

# Local Government Pension Fund – the Economics

The Local Government Pension Scheme has three sources of income – employer contributions, member contributions and investment income. Investment income comes from two sources – regular dividend and interest payments arising from ownership of assets, and capital gains – or losses - arising from the sale of assets. Income is placed in a Fund and invested. In this way the LGPS is unique in generating around one third of its own income.

## *There are some things you should know about your money in the LGPS:*

1. The LGPS is strongly 'cash positive'. Member benefits paid out in 2008-09 were £5.6 billion, against gross income of £10.2 billion
2. The total combined value of all the LGPS fund assets in England, Northern Ireland, Scotland & Wales in 2008 was £143 billion, equivalent to about \$235 billion
3. That's five times greater than the largest single pension fund in the UK – the BT fund and 50% greater than the total amount invested through UK National Savings – £94 billion
4. It's also greater than the fourth largest pension fund in the world, the California Public Employees' Retirement System (CALPERS)
5. So the combined funds of the LGPS add up to the fourth largest pension fund in the world
6. The total assets of the 89 LGPS pension funds are equivalent to about 10% of the UK's Gross Domestic Product (GDP)
7. 60% of the LGPS Fund is invested in equities or shares – in UK and global stock markets
8. By 2008, over £1 billion was invested in each of the top four FTSE companies, and the LGPS Fund owned at least 1.3% of seven of the top nine companies in the UK
9. £4.7 billion is invested in the big four banks - Barclays, HBOS, HSBC, and RBS
10. £2.3 billion in the 49 largest companies delivering UK public services in local government, the NHS and the utilities
11. Fund management costs have been rising in recent years, drawing off an average of nearly 11% of annual investment income in 2008. They increased from 6% in 2002. In the most extreme case – in the Shropshire fund – fund management costs amounted to over 30% of 2008-09 investment income
12. Up to £2.754 billion was borrowed by employers from the LGPS in England and Wales – up by £300,000 from 2007/8. Had this money been invested for maximum return, the funds would have gained a further £124 million in investment income

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