

Scheme Advisory Board

Response to Valuation and Employer Risk consultation

The Board

The Local Government Pension Scheme Advisory Board (SAB) is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

The purpose of the Board is to be both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues.

It will consider items passed to it from the Ministry for Housing, Communities and Local Government (MHCLG), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the MHCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

The Board has membership representing both employers and scheme members although its members may have different views of the merits in principal of the proposals this response seeks to address both policy and practical issues contained in the consultation.

Changes to the valuation cycle

The consultation proposes aligning the triennial LGPS fund valuations, undertaken by fund actuaries, with the quadrennial Scheme valuation undertaken by GAD from 2024.

In order to align the timetables the consultation proposes either a 5 year valuation for 2019 or a 3 plus 2 transition timetable with another valuation due in 2022.

Board response

The SAB can see the logic of aligning the valuation timetable but is concerned at the additional burden on administering authorities and the impact on employer budget cycles.

Although the 3 plus 2 transition option ensures a review before 5 years for those employers who would benefit from it will impose an additional administrative burden (and cost) in respect of those employers who may not. It will also place a significant burden on administering authorities at a time of increasing changes to the scheme and demands from all stakeholders.

A 5 year valuation period would avoid such a burden but risks missing a necessary review if interim valuations are not used effectively.

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New powers to revisit funding between valuations

In order to mitigate the risk of longer valuation periods the consultation proposes the re-introduction of interim valuations and widen the ability to review employer contributions between valuations.

Both of the above would be subject to guidance issued by the SAB to govern the circumstances in which they can be used.

Board response

The SAB support the greater flexibility provided by interim valuations and contribution reviews where the reasoning is sound and the circumstances clear to all parties.

The Board would like to discuss further the scope and nature of the SAB guidance in this area in particular with respect to transparent reporting requirements (including the basis of assumptions used) and the active participation of scheme employers in the process.

Flexibility on exit payments and deferred employers

The consultation proposes LGPS administering authorities should have the ability to spread employer exit payments over a reasonable period of time. This would regularise existing practice by introducing specific regulatory powers.

The consultation also proposes that the concept of Deferred Debt Arrangements recently introduced by DWP into private sector pension schemes be incorporated into the LGPS via Deferred Employer status.

Deferred employers being those with no active members who have satisfied the LGPS administering authority that it has sufficient covenant in place not to place the fund under undue risk.

They would remain as deferred employer in the LGPS and be required to pay ongoing deficit contributions until such time as they resume active membership or formally leave the scheme without a deficit.

Board response

The SAB supports the spreading of exit payments provided the administering authority is satisfied that it provides the best method of reducing risk to other employers. Furthermore the SAB believes that such arrangements should be subject to transparent reporting in the annual report and accounts.

Deferred employer status must be subject to robust guidance and transparent reporting. The SAB would wish to discuss the extent, content and statutory nature of such guidance in more detail before committing its support.

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The Board would like to explore how guidance can ensure that it effectively deals with the appropriate application of Deferred Employer status to minimise risk to other scheme employers in particular from employers with reducing solvency over time. Guidance should also seek to ensure that administering authorities continue to access full exit payments where possible to provide greater certainty for future funding and avoid a situation of risk being unnecessarily deferred by employers.

Exit Credits

In April 2018 regulations were amended to provide for the payment of exit credits where employers left the scheme in surplus (the opposite of existing exit payments).

Since that time it has emerged that a number of contracting authorities have 'side agreements' in place which effectively remove the risk of deficit on exit from service providers who are admitted employers in the LGPS for the period of the contract.

These proposals would allow fund actuaries to take such side agreements into account when calculating the amount of any exit credit.

Board response

The SAB supports in principle the changes to allow fund actuaries to take side agreements into account for exit credits. However it is concerned that administering authorities do not become involved in legal disputes between contracting authorities and service providers and would wish to explore how regulations could be drafted to avoid such a situation.

Employers required to offer membership of the LGPS

The consultation proposes that further and higher education establishments be changed from scheduled to designation bodies under the LGPS regulations.

In effect they would change from a situation where they must offer LGPS to new employees to one where they may offer LGPS.

The consultation proposes no change for existing LGPS members who would retain their right to be in the scheme.

Board response

While acknowledging that evidence will be gathered through the consultation process. The SAB is concerned that this proposal was not subject to sufficient debate with the Board, or the collation of the necessary evidence of the potential impact on the scheme (for example cashflows), prior to its inclusion in this consultation.

This is of concern given that the SAB's tier 3 project, the initial output from which included amongst many others the option under consultation, was commissioned to investigate, report and make proposals on issues such as the status of Higher and Further education establishments.

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Recognising that there were different views on this matter among SAB members, the majority of the Board agreed the response should propose that further consideration of the policy be deferred until the third tier employer's project has reached a view on this matter.

The SAB is aware that there are issues around the membership of the LGPS for HE and FE establishments and would be happy to discuss with MHCLG potential options and solutions which address those issues while protecting the rights of scheme members once the Tier 3 project has come to its conclusion.

Scheme Advisory Board
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