1. Executive summary

Welcome to our first report on the governance and administration of public service pension schemes. The report focuses on the existing schemes for eight main categories of workers. The existing schemes will be subject to new scheme arrangements and expanded regulation from April 2015. The report is intended to provide a portrait of the current state of public service pension schemes. Providing educational information on the areas we regulate is an important element of our risk-based regulatory approach.

The report is based on publicly-available information and our discussions with those involved in scheme design, management, administration, advice and audit. Included in this report, in the Annex, are descriptions of the schemes, bringing out key features, similarities and differences.

These schemes are all established by statute, and are the responsibility of their respective government departments. They face different challenges, which have led to a variety of approaches to governance and administration, and they include the largest scheme in Europe, with many participating employers.

Our expanded role stems from the Public Service Pensions Act 2013 (‘the 2013 Act’). This Act was the government response to the 2011 report of the Independent Public Service Pensions Commission (IPSPC) recommending scheme redesign, reform and regulation that was sustainable, affordable and fair.

The reforms are intended to reduce and control scheme costs and each scheme is being redesigned at the time of writing with this aim. The 2013 Act also provides for clearer governance with specific defined roles, the publication of more information on a consistent basis, and administration practices in line with those in the private sector.

As a result of the 2013 Act, all these schemes face a significant task in implementing the major reform of their benefit design, establishing new governance arrangements and putting in place systems to deal with the administration of the new and transitional arrangements while maintaining and integrating their legacy systems. By their nature – their size and, in some schemes, number and variety of the employers participating in the scheme – the schemes are subject to major challenges in achieving and maintaining high quality records. We will be making clear the standards required in these areas to satisfy the requirements of the legislation and we will monitor and report on the progress by schemes in achieving them.
1. Executive summary

The governance and administration research incorporates the results of an independent survey of governance and administration commissioned by the regulator which was sent to key contacts at all of these schemes. The survey was conducted between February and April 2013. Section four includes a brief summary of the findings of that survey. The full report can be found at www.tpr.gov.uk/publicserviceresearch.

We plan to issue a report on public services pension schemes annually as part of our ongoing monitoring activities. The 2013 Act sets out a mechanism for the provision of better information by and about these schemes, which, with our on-going regulatory role, should allow future reports to be more comprehensive and more useful in assessing the performance of public service pension schemes.

Andrew Warwick-Thompson
Executive director for defined contribution, governance and administration
2. Background

Public sector pension schemes are occupational pension schemes for employees of central or local government, a nationalised industry or other statutory body. They include the public service pension schemes authorised by statute where the relevant minister makes the rules of the schemes which are the subject of this report. These public service schemes have around 12 million members of which around 5 million are active members. The largest scheme – that relating to local government workers in England and Wales – and the corresponding schemes in Scotland and Northern Ireland are funded but the others all operate on a ‘pay as you go’ basis.

The schemes have had differing approaches to governance, largely reflecting whether or not they have funds to manage, and also their size. The scheme descriptions below provide more information on the nature, administration and governance of each scheme.

2.1 Independent Public Service Pensions Commission

In 2011, the IPSPC recommended major reforms to public service pension schemes to make them more affordable and sustainable while, crucially, ensuring that their purpose remained to still provide adequate retirement income. It also recommended improvements to scheme governance and administration. In particular, it called for:

- a properly constituted, trained and competent pension board
- member nominees on the board
- disclosure of standardised scheme and fund information
- minimum administration standards
- better member communications including annual benefit statements, and
- independent oversight of governance, administration and data transparency.
2.2 Public Service Pensions Act 2013

The 2013 Act was introduced following the recommendations of the IPSPC. In Northern Ireland, a Public Service Pensions Bill (Northern Ireland) is being considered by the Assembly for the same purpose.

The 2013 Act enables the establishment of new public service pension schemes and identifies ministers (each being the ‘responsible authority’ for their scheme) who may make the scheme regulations (encapsulating the scheme rules) for the relevant schemes. The Act also requires the identification of a scheme manager responsible for managing or administering each scheme and a pension board to assist each scheme manager. In the case of locally administered schemes (for police, fire and local government) scheme managers and pension boards will be appointed for each local administration.

Each scheme will also have a scheme advisory board to advise the responsible authority on the desirability of changes to the scheme. For the locally administered schemes this scheme advisory board may also provide advice to the scheme managers or pension boards on the effective and efficient administration and management of the scheme, if the scheme regulations so permit.

The 2013 Act also requires:

- information to be provided about benefits, schemes and records
- expanded regulatory oversight by the regulator
- members of pension boards to have knowledge and understanding of their scheme rules, their scheme’s administration policies and pensions law
- scheme managers to establish and operate adequate internal controls, and
- the regulator to issue codes of practice in relation to a number of legislative matters.

