Greater Manchester Pension Fund

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Dear Sir or Madam,

Restricting Exit Payments in the Public Sector

This response to the consultation named above is on behalf of the Greater Manchester Pension Fund ('GMPF'), which is the largest Local Government Pension Scheme ('LGPS') fund in England and Wales with approximately 380,000 members, 600 contributing employers and assets with a value of approximately £25bn.

GMPF supports the consultation response submitted by its actuary, Hymans Robertson, which is attached as an appendix.

We would like to highlight a few issues that are of particular importance to GMPF in our capacity as an administering authority. First and foremost is the question of how the public sector exit payment cap can operate given the current LGPS Regulations (S30[7]) in force that entitle a member aged 55 or over to an unreduced pension if they are made redundant or leave on efficiency grounds. In a significant number of instances the strain cost associated with the unreduced pension can, on its own, surpass the £95k limit.

Is it Government's intention to amend the LGPS Regulations to remove the right to an unreduced pension? If so, we think this is inappropriate as, at least in principle, this unreduced pension is a benefit which has been accrued over a members' length of service in the Scheme. This also contradicts the promises made by Government not to further amend the LGPS benefit structure other than via the Cost Management mechanism enshrined in the Regulations.

GMPF is aware that in the Teacher's Pension Scheme there is not a large one-off exit payment to reduce or eliminate an actuarial reduction to a pension on early retirement; instead the original employer is legally obliged to pay mandatory compensation for the lifetime of that member. Will this approach be adopted in the LGPS? Or will this approach also be subject to the exit cap through an actuarial calculation placing a capital value on this benefit? It would be highly unfair if there were to be preferential treatment according to which part of the public sector an employee worked in.

It’s important to emphasise, as set out in Hymans’ response that the exit cap might affect those with a long service history in the LGPS but who have more modest salaries. GMPF is cognisant that the policy intention is to limit payments to public servants who earn in excess of the UK’s average salary, and who could be considered better off than the tax payers that fund them, but the cap on exit payments will likely affect those on average (and sometimes below average) incomes as well. For example, a 55 year old member with 30 years in the LGPS earning £30,000 could breach the £95k exit payment cap on pension costs alone.

Currently LGPS funds calculate their own early retirement strain costs (via factors provided by their actuary) and these will vary from one fund to the next. As a result two members in identical circumstances, other than being in different LGPS funds, face different outcomes. It seems logical to adopt a single set of strain factors within the LGPS in order to ensure consistency across the scheme, but there are demographic differences across funds which can lead to some employers overpaying strain costs while others could be underpaying.

One final issue we would like to highlight is the absence of any sort of hierarchy of exit payments, should some payments need to be restricted. As the £95k cap is intended to include several different kinds of exit payment it is unclear to us whether any singular type of exit payment legally takes precedence over the others, or whether it is a case of the employee opting for which exit payments they would prefer.

This lack of clarity might cause problems as some of the exit payments are taxable at different rates such as redundancy pay which is not taxable below £30,000, payments for outstanding holiday entitlement which are taxed over £12,500 and early retirement costs.

We hope that HM Treasury considers the points raised by GMPF and others regarding the consultation. GMPF is of the view that any changes to the LGPS Regulations should be subject to an updated consultation.

Please do not hesitate to get in touch if you wish to discuss any of the matters covered by this consultation.

Yours sincerely,

Sandra Stewart
Director of Pensions
Greater Manchester Pension Fund