

Scheme Advisory Board

Scheme Advisory Board advises caution around employer contribution rates and emphasises the importance of stability

At its meeting on 10 October 2022 the Local Government Pension Scheme Advisory Board (the “Board”) discussed emerging results from the current round of triennial local fund valuations, with calculations being made “as at” 31 March 2022.

It was noted that as a result of general market performance over the three-year period to 31 March 2022, it is expected that a good proportion of funds are likely to move into surplus or improve their surplus position.

It is understandable that this would naturally lead to discussions between fund employers, particularly the administering authority as a fund employer itself, and the fund’s actuarial advisers about employer contributions and whether being 100% + funded could mean reductions are desirable.

In the context of extreme financial pressures being faced in local government, by all types of LGPS employers, it is understandable that the need to find cost savings is paramount.

However, since 31 March 2022 the Board also noted the impact of the war in Ukraine, increasing rates of inflation and wider global economic uncertainty as well as changes in interest rates in the G7 countries which have resulted in greater financial market turmoil.

Thus while LGPS funds may show a degree of surplus “as at” 31 March 2022, the Board agreed that, notwithstanding the current economic and wider funding pressures, we would expect discount rates to be set at a prudent level, and one which recognises this uncertainty. The Board acknowledged that this might mean increases in the primary, or future service, rates for employers which may offset, in whole or in part, any reduction in secondary contributions arising from the improved funding position.

In light of this discussion, whilst understanding and recognising the extremely challenging position for local government finance, the Board would ask that administering authorities and other fund employers have regard to the desirability for long term stability in pension contributions to smooth any surplus and deficits, and to allow for effective pension fund cash flow planning.