The regulator’s statutory objectives in exercising its functions, as relevant to public service pension schemes, are:

- to protect the benefits of members of work-based pension schemes
- to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008 (not covered in this report), and
- to promote, and to improve understanding of, the good administration of work-based pension schemes.
2. Background

With these objectives in mind, we plan to:

- provide educational materials and codes of practice
- monitor and report on the performance of these schemes, and
- enforce compliance if necessary.

2.3 Public service pension schemes

The 2013 Act, and corresponding Northern Ireland proposed legislation, enables the establishment of pension schemes for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces, and the armed forces. These schemes will come into effect by April 2015, superseding existing schemes for service after that date. The 2013 Act recognises that the existing schemes will remain as legacy schemes, and provides for them to be ‘connected to’ the new schemes so that the existing and new schemes can be governed, administered and regulated together with transitional arrangements between them.

2.4 Other pension schemes in the public sector

For a number of other schemes, the largest being that of the United Kingdom Atomic Energy Authority, the 2013 Act requires the public authority responsible to close the scheme to future benefits and either to create a replacement non-final salary scheme, or to arrange for future service in one of the other new public service pension schemes.

2.5 Scheme changes

Each scheme needs to set out in regulations a new scheme design that meets the requirements of the 2013 Act. This requires the responsible authorities to consult with their workforce, make proposals, have these approved by HM Treasury in certain cases, make refinements, reach agreement and produce scheme regulations. Additionally, they have to make the necessary changes to the administration systems and procedures, so the new schemes can commence from April 2015, or April 2014 for the reformed benefit design of the Local Government Pension Scheme (LGPS).

Scheme regulations will need to define the roles of scheme managers, pension boards and scheme advisory boards (which may vary scheme to scheme) and set out how board members can be appointed. Pension boards have to be in place by April 2015.
2. Background

There is a legacy of past scheme designs. The Principal Civil Service Pension Scheme in England, Wales and Scotland (PCSPS), for instance, will have a pre-2002 design, a 2002-2007 design, a 2007-2015 design, a post-2015 design, and an alternative defined contribution (DC) arrangement for post-2002 joiners. Changes in the schemes, including the current ones, have been accompanied by provisions enabling protections for current members and transitional arrangements to move to the new provisions, adding to potential administrative complexity.

A key feature of these schemes is that most have a multi-employer structure. The LGPS averages 77 employers per administering authority and a number have in excess of 200; the teachers and NHS schemes have thousands of employers. There is an administrative challenge to obtain accurate and timely employee data from the employers, and to communicate with the members. The survey showed some past or current issues with the quality of member records, which corroborates past comments in audit and actuarial review reports and recent discussions with scheme managers.

For locally-administered schemes, the potential for efficiency improvement through collaboration or merger has been raised. The government has announced a consultation on LGPS reform in England and Wales with this in mind, and administering authorities have been undertaking their own reviews. In the LGPS, a large part of scheme income is generated by the investment funds. For instance, in the year to 31 March 2012 in England and Wales, scheme expenditure was £9bn, contributions were £8bn and income on £150bn of investments was £3bn. Efficiency gains to increase investment income could aid scheme affordability.

For the unfunded schemes, the Government Actuary’s Department (GAD) intend to value them every four years. A body, yet to be appointed, will also review the LGPS valuations carried out by firms of consulting actuaries, and report on the method and assumptions used. These changes are intended to ensure the rigour of cost measurement in the schemes.
### 3. Scheme information

<table>
<thead>
<tr>
<th>Schemes(s)</th>
<th>Members (2012)</th>
<th>Employers (2012)</th>
<th>Centrally or locally managed</th>
<th>No of schemes if locally managed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government</td>
<td>4,700,000</td>
<td>7,800</td>
<td>Locally</td>
<td>101</td>
</tr>
<tr>
<td>NHS</td>
<td>2,900,000</td>
<td>10,000</td>
<td>Centrally</td>
<td>-</td>
</tr>
<tr>
<td>Teachers</td>
<td>1,900,000</td>
<td>3,800</td>
<td>Centrally</td>
<td>-</td>
</tr>
<tr>
<td>Civil service</td>
<td>1,700,000</td>
<td>300</td>
<td>Centrally</td>
<td>-</td>
</tr>
<tr>
<td>Armed forces</td>
<td>1,000,000</td>
<td>10</td>
<td>Centrally</td>
<td>-</td>
</tr>
<tr>
<td>Police</td>
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<td>45</td>
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<tr>
<td>Fire</td>
<td>80,000</td>
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<td>Locally</td>
<td>51</td>
</tr>
<tr>
<td>Judicial</td>
<td>4,000</td>
<td>7</td>
<td>Centrally</td>
<td>-</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Schemes(s)</th>
<th>Responsible authority</th>
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</thead>
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<td></td>
<td>England</td>
</tr>
<tr>
<td>Local government</td>
<td>Dept for Communities and Local Government (DCLG)</td>
</tr>
<tr>
<td>NHS</td>
<td>Dept of Health</td>
</tr>
<tr>
<td>Teachers</td>
<td>Dept for Education</td>
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<tr>
<td>Civil service</td>
<td>Cabinet Office</td>
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<td>Armed forces</td>
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<td>Police</td>
<td>Home Office</td>
</tr>
<tr>
<td>Fire</td>
<td>DCLG</td>
</tr>
<tr>
<td>Judicial</td>
<td>Ministry of Justice (Dept of Justice (Northern Ireland) for devolved judiciary)</td>
</tr>
</tbody>
</table>

