theme for 2012, together with the topical issues of media standards and the damaged reputation of the banking sector.

In terms of actual engagement with companies, LAPFF

- have met with directors at Barclays, Lloyds, HSBC and Standard Chartered to discuss banking standards
- signed an open letter to Rupert Murdoch regarding governance within his organisation
- written to the Chair of Lonmin to express deep concern regarding violence at the company's South African platinum mine
- sent letters to various companies in the FTSE 350 encouraging them to improve boardroom gender balance as set out by the Davies Review.

Single Police and Fire Services

Are you an LGPS member who works for Central Scotland Police or Central Scotland Fire and Rescue Service? And are you going to be transferring to work for the new Scottish Police Authority or the new Scottish Fire and Rescue Service next April.

If so, you may be pleased to know that, for the present, your LGPS rights will continue to be administered by the Falkirk Fund, even though you are working for a new organisation.

Persons recruited after next April, who would previously have been employed in a support capacity by Central Scotland Police or Central Scotland Fire & Rescue Service, will also be enrolled into the Falkirk Council Pension Council Fund.

National Fraud Initiative

Retired members will recall being advised of the Council's participation in the National Fraud Initiative (NFI).

We are required to participate in this regular Audit Scotland antifraud initiative by providing details of the payments we make so that they can be compared with information provided by other public bodies.

This provides assurance that no pensions are being paid to persons who are deceased or no longer entitled, and that occupational pension income is being declared when housing benefit is applied for.

The initiative can also identify cases where a former member has died and because we haven't been told, dependant's benefits weren't paid.

Previous NFI exercises have disclosed a small number of frauds and individuals have been prosecuted.

Visit the New Pension Fund Website

Want to find out how to top up your benefits? Or download a nomination form? Or read about the latest scheme developments?

Then why not log on to our brand new website and have all that information at your fingertips.

You can find us easily at www.falkirkpensionfund.org.

The site has been designed by LGPS communications experts,

so that, if you have a query, the home page will point you in the right direction depending on whether you are a new member, pensioner or just someone interested in how the scheme is managed. To view a list of the forms and policies used by the scheme, just access the "Forms and Publications" area in "About Us".

Why not pay us a visit the next time you are online!

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Pension Fund Accounts 2011/12

The full Annual Report and Accounts can be viewed at www.falkirkpensionfund.org.

How the Fund is invested at 31/3/2012

Fund Manager	Mandate	£million
Aberdeen Asset	Global Equities	176.9
Baillie Gifford	Bonds	119.6
Baillie Gifford	Diversified Growth	114.4
Legal and General	Passive Equities	258.6
Newton	Global Equities	175.9
Schroder	UK Equities	181.1
Schroder	Property	99.0
SL Capital / Wilshire Associates M&G	Private Equity/Credit Markets	86.9
Credit Suisse	Infrastructure	17.8
Other Net assets	Misc. Incl. Cash	21.8
Fund Value at 31 March 2012		1,252.0

How the Fund has changed in 2011/12

	£million
Fund Value at 31 March 2011	**1,186.2**
Plus: Money in	
Contributions from employers	57.9
Contributions from staff	16.5
Transfers from other schemes	2.4
Less: Money out	
Pension payments	(36.3)
Lump sum retirement grants	(15.7)
Refunds and transfers	(3.0)
Administration costs	(0.4)
Plus: Returns on investments	
Investment income (net of tax)	21.6
Change investments value	26.6
Investment management fees	(3.8)
Fund Value at 31 March 2012	1,252.0

Printed and Designed by Falkirk Printworks Tel: 01324 501490 Fax: 01324 501491 e-mail: printworks@falkirk.gov.uk