

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

TEESSIDE PENSION BOARD REPORT

22 JULY 2019

STRATEGIC DIRECTOR: FINANCE, GOVERNANCE AND SUPPORT, JAMES BROMILEY

CONSULTATION ON CHANGES TO VALUATION CYCLE, EXIT PAYMENTS AND ACCESS TO
THE LGPS FOR SOME EMPLOYERS

1. PURPOSE OF THE REPORT

- 1.1 To advise Board Members of a consultation on changes to the regulations governing the Local Government Pension Scheme (LGPS), and to ask Board Members for any comments they have that can be taken into account in drafting the response to the consultation on behalf of the Council as Administering Authority of the Fund.

2. RECOMMENDATIONS

- 1.2 That Board Members note this report and agree provide any comment on the consultation to the Head of Pensions Governance and Investments.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

- 4.1 The Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation document on 8 May 2019 entitled "LGPS: Changes to the local valuation cycle and the management of employer risk policy", (Appendix A) opening a 12 week consultation (ending 31 July 2019).

5. CONSULTATION PROPOSALS

- 5.1 The consultation covers the following areas:
- changes to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
 - a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
 - proposals for flexibility on exit payments
 - proposals for further policy changes to exit credits

- proposals for changes to the employers required to offer local government pension scheme membership. More specifically the proposal is “to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.”
- 5.2 The rationale for moving to a four-yearly valuation cycle is to allow all public service pension schemes to be assessed at the same time: “Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.” The consultation document also asserts that “Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs” although less frequent assessment does not necessarily mean greater long-term stability.
- 5.3 In order to move the LGPS to the same valuation cycle as the other (unfunded) public service pension schemes, the next full valuation would be 5 years after the current valuation, as at 31 March 2024. Options are considered to allow an interim valuation to be carried out during this 5 year period - recognising that 5 years is too long a period to fix employer contributions.
- 5.4 The consultation proposes allowing greater flexibility for exiting employers over payment of any exit debt, but only in circumstances where the employer has “a sufficient covenant not to place the fund under undue risk”. In these circumstances the employer would continue to participate in the scheme and make deficit contributions – effectively spreading the cost of the exit payment.
- 5.5 The consultation also proposes to restrict the payment of exit credits to ceding employers where some or all of their surplus results from a ‘pass-through’ arrangement where the ceding employer’s pension liabilities were effectively guaranteed by another scheme employer. The proposal is that administering authorities must take into account a scheme employer’s exposure to risk in calculating the value of an exit credit.
- 5.6 The document lists changes to the further education and higher education sector in recent years which have made it clearer that employers in these sectors are not underwritten by guarantees from Government. It can be argued therefore that it is an anomaly that employers in these sectors should be required to continue to give automatic access to the LGPS to their non-teaching staff, with all the associated cost and risk of defined benefit pension provision that comes with this. The consultation proposes to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Instead, each such body would have the choice on whether to give access to the LGPS to new starters, while their existing employees in the LGPS would have a protected right to membership of the scheme.

6. NEXT STEPS

- 6.1 AON the Fund Actuary has recently produced a 'Spotlight' paper setting out their responses to the consultation (Appendix B). This raises significant practical issues and concerns around the proposed change to the valuation cycle and the potential effect this could have on (for example) the investment planning cycle and on employer covenant monitoring.
- 6.2 Pension Fund employers are able to respond to the consultation – the expectation is those in the further and higher education sector will have a particular interest in doing so.
- 6.3 The Pension Committee has agreed that the Head of Pensions Governance and Investments formulates a suitable response to the consultation taking into account comments from the actuary and, following consultation with the Chair and Vice Chair, submits this to MHCLG by the 31 July 2019 deadline.

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