In descending order of size, the eight categories of public service pension schemes which we will have an extended role in regulating are listed in this table, and described in more detail further below. The local government, police and fire schemes are administered locally. For the other schemes the administration structure matches the structure of the responsible authorities, and there is a separate scheme per responsible authority.
4. Summary of survey results

4.1 Background and methodology

The Pensions Regulator commissioned an independent survey to further understand the current governance and administration arrangements of these public service pension schemes. The survey, managed by IFF Research, covered the schemes described above except for the Judicial Pension Scheme (which was added to our expanded regulatory responsibility after the survey was underway). Fieldwork was conducted between February and April 2013.

Relevant contacts for each scheme were identified through an initial telephone screening interview; upon verification, scheme contacts were then sent a link to an online self-completion questionnaire.

The survey attracted a high response rate, with all national schemes, 61% of LGPS schemes and 40% of police and fire fighters schemes completing it.

This response rate helps provide a robust picture of the current governance and administration arrangements in public service pension schemes.

Responses were not attributed to a specific scheme unless respondents were willing for the scheme to be identified.

4.2 Main findings

The results of the survey have been segmented into three groups:

- the unfunded locally-administered schemes (ie police and fire fighters schemes),
- the funded locally-administered schemes (ie the LGPS),
- the unfunded nationally-administered schemes (civil servants, teachers, NHS and armed forces schemes). This included Scottish and Northern Irish schemes where separate. It also included three separate schemes in relation to the armed forces. These are referred to as ‘National’ schemes below.

Some key observations are set out below, divided into governance and administration, by type of scheme.
4.3 **Governance**

The survey considered some of the aspects of a scheme’s governance on which The Pensions Regulator will have regulatory oversight. The survey confirmed expectations that the LGPS and the national schemes at present have the better-developed governance arrangements of the public service schemes.

4.3.1 **Police and fire fighters schemes**

In a number of cases, the police and fire fighters schemes appear to have been managed as ancillary functions of the relevant authority, often without a dedicated scheme governance function. This may explain the lack of knowledge by a large segment of schemes about scheme-specific training plans (52% did not know whether this existed), knowledge and understanding policies (65%) and risk management processes (58%). Moreover, only one-in-three schemes confirmed that conflict of interest policies (32%) and registers of board members’ interests (39%) are in place. This is understandable given the nature of the limited size and complexity of the responsibilities of the local administrations.

The services of actuaries (78%) and auditors (56%) are commonly used, with some schemes also using legal advisers (28%) and benefit consultants (17%), among others.

4.3.2 **LGPS**

The LGPS has a considerably larger membership than the police and fire schemes, with standards set by DCLG and the Chartered Institute of Public Finance and Accountancy (CIPFA) in England and Wales. The survey results are consistent with reports we have received that pensions governance and administration have been on the agenda of these schemes for many years and so there is likely to be greater awareness of these matters. In the survey, 98% reported having a governance board, generally meeting quarterly. Two-thirds of boards (63%) have a training plan and a policy on knowledge and understanding, which will help ensure adequate pension board knowledge and understanding. Over four in five said they have a risk register or similar (84%), and that they review their risks and internal controls at least annually (77%). Furthermore, a conflict of interest policy (74%) and a register of members’ interests (82%) are in place in most schemes.

External actuaries (98%), investment managers (93%) and auditors (89%) are used in nearly all schemes, while custodians (84%), investment consultants (77%) and legal advisers (54%) are also commonly used (the LGPS is the only public service scheme with investment funds). The overall assessment of the board’s governance work was generally high, with relatively lower scores for addressing learning gaps and working together as an effective unit.
4.3.3 National schemes (PCSPS, NHS, TPS and AFPS)

The national schemes have very large memberships – larger than any private sector scheme. Although they all reported the existence of a board responsible for scheme governance (usually meeting quarterly), in several cases their annual reports indicate that this is a board of the administration function rather than an independent scheme governance board. Four of the 11 schemes indicated there was a board training plan and three confirmed a knowledge and understanding policy exists for board members. Four have conflict of interest policies and a register of members’ interests. All have a risk register or other formal risk management process, and all reviewed the effectiveness of risk management and internal controls at least annually. As with the LGPS, most aspects of the schemes’ governance were rated highly, with addressing learning gaps a notable exception.

Ten of the 11 schemes indicated that actuaries and auditors were employed, and seven use legal advisers.

