Hutton Report
The recommendations
Hutton Report - The recommendations

The following pages set out the recommendations of the report grouped into the following sections. The recommendation numbers are quoted together with references to paragraphs within the full report.

1. **The Scheme** - A defined benefit CARE scheme with no pay cap but tiered contributions. Average earnings revaluation for new accrual and CPI for pensions. Ability to retire early and pay more plus the retention of ancillary benefits. New Normal Pension Age (NPA) linked to State Pension Age (SPA).

2. **Protections** - The impact of retaining The Final Salary link and Normal Retirement Age for current service.

3. **Controlling costs** - Independent review of NPA plus fixed cost ceiling for employers with default cost reduction mechanism.

4. **One scheme for all?** - shared framework plus differences for LGPS and uniformed schemes. Access to schemes to be restricted to public sector employees.

5. **Governance and transparency** - Independent oversight of all schemes with OBR reporting of fiscal impact. Pension Boards at scheme and local level with member and independent expert members.

6. **Administration and rationalisation** - Minimum standards set with independent advice, benchmarking across and within schemes using shared standards. Shared services encouraged across LGPS but no forced rationalisation.

7. **Implementing change** - Central control of parameters and principles, scheme by scheme consultation, implement in this parliament, resource for change using best practice, move existing members to new scheme.
Hutton Report - The New Scheme

- **Defined Benefit** - 2.26-29 but not final salary

- **Career Average Revalued Earnings (CARE)** 3.23-28 certainty overweighs flexibility of Cash Balance

- **No pay cap** 3.36 simplicity and cash flow implications plus minimal impact of cap at reasonable level

- **Tiered contribution rates** 3.74-88 contributions linked to earnings to reflect no pay cap

- **Average Earnings revaluation (actives)** 3.43-58 coupled with lower accrual rates (61st?) better meets adequacy principle

- **CPI revaluation (pension)** 3.37-42 purchasing power important

- **?? revaluation (deferred)** 3.59-64 pros and cons, decision left to government

- **Flexible/Early retirement** - 3.91-103 with actuarial reduction but no abatement

- **Ability to pay extra** 3.104-106 must be fiscally neutral

- **Ancillary benefits (death, dependants, ill health) remain** 3.108-114 limited value in removal

- **Normal Pension Age = SPA** - 4.9-14 for future service only and reviewed regularly
Hutton Report - Protection of accrued rights

Recommendation 4
Retention of final salary link for service up to the point of move into new scheme and pension age of that service (which may be after new NPA) 7.32

The effect is the following total benefit for current (pre 2008) member

- **Pre 2008 benefit**: 1/80th plus 3/80th lump sum for pre 2008 membership calculated on pay at leaving. Payable at Normal Retirement Age (NRA)
- **Post 2008 FS benefit**: 1/60th for membership from 1.4.2008 to start of new scheme calculated on pay at leaving. Payable at NRA
- **New Scheme benefit**: CARE for membership from start of new scheme calculated on pay for each year. Payable at NPA

**Impact**
- **Pros**: Protection of existing rights
- **Cons**: Complex calculation at retirement requiring equally complex systems, processes and data collection.
**Normal Pension Age = SPA**
4.9-14
for future service to reflect increased longevity

**Recommendation 11**

**Regular review of NPA**
4.15-23
review to be carried out by independent body (not named) to ensure SPA remains appropriate to experience

**Fixed cost ceiling**
4.24-35
maximum employer cost expressed as percentage of pensionable payroll.

**Adjustment mechanism**
4.36-41
changes to contributions, accrual rates, indexation or ancillary benefits to adjust cost below ceiling

**Default applications**
4.44
allows for negotiation on action to be taken if costs go above ceiling but if no agreement the default mechanism must automatically kick in

**Past service**
4.50-62
Consultation to decide how much if any past service costs are included in ceiling
Recommendation 13 and 15a

Common design features apply to LGPS, NHS etc
5.1-17 and 5.30-33
Defined Benefit - CARE
Indexation for pensions and accrued benefits
Adequate income in retirement
Normal Pension Age
Cost ceiling

Recommendation 14

Uniformed scheme differences
5.18-25
NPA set to age 60 but to kept under review

Recommendation 16

Restrict access to membership
5.37-59
Although left to government for final decision report considers access to schemes for non public service employees to be ‘undesirable’

Recommendation 15b

LGPS remains funded
5.34-36
funded status remains due to danger of increased deficits and position of non LG employees in the scheme
Hutton Report - Governance and Transparency

Recommendation 20
OBR to publish analysis of long term fiscal impact of schemes

Recommendation 19 and 24
Independent oversight (all schemes)
6.43-47 and 6.91 - scrutiny of governance, administration and transparency. Body created by primary legislation setting out Legal Framework for all schemes

Recommendation 17b
Pensions Policy Group (Scheme)
6.21 - consultation and negotiation

Recommendation 6 and 21
Pensions Board (Fund)
6.10-21 - compliance, oversight, risk, financial management, investment, appeals, appointments

Recommendation 17a
Pensions Board (Scheme)
6.22-26 - facilitate, analyse, compare, recommend, publish data to common standards

Recommendation 18
Issue regular benefit statements

Administering Authority

Scheme Members

Scheme Employers

6.15 Requires Boards to have nominated member trustees

6.19 says Board will not replace admin authority but unclear on exact relationship. 6.15 requires Boards to have independent ‘professionals’ so not existing pensions committee
**Recommendation 22a**
Set standards based on independent advice 6.69-73

**Recommendation 22b**
Benchmark across all schemes 6.74

**Recommendation 23a**
Encourage examples of shared service across all LGPS funds but no forced rationalisation 6.75-78

**Recommendation 23b**
Realise efficiencies in unfunded schemes through shared contracts, combined services and outsourcing 6.79-84
Transition starts by agreeing report then applying central control to set parameters for new schemes including cost ceilings, framework principles, limits to variations allowed and timescales 7.1-7. The following process then takes place.

**Recommendation 25**
Consult on changes scheme by scheme involving members 7.8-12

**Recommendation 26**
Set timescale as implement in this Parliament 7.13-14

**Recommendation 5a**
Move current members to new scheme 7.20-23

**Recommendation 27a and 27b**
Put in place sufficient resource on top of business as usual and follow best practice for transition 7.15-19