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This matter is being dealt with by:

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Terry Crossley
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5 January, 2012

Dear Terry,

I write on behalf of Westminster City Council in response to your consultation on certain matters relating to LGPS proposals dated 7 October, 2011. I note that the consultation matters may now be superseded by more recent discussions and announcements by Ministers.

The Westminster Pension Fund is currently cashflow negative before taking investment income into account – employee and employer contributions as well as transfers in are less than payments to pensioners, running costs and transfers out.

Partly due to this negative cashflow position, we are keen to retain as many fund members as possible. We are concerned that increasing employee contributions too much may not be affordable for many members and as a result of requiring increased contributions, a number of members may withdraw from the fund.

While I note that those earning below £15,000 would not be required to increase their contributions, for many of Westminster's employees, the cost of living in London means that £15,000 is too low to act as a protection, and **we would propose a minimum of £22-23k annualised salary before a contribution increase is sought**. That would protect the lower paid (in London terms) staff, and those most vulnerable to reduced pension cover.

While increasing employee contribution rates will clearly be a way of increasing fund income, given the current squeeze on household incomes and no pay increases in Westminster Council for the past two years, we would anticipate the negative effects of members leaving the fund (and consequent reduction in contributions) to outweigh the benefits of increased employee contributions for those remaining. As a result, we would anticipate the fund becoming more cashflow negative.

An alternative concept would be for **members themselves to elect to make a reduced contribution, but for a reduced benefit**. This would enable members to take their own decisions as to what is affordable, while still remaining a member of the scheme. These individuals would continue to save for their retirement on a defined benefit basis, rather than making use of a more uncertain defined contribution scheme (with no financial support of the Council) or withdrawing from pension provision altogether. We believe that this would allow the members to take more decisions for themselves as to what would be affordable rather than a decision imposed by regulation.

I understand, following discussions with our actuaries, that there is no flexibility within current regulations for Westminster, as administering authority, to ask the actuaries to review the rates and adjustment certificate in between triennial valuations, where the employer contribution rates may be adjusted downwards (current regulations allow only for an adjustment upwards). **Given the changes in fund membership and financial flows that may come as a result of regulatory changes, it may be appropriate for administering authorities to have flexibility for employer contributions to be adjusted downwards.**

The consultation document makes clear that the proposals being discussed are interim before a more substantive change in 2015, possibly along the lines as set out in Lord Hutton's report. We are concerned that the complexity of pensions generally, the relatively limited understanding by many of the fund members, and their concerns about change that **two significant pension fund amendments in quick succession (2012 and again in 2015) will make member communication difficult and prolonged**. We would prefer only one change, and for that change to be structured in a way that is both easy to communicate and easy to understand.

I would be happy to follow up any of these points with you in more detail if you would consider it helpful.

Yours sincerely

Jonathan Hunt

Jonathan Hunt
Director of Corporate Finance & Investment