4.4 Administration

All pension schemes, whether funded or not, need to be administered and to provide member services. The survey asked questions on member communication, service standards, administration costs, reporting, record-keeping and internal controls. Five out of the 11 national schemes have outsourced administration, with the preponderance of locally-managed schemes largely administered in-house. The LGPS schemes overall have the most active member communication and are most likely to track and disclose service standards and to measure the state of records. The largest schemes with the most employers were most likely to have been alerted to data quality problems.

4.4.1 Police and fire fighters schemes

Two in three (67%) of the police and fire fighters schemes indicated that they have in-house administration. Our engagement with schemes suggests that in some cases this refers to in-house administration by the local authority, rather than by the police or fire authority.

Four in five (79%) have documented service standards although frequency of receiving formal administrator reports varies greatly, with two in five (38%) schemes never receiving these. Administrator attendance at board meetings produces a similar picture.

Over half of schemes monitor the time taken to fulfil member requests and execute transactions (55%), set targets on this (62%) and have dedicated resource available to complete these tasks (55%). 57% of schemes monitor administration costs, and 26% disclose them.
Generally, schemes have not measured or are not aware of having measured their common (64%) or conditional (83%) data scores. Among those schemes who have measured their common data score, the common data scores range from 81% to 100%. The majority (83%) had not had any data problems brought to their attention in the past year.

In terms of member communications, most schemes (86%) provide members with annual benefit statements whilst over half have a scheme website (62%) and hold member forums/workplace presentations (52%).

On a range of measures of administration quality, between 75% and 90% of schemes rate themselves as ‘very good’, and give a similarly high rating for member satisfaction.

### 4.4.2 LGPS

Most LGPS arrangements are administered in-house (81%). The majority have documented service standards which are reported against, with two in three (66%) disclosing actual turnaround times. The monitoring (87%) and publishing (85%) of administration costs are common practices.

Generally, schemes have not measured or are not aware of having measured their common (56%) or conditional (81%) data score although, of those who don’t, most (54%) plan to do so and already produce other reports on record quality. Of those who have measured their common data score, the scores were generally 95% or higher. One in five schemes (19%) said they had been alerted to common data problems in the past year, with a similar proportion alerted to other data problems (18%).

A wide range of member communications is provided. All schemes provide annual benefit statements and nearly all provide a member website (97%) and newsletters (87%), with other means of member communication also frequently cited.

On a range of measures of administration quality, between 66% and 80% of schemes rate themselves as ‘very good’, and give a similarly high rating for member satisfaction.

### 4.4.3 National schemes

Of the 11 national schemes, five reported using third-party administrators. All have documented service standards, with seven schemes receiving reports at least quarterly to their boards on the standard of service (six schemes also have a member in attendance at board meetings at least quarterly). Seven publish information on actual turnaround times.
4. Summary of survey results

Most schemes monitor administration costs (ten schemes) and use a dedicated budget (nine); six schemes publish the costs. Three schemes had measured both their common and conditional data scores, although nearly all the schemes (ten) produce other reports on record quality. Seven schemes had been alerted to data problems in the past year – for three schemes, this concerned common data problems.

As for member communications, five provide annual benefit statements. All provide a website, whilst scheme newsletters (seven schemes), member forums/workplace presentations (four) and posters or notice boards (four) are also common.

On a range of measures of administration quality, the number rating themselves as ‘very good’ ranged from seven (for record-keeping) to ten (for timeliness and for compliance); eight said that member satisfaction was ‘very good’.

4.5 Conclusions

The results present a picture of the current status of governance and administration among public service pension schemes. The information provided is in line with that which we have obtained from publicly available material and engagement with the schemes themselves. Although there is room to improve, the survey finds examples of good practices to be emulated. The regulator will have regard to the findings in preparing codes, training material and regulatory guidance.

The report can be viewed in full at www.tpr.gov.uk/publicserviceresearch.
Annex: Main public service pension schemes

1. Local government

1.1 Background and history

Various local government arrangements arose in the late 19th century, including both defined benefit (DB) and DC schemes and another in which the pensions payable in a year were limited to the contributions collected. The first general DB superannuation scheme was established by the Local Government and other Officers’ Superannuation Act 1922, for designated employees only, with 5% employee contributions and with investment funds. Local authorities could choose whether or not to participate in the 1922 scheme and some continued to operate their own schemes. Participation in the scheme was made compulsory for officers in 1937, with 6% employee contributions by officers. Retirement age was set at 65, higher than in the other public schemes, for reasons of affordability.

1.2 National oversight and types of scheme

The Local Government Pension Schemes (LGPS) are collectively the largest UK pension scheme, by membership (4.7m) and by fund size (£180bn). For the LGPS in England and Wales, the DCLG produces regulations and oversees scheme administration and governance. The Chartered Institute of Public Finance and Accountancy (CIPFA) also play a role in setting the standards in these areas. There is a separate LGPS for Scotland overseen by the Scottish Public Pensions Agency, and the one for Northern Ireland is overseen by the Department of the Environment (Northern Ireland). The schemes have fundamentally the same design.

