



LOCAL PENSION BOARD

3 DECEMBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND ADMINISTRATION – CURRENT DEVELOPMENTS

Purpose of the Report

1. The purpose of this report is to inform the Board of relevant issues relating to administration of the Fund.

Background

2. The Pensions Section is responsible for the administration of Local Government Pension Scheme benefits of the Leicestershire Pension Fund's 90,000 members.

Current Developments

National 'cost cap' – Unfunded Schemes

3. Every four years a valuation is made of the various public sector pensions schemes. This is to assess the overall operation and viability of the schemes and is separate from the Leicestershire Fund's local triannual valuation.
4. For unfunded schemes (e.g. Teachers, Police, Fire, NHS etc.), initial results from the HM Treasury Employer Cost Cap (ECC) process show the cap has breached below the expected cost level. In essence this means that employee related factors are expected to have a reduced financial cost, for example a reduction in future life expectancy. Under the scheme rules this is likely to result in members receiving improved pension benefits over the period April 2019 to March 2023.
5. The setting of employer contribution rates for un-funded schemes is based upon the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate. The SCAPE rate reflects long term economic projections. A reduction in the SCAPE rate from CPI + 2.8% to CPI + 2.4% was confirmed at the Budget delivered to Parliament on 29 October 2018. The reduction in the rate will result in an increase in the amount employers pay into the unfunded schemes.

6. There have been indications that additional funding will be made available, but there are no details on the extent or longevity of this funding.

National 'cost cap' – LGPS

7. In the case of the funded LGPS schemes in England, the Scheme Advisory Board (SAB) operates an additional cost cap process. The process needs to be completed before the ECC is tested. It is not possible at this stage to give any indication of what the outcome might be.
8. Any change to the SCAPE rate, referred to above, has significant implications on the administration of the LGPS as actuarial factors used in various calculations have to change, e.g. early or late retirements, scheme pays for annual allowance, transfers and divorce calculations will need to change. The Local Government Association is looking at providing a pragmatic solution for LG Funds to use to avoid delays, backlogs and potentially complaints building in these areas.

Four Year Valuations

9. There is a proposal that the LGPS scheme valuation under ECC process should be moved from the current triennial to a quadrennial cycle in line with other public service scheme valuations. This could also influence the timing of local fund valuations. Discussions with MHCLG and actuarial advisers will take place shortly to consider the implications of this change.

Leicestershire Valuation

10. It is proposed to adopt a more scientific approach to employer risk profiling for the next valuation. The Actuary will assess the risk of each employer, produce a risk score and categorise them. This will influence future employer rates, dealing more specifically with higher risk employers.
11. Consideration will be needed on the funding and investment strategies if this approach is adopted. For example individual employer's deficit reduction periods will be influenced by the risk of them defaulting.
12. Officers and the Actuary have agreed a high level valuation timetable that is subject to change. This is attached as appendix B.

National Section 13 valuation

13. The Government Actuary Department (GAD) has reviewed the actuarial valuation of the 91 LG Pension Funds, as at 31 March 2016.
14. The aim of the review was to provide an assessment for each Fund in terms of its compliance, consistency, solvency and long term cost efficiency. GAD has reported that in aggregate the LGPS is in a strong financial position and

funds have made significant progress since the 2013 valuation. The report highlights;

- Total assets for the LGPS have grown from £180 billion to £217 billion
 - Total employer contributions received were £6.9 billion per annum on average of which circa £2 billion per annum were deficit recovery payments.
15. Note the report also quotes funding levels on a standard basis, these are for comparison purposes and are not suitable for funding calculations.
16. The report included five recommendations. One of these is unique to the West Midlands Integrated Transport Authority so excluded from the list below.
- The Scheme Advisory Board (SAB) should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports [there are four main scheme Actuaries across the 91 LG Funds] to better facilitate comparison, with a view to making recommendation to MHCLG in advance of the next valuation.
 - SAB should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to MHCLG in advance of the next valuation.
 - SAB seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to MHCLG in advance of the next valuation.
 - All funds review their funding strategy to ensure that the handling of surplus and deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.
17. Officers are working with the Fund Actuary to ensure the proposed change to surplus and deficits is consistent with CIPFA guidance. The Fund is already confident the current deficit recovery plