intergenerational foundation
Fairness for Future Generations

# PRESS RELEASE

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## The £148 billion intergenerational iceberg of liabilities in the Local Government Pension Scheme

The Intergenerational Foundation has calculated that there is a hidden £148bn iceberg of liabilities in the Local Government Pension Scheme (LGPS), the cost of which will be passed on to younger and future generations to pay, unless urgent action is taken.

Daryl Boxall, report author, and actuary comments, "This iceberg of hidden debt is being willfully misrepresented by the systematic use of higher discount rates than those used for other long-term government debts: 4.4% as opposed to a comparable rate of 2.2% at the time of the valuation."

According to the report, at current levels it will take an estimated 27 years to repay the deficit. This is a time period that is much longer than the average working lifetime of most of the scheme's current members. It means that younger and future workers will be left with a bill equivalent to covering the running the whole of the National Heath Service for 18 months.

Boxall continues, "The private sector responded to the same risks and cost increases borne by final salary pension schemes by closing schemes to new members and future accrual, and moving their staff into defined contribution pensions. In spite of the 2006, 2011 and 2015 LGPS reforms, and up to 50% increases in employee contributions, LGPS members can receive pensions in retirement that are way in excess of private sector equivalents, with local authorities, and ultimately younger and future taxpayers, having to meet the extra cost."

The report comes several weeks before the local government is due to report their 2019 valuations. Boxall says, "Many in the industry will be closely monitoring the 2019 valuation results. We're expecting investments to have performed well, but new pension promises have been accrued and interest rates have also fallen significantly so the value of liabilities will have risen as well. It is not clear that the funding position will have improved as many might be expecting."

The report calls on the government to be more "fiscally responsible" and recognise the true scale of the LGPS liabilities by valuing them in a market-consistent manner. This would require a six-fold increase in the current level of deficit contributions from £2 billion per annum to £12 billion per annum, equivalent to 12% of total local government revenue expenditure at a time when public finances are already stretched.

West Midlands Pension Fund, Greater Manchester Pension Fund, and West Yorkshire Pension Fund are held up for special scrutiny as they are the three largest individual funds in the LGPS, so it is reasonable to expect them to have a proportionately large impact on the total shortfall in contributions.

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Recommendations include: closing the LGPS to future accruals and creating a defined-contribution (DC) pension plan for LGPS staff; encouraging a higher level of transparency in relation to data and disclosure; increase sharing of best practice between the LGPS and other industries with similar liabilities; and make intergenerational fairness an explicit criterion when assessing discount rate and funding policy for long-term government liabilities.

Angus Hanton, IF Co-founder, concludes, "Once again we are witnessing future generations shouldering the burden of paying these generous pensions which they themselves will not receive. The ballooning and understating of this huge pension deficit is unfair to future generations, but the ultimate intergenerational theft would be for central government to steal the £200 billion of assets and replace them merely with a promise. This is the sort of crime against the young an unscrupulous government might commit."

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**Note to Editors:**

**Daryl Boxall and Angus Hanton are available for interview.**

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1. The LGPS is one of the largest pension plans in the world and, as had, at 31 March 2016, combined assets of £217bn.
2. It is a funded defined benefit scheme with contributions with 5.6 million members and 14,000 employers invested in a ring-fenced fund. It is often regarded as the ultimate gilt-edged pension plan.
3. There are 89 separate funds (following the merger of two funds post-2016), each with their own administering authority managing that fund. They include local councils, colleges, universities, police and fire services for employees that do not have entitlement to another public sector pension scheme.
4. Some private sector firms under public-private partnerships (PPPs) or non-governmental organisations (NGOs) are permitted to join.
5. The benefits remain the same whatever the fund.
6. As part of the LGPS Regulations 2013 each of the 89 funds is required to obtain an actuarial valuation of the assets and liabilities triennially. These valuations are used to set employer contribution rates: the amount public sector employers are required to pay into the scheme to cover their portion of the benefits being accrued.
7. Discount rates are used to quantify how much money is expected to be earned on money set aside today to cover payments in the future. The lower the discount rate, the larger the amount of money that has to be set aside today. The higher the discount rate, the smaller the amount of money that has to be set aside today
8. As few as 12% of final salary private sector pension schemes remain open to new members.
9. Examples of Pension Funds that require adjustment in terms of higher contributions to improve deficit reduction:
    a. Royal Borough of Kensington & Chelsea Pension Fund, London Borough of Wandsworth Pension Fund, and Teesside Pension Fund have all reported being fully funded which means that they pay no, or minimal deficit reduction contributions by using high discount rates.
    b. The pension fund with the longest recovery period is the Royal County of Berkshire Pension Fund that reported a deficit on the actuarial basis of £597 million using a discount rate of 5.5%. The estimated return on assets for the fund is 5.5% meaning that the scheme could run out of assets before all the liabilities are fully discharged.
    c. Based on a Private Sector Equivalent Basis, the London Borough of Merton is expected to remain in deficit for 32 years, a much longer period than published.