The scheme design is being reformed to the career average revalued earnings (CARE) model from April 2014. Governance arrangements are expected to be changed later in 2014 to conform to the 2013 Act requirements.
1.3 Funding and administration arrangements

The local government schemes are the only public service pension schemes that hold and invest funds – other schemes are ‘unfunded’. The schemes are administered locally by major local authorities, for example, county councils, metropolitan and London boroughs, with each administering authority managing its own fund. The LGPS also applies to the Environment Agency, due to water services having been local authority responsibilities prior to 1974. There are 89 administering authorities in England and Wales, 11 in Scotland and 1 in Northern Ireland.

Scheme administration – member record-keeping, contributions and payments – is usually performed by the relevant administering authority. Some councils share in-house resources for this purpose. Our recent survey found that 18% of administering authorities subcontract to third-party administrators.

Administering authorities are required to appoint a scheme actuary and auditor, and to produce a pension fund annual report and accounts which, in accordance with scheme regulations, describe the governance, administration and investment arrangements.

The schemes are notable for the large number and diversity of employers, including councils, police authorities (for their non-uniformed staff), universities, colleges and academies (for certain non-teaching staff) and admitted bodies. Admitted bodies are providers of public services, such as local charities, housing associations, leisure centres, museums, theatres, etc. Some admitted bodies are private companies which have taken on former local government workers under a transfer of undertakings arrangement. The 2011 report of the IPSPC noted that 80% of LGPS employers were admitted bodies and 23% of scheme members were in an admitted body.

1.4 Governance and investment funds

The Local Government Act 1972 allows authorities to delegate responsibility for financial matters to a committee, sub-committee, officer, or another local authority. Despite this choice, the almost universal approach to governance is for a committee comprising elected members, scheme member representatives and, in some cases, independent observers, to be responsible either for all pensions matters or for investments only, sometimes supported by sub-committees and/or advisory panels.
The investment funds generate returns intended to increase the affordability of the schemes. Most funds are managed externally but a few administering authorities have in-house investment teams. At the latest valuations the funds had an aggregate funding level of about 80% of their liabilities. The administering authority remains responsible for paying pensions and benefits in full, regardless of the funding level.

2. **NHS**

2.1 **Background and history**

The NHS Pension Scheme in England and Wales has the largest membership of any centrally-administered pension scheme in Europe. It applies to all persons engaged in health services. The scheme dates from 1948 when the NHS was created. Many of the original NHS employees transferred from local government employment, as well as from other public and voluntary sector employments. In presenting draft scheme regulations, the government stated its aim of utmost scheme flexibility, interchangeability with other schemes, preservation of existing rights and assurance that no-one would be worse off. The result was that the scheme began with regulations described by the Parliamentary Secretary as formidable in detail. (Hansard, 24 July 1947). The scheme was largely modelled on the local government scheme (for contributions) and the civil service scheme (for benefits).

2.2 **National oversight and types of scheme**

In line with the structure of the NHS, there are separate NHS schemes for Scotland and for Northern Ireland. For the NHS Pension Scheme in England and Wales, the Department of Health produces regulations and monitors scheme administration. The NHS Superannuation Scheme (Scotland) is looked after by the Scottish Public Pensions Agency, and in Northern Ireland the Health and Social Care (HSC) Pension Scheme is the responsibility of the Department of Health, Social Services and Public Safety. The current schemes have fundamentally the same design. There have been different terms for certain groups, e.g. practitioners who have a career remuneration benefit design, and mental health workers. The schemes will be redesigned to the CARE model.

2.3 **Funding and administration arrangements**

The schemes do not have an investment fund. Employer and employee contributions are paid to the sponsoring government department, which pays pension benefits, netting off contributions received. Because of their relatively young age profile, the schemes, in aggregate, have been generating cash surpluses for many years, with contributions exceeding payments.
None of the NHS Pension Schemes has a pension board or scheme advisory board yet, although there are management boards for the administering bodies.

In England and Wales the scheme is administered by the pensions department in the NHS Business Services Agency. Pension and benefit payment services, IT services and some other support services are outsourced: Equiniti Paymaster is the current provider. In Scotland, the scheme is administered by the Scottish Public Pensions Agency and in Northern Ireland by part of the HSC Business Services Organisation.

The scheme has three categories of employers: NHS employers, GP practices (over 8,000 of them) and ‘Direction Bodies’ (which are like the admitted bodies in the LGPS although fewer in number).

2.4 Accounts and valuations

The schemes, as central government functions with supply estimates approved by Parliament, have Accounting (or Accountable) Officers responsible for producing resource accounts. The accounts are audited annually by the National Audit Office (NAO), Audit Scotland and the Northern Ireland Audit Office, respectively. The schemes last had actuarial valuations by the GAD as at April 2004. The scheme has in the past been valued by reference to a ‘notional fund’ of the assets that might have accumulated had surplus contributions been invested, following a pattern established for the teachers scheme.

