

**4<sup>TH</sup> March 2009**

**NAPF STATEMENT TO CHANNEL 4  
LOCAL AUTHORITY PENSION FUNDS**

**STATEMENT**

Local authority pension funds are subject to extensive regulation overseen by the Department for Communities and Local Government. Local authority pension funds are required to make responsible decisions and to take independent investment and actuarial advice. They also ensure that the scheme remains solvent. All strategic investment decisions are recorded and made in accordance with Statements of Investment Principles and Funding Strategy Statements, both of which are required to be in the public domain.

Local authority pension funds invest over the long-term so they are accustomed to managing short-term fluctuations in the stock market. The current global downturn presents particular challenges to pension funds in both the private and public sector because, no matter how well they have diversified, all asset classes are feeling the effects. However, it should be remembered that pension funds are investing over the long-term to pay benefits in forty to fifty years time.

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**FURTHER BACKGROUND**

The lower exposure to equities of private sector defined benefit schemes compared to local authority pension funds is a product of the different funding and accounting rules that apply to each. These rules influence the asset allocation of private sector funds, including encouraging a more bond-based approach than that adopted by local authority funds.

Under UK regulation the specific asset allocation used for each scheme is a function of the particular circumstances of the scheme. It is entirely normal for

schemes to invest in differing proportions of assets. As for the accounting rules quoted (FRS17), these rules are subject to widespread criticism and many within the pensions sector do not regard them as providing a meaningful indication of long-term scheme funding levels.

There is nothing intrinsically wrong with local authority pension funds on average having a higher exposure to equities than the average private sector scheme. Indeed, there are also differences within the private sector, for example, open private sector schemes have a higher exposure to equities than closed private sector schemes.

Over the long term, equities provide higher returns than other assets. According to the UBS Global Asset Management report Pension Fund Indicators 2008, between 1963 and 2007, the average annual return (based on real values) in the following asset areas was:-

UK equities – 6.6%

Gilts – 2.6%

Cash – 2.3%

Therefore, a high exposure to equities, over time, can be expected to reduce the cost of providing a given level of pension.

In addition, a recent analysis of the stock market carried out by Fidelity International of the Barclays Equity-Gilt Study found that every rolling decade of negative equity returns has been followed by a decade of positive average annual returns. This suggests that recent poor returns are likely to be succeeded by a period of growth.

The average local authority pension amounts to approximately £4,000 per year. It is funded by both employer and employee contributions. Local authority pensions have been subject to various reforms in recent years, for example, raising the normal retirement age to 65, increasing employee contribution rates from April 2008

and consultations are currently taking place on future cost sharing between employees and employers.

**ENDS**

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