

DRAFT

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Dear Terry

LGPS Delivering, Affordability, Viability and Fairness

Thank you for your letter of 25 June. This is the response of Kent County Council as the administering authority for the Kent Pension Fund. Before going on to make detailed comments we would like to say that we welcome the document as it recognises and proposes ways of managing the catastrophic position local authorities face for the 2010 valuation.

Although there has been some recovery in equity markets in May Hymans Robertson were estimating a funding level of 53% for the Fund, down 20%, which implies an increase in employer contribution rate of 8%. There will be factors which effect small employers which could increase this even further. So we definitely need regulatory help in the short term.

Financing Plan

We find this the more attractive of the 2 options proposed. The Fund has liabilities which look out as much as 80 years ahead and we should take a long term view of the liabilities with assurance in the short to medium term from our strong cashflows. We are currently out to tender for actuarial services and the cashflow issue is one which we have repeatedly come back to in discussion with the actuaries who have responded to the tender.

So we fully support the proposed approach in paragraph 31.

We believe that the concerns expressed in paragraph 33 can be specifically addressed through the implementation of a new scheme before the 2013 valuation. We will return to this below.

The approach taken has to be seen as a way of managing negative investment returns prior to a fundamental reappraisal of the scheme.

Local Funding Targets

For reasons you will be well aware of we strongly oppose any move away from administering authorities having to move away from a 100% funding target. The main reasons for this are:

- The dreadful long term consequences of the change to 75% funding in 1989.
- The reputational impact on the funding basis of the LGPS. As you have personally repeatedly pointed out the LGPS is in the strongest funding position of any of the public sector schemes and this seems to attract particular opprobrium to the LGPS.

Revised Employee Contribution Tariff

We have argued for many years that a significant increase in employer contribution rates is required. We therefore support the proposed changes to increase employee rates but do not agree with any reductions.

We would like to come back to earlier comments about the fundamental changes which we believe have to be made to the scheme. Far too much of the increasing cost burden falls upon the employer and this is made worse when investment returns are poor. We know the Council Tax payer cannot stump up more and a mindlessly optimistic long term view of investment returns does not help either.

This only leaves the option of more effectively managing the liabilities and that means looking very seriously at scheme benefits. A more basic scheme, probably on a CARE basis, is we feel inevitable. We would also allow for individuals to have the option of paying more for a higher level of benefit. We eagerly await the consultation document we understand is coming on the future of the scheme.

Yours sincerely

James Scholes
Chairman
Superannuation Fund Committee

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Director of Finance