3. Teachers

3.1 Background and history

There was resistance in the 19th century to extending pension schemes to teachers, partly due to disagreement over whether it should be a local or national responsibility. (This is the position argued by Gerald Rhodes and Pat Thane – see the references at the end of this annex). The first Government grant for teachers’ pensions was in 1833. From 1846, discretionary awards of pensions, determined by a committee, were initially very few. By the 1880s, there was pressure for their provision to become more generous. The first comprehensive and statutory teachers’ pension scheme arrived in 1898 for elementary school teachers. The scheme was of an unusual design, with fixed contributions (£3 per annum for men and £2 for women), and two-part benefits comprising a fixed amount per year of service (only for teachers who had served at least half of their potential career), plus an annuity purchased by the contributions. In 1918 a national non-contributory scheme was introduced similar to the civil service scheme. It became contributory again in 1922.
3.2 National oversight and types of scheme

For the Teachers’ Pension Scheme in England and Wales, the Department for Education produces regulations and monitors scheme administration. Separate schemes for Scotland (the Scottish Teachers’ Superannuation Scheme) and for Northern Ireland (the Northern Ireland Teachers’ Superannuation Scheme) are looked after by the Scottish Public Pensions Agency and the Department of Education (Northern Ireland), respectively. The schemes have similar designs although there have historically been some differences in Scotland because of differences in the school system. Prior to the 2015 reform, they are final salary schemes. The schemes will be redesigned to the CARE model.

3.3 Funding and administration arrangements

The schemes do not have an investment fund. Employer and employee contributions are paid to the sponsoring government department, which pays pension benefits, netting off contributions received. None of the schemes has a pension board or scheme advisory board yet, although there are boards monitoring administration delivery.

In England and Wales the scheme is administered by Capita via an outsourced contract. The Scottish Teachers’ Superannuation Scheme is administered by the Scottish Public Pensions Agency and the Northern Ireland Teachers’ Superannuation Scheme by the Department of Education (Northern Ireland).

The employers include local authorities, further education institutions, higher education institutions and over 3,000 independent schools, academies and colleges. There has been rapid recent growth in the number of academies participating in the scheme. Under the Teachers’ Pension Scheme, all teachers aged between 16 and 75 employed by a participating employer are eligible to join the scheme. In addition, the 2013 Act allows membership for those who control or supervise teachers or provide services ancillary to education.

3.4 Accounts and valuations

Scheme accounts are audited annually by NAO, Audit Scotland and the Northern Ireland Audit Office, respectively. The schemes last had actuarial valuations by the GAD as at April 2004. Like the NHS schemes, the teachers’ schemes have in the past been valued by reference to a ‘notional fund’ of the assets that might have accumulated had surplus contributions been invested. This approach was followed largely to demonstrate that employer contributions had been set fairly, which is more difficult to demonstrate in an unfunded scheme than in a funded scheme.
4. **Civil Service**

4.1 **Background and history**

The Principal Civil Service Pension Scheme (PCSPS) has its origins in various 18th century schemes for specific categories of workers; an unfunded non-contributory scheme for all civil servants began in 1810. It was historically the largest homogeneous public scheme, as it included office and manual workers, men and women, etc. Member contributions (towards their own benefits) were introduced in 1822, abolished in 1824, reintroduced in 1829, re-abolished in 1857, and re-reintroduced in 2002. The early changes led to the practice of protecting existing members against detriment.

4.2 **National oversight and types of scheme**

The Cabinet Office produces rules, monitors the external administration services, and undertakes scheme accounting services for the PCSPS in England, Wales and Scotland. The Northern Ireland Civil Service has its own scheme – the PCSPS (NI) managed by the Department of Finance and Personnel. The schemes have fundamentally the same design. Prior to the 2015 reform, they comprise several defined benefit sections, including final salary and the newest (2007) section being CARE. The schemes will be redesigned to an exclusively CARE model. There is a separate ‘Partnership’ stakeholder DC scheme, which post-2002 employees can join as an alternative to the DB sections, but this is not technically part of the PCSPS.

One provision of the 2013 Act is for a review of pension age for Ministry of Defence (MOD) police and fire workers. They are in the PCSPS rather than the police and fire schemes and would thus have their pension age raised to 65 (and then higher in line with future changes in state pension age) as part of 2015 scheme reform if treated the same as other PCSPS members.

4.3 **Funding and administration arrangements**

The schemes do not have an investment fund. Employer and employee contributions are paid to the Cabinet Office, as scheme manager. The scheme administrator, under contract to the Cabinet Office, pays pension benefits to members.
Since 2010, the main PCSPS has had a Scheme Management Board, which has delegated responsibility for scheme management including compliance, internal controls, risk management, and contract management of the external administrator. This board has employer, member and independent representation. There is also a joint committee on superannuation with responsibilities similar to those of a Scheme Advisory Board under the 2013 Act. The PCSPS (Northern Ireland) established a Governance Group in 2010 which monitors service delivery and plays a role in ensuring that pension members and their employers have involvement in the process for reviewing scheme costs.

In England, Wales and Scotland, the scheme has had different administration models over the years. By 2000, active members were administered by 11 separate administrators, most of them being parts of the larger government departments, with deferred members and pensioners administered separately (by Capita Hartshead). By 2010, the remaining separate administrators were combined into an organisation called MyCSP, which was then a government function. MyCSP was converted to a mutual joint venture in 2012 with joint ownership by an employee benefit trust, Equiniti Paymaster and Government. MyCSP administers the scheme from four locations, and plans to bring the deferred member and pensioner services in-house in 2014. In Northern Ireland, the scheme is administered by the Department of Finance and Personnel.

There are over 250 scheme employers, who have signed participation agreements with the Scheme Management Board. It is likely that some non-departmental public bodies whose schemes will be terminated as a result of the 2013 Act will join the scheme. Also, from Autumn 2013, the PCSPS may permit existing members whose employment is transferred to a private sector employer to remain in the scheme, which would bring private sector employers into the PCSPS for the first time.

### 4.4 Accounts and valuations

Scheme accounts are audited annually by NAO and the Northern Ireland Audit Office, respectively. The last two audits of the main scheme have been qualified due to problems with the quality of member data received from employers and held by the administrators. The schemes last had actuarial valuations (by the actuary at the time, Hewitt Bacon & Woodrow) as at 31 March 2007.
5. **Armed Forces**

5.1 **Background and history**

In the 16th century taxes were introduced for the relief of old and injured soldiers and sailors, and hospitals were later built at Chelsea and Greenwich. An officer could sell his position to his successor for a lump sum or annuity, until this was abolished in 1871. By the 19th century there were various ad hoc arrangements in place. Naval and marine pension schemes date from 1865 and army pension schemes from 1884.

5.2 **National oversight and types of scheme**

The current Armed Forces Pension Schemes (AFPS) extend across the UK. The MOD produces regulations and monitors scheme administration. There are several current AFPS established by Royal Warrants and orders, the largest being AFPS 1975 and AFPS 2005 but with others specifically designed for reservists and other cohorts. These are tri-service schemes with identical benefits across all three services, including Part Time Volunteer Reserves. AFPS are the only UK public service schemes that do not require member contributions.

There is also an Early Departure Payment (EDP) scheme through which, after reaching 18 years of service and age 40, service personnel are paid a tax free lump sum at the point of leaving the Services and a regular monthly income thereafter until State Pension Age. The Ministry of Defence states that the EDP is paid for several reasons, to pull service personnel to a mid-career point, but then compensate them for not being allowed to serve a full career, and finally to smooth the re-entry into civilian life. Most service personnel leave within a few years and only a very small percentage (currently 2%) reach the Normal Pension Age.

Overall this scheme is believed by the MOD to be the most generous large pension scheme in the UK. The armed forces are exempt from pension automatic enrolment rules and from some other employment legislation.

The current schemes will be reformed in 2015, in accordance with the IPSPC, to the CARE model with a Normal Pension Age of 60, retaining the EDP scheme but moving the qualification threshold to 20 years of service and age 40. MOD aims to combine the AFPS into a single scheme with these reforms.
5.3 Funding and administration arrangements

The scheme has net outgoings, with payments exceeding employer contributions for many years as the armed forces have reduced in size.

There is no pension board but there are plans for a board to be created in 2014. The scheme (including compensation and EDP functions) is administered by the Service Personnel and Veterans Agency, a business unit of the MOD.

5.4 Accounts and valuations

Scheme accounts are audited annually by NAO. The scheme last had an actuarial valuation by the GAD as at 1 April 2005.

6. Police

6.1 Background and history

The first police pension scheme was brought in for the Metropolitan Police in 1829. In 1840 county police forces were required to have superannuation funds, and this was extended to boroughs in 1859, but benefits were at employer discretion. The early schemes were supplemented with money from fines for selling beer on Sunday, fines paid by officers for misconduct, fines for drunkenness and assaults on the police, and proceeds from used clothing sales. Cash deficits were met through the police rate. The scheme was extended to all police in 1890, with further sources of funding from customs and excise duties such as pedlars’ and chimney sweepers’ certificates. This was the first scheme to introduce dependants’ benefits (in 1918). The scheme was converted to a pay-as-you-go basis in 1921 as the funds were inadequate, and the scheme was then made consistent across all forces. The current police pension schemes are open to all police officers; police staff are eligible for the local government or civil service scheme.

6.2 National oversight and types of scheme

There are Police Pension Schemes (PPS) for England and Wales, for Scotland and for Northern Ireland, with fundamentally the same design. For the PPS England and Wales, the Home Office produces regulations and works with scheme administrators; in Scotland this is done by the Scottish Public Pensions Agency and in NI by the Department of Justice of Northern Ireland.
6.3 Funding and administration arrangements

Like the LGPS, the scheme is administered locally, as a Chief Constable responsibility. There are 43 administrations in England and Wales, one in Scotland, and one in Northern Ireland. In many cases in England and Wales the administration work is subcontracted to the local authority; alternatively, some forces use third-party administrators or do the work themselves. There is no national scheme board, although the Police Negotiating Board considers pensions-related matters. There are forums for administrators to share technical knowledge.

6.4 Accounts and valuations

Unlike in the LGPS, the separate administrations do not produce annual reports of the schemes, nor appoint actuaries or separate auditors. The administration functions have been audited as part of the audit of the police force. The scheme was last valued by GAD in 2008 and will continue with four yearly valuations.

7. Fire fighters

7.1 Background and history

The first scheme specifically for full-time firemen dates back to the Fire Brigade Pensions Act 1925. Like the police scheme, originally the fire fighters scheme had investment funds. The scheme was reformed in 1947 on terms analogous to the police pension schemes, retaining local administration.

7.2 National oversight and types of scheme

Originally the Home Office was responsible for making regulations for the fire fighters pension scheme in England, Wales and Scotland. There is now a separate FPS for each of England, Wales, Scotland and Northern Ireland, looked after by the DCLG, Welsh Assembly, Scottish Public Pensions Agency and the Department of Health, Social Services and Public Safety (Northern Ireland), respectively. The schemes have fundamentally the same design.

There is no national scheme board. There is a fire fighters’ pensions committee, with representation across the UK, which acts as a policy review group and discusses matters of interest to scheme managers, employers, unions and others.

The 2013 Act authorises a new scheme to admit fire fighters employed by a fire and rescue authority in England and Wales, or in Scotland, by the Scottish Fire and Rescue Service. The current schemes are final salary but will be reformed to a CARE model by April 2015.
7.3 Funding and administration arrangements

The scheme is administered locally by the fire and rescue authority. There are 46 fire and rescue authorities in England, three in Wales and one each in Scotland and Northern Ireland. As in the PPS, the administration work is sometimes subcontracted to the local authority or to third-party administrators. The scheme is not funded. Since 2006 there has been a pension-specific account at each authority so that net cashflow can be identified.

7.4 Accounts and valuations

As for the PPS, the separate administrations do not produce annual reports of the schemes, nor appoint actuaries or separate auditors. The administration functions are audited as part of the audit of the fire and rescue authority. GAD valued the scheme nationally for the first time as at 2008, and will continue with four yearly valuations.

8. The Judiciary

8.1 Background and history

The history of the judicial pension scheme (JPS) consists of various pension schemes established in primary legislation, beginning with an 1832 Act to pay retired Lord Chancellors an annual pension.

8.2 National oversight and types of scheme

The current open scheme for the judiciary as a whole is the scheme established under the Judicial Pensions and Retirement Act 1993. Under the 2013 Act the JPS will be a single scheme established by regulations by the Ministry of Justice. The JPS is the smallest public service pension scheme with about 2,200 active members (being office-holders rather than employees), plus a few deferred pensioners and about 1,700 pensioners. Like the Armed Forces scheme, the JPS extends across the entire UK (Northern Ireland has legislative powers in relation to that part of the judiciary which is devolved). Scheme legislation is the responsibility of the Ministry of Justice, who also administer the scheme.

There is no scheme board.

The JPS is not a registered pension scheme, which means the Finance Act 2004 does not apply to it.
The 2015 scheme will be similar in design to the PCSPS and is expected to remain so. It will be a registered scheme. Unlike the other schemes, JPS regulations will be subject to the ‘affirmative resolution parliamentary procedure’ ie approval by both Houses of Parliament, rather than the negative procedure, where statutory instruments come into force if neither House objects.

The Ministry of Justice are considering the position of fee-paid judges following the O’Brien court ruling that part-time workers should have equal pension rights.

8.3 Funding and administration arrangements

The scheme is administered by the Ministry of Justice’s Pension and Judicial Rewards Team.

8.4 Accounts and valuations

The last full scheme valuation by GAD was carried out as at 31 March 2009.

Notes:

In this annex, unless otherwise stated, references to a scheme cover the background and history for schemes generally in England, Wales, Scotland and Northern Ireland, as appropriate.

The background and history sections of this annex are drawn from the following documents:

- ‘Public Sector Pensions’ by Gerald Rhodes (George Allen & Unwin Ltd, 1965), Published for the Royal Institute of Public Administration
- ‘Old Age in English History’ by Pat Thane (Oxford University Press, 2000)
- audited scheme accounts
- 2012 report of the Independent Review of Police Officer and Staff Remuneration and Conditions (the Winsor Report)
- Hansard.

This report is not a statement of the law. Readers should refer to the 2013 Act and explanatory notes and other legislation for a full statement of the law.
Public service pension schemes
A summary of governance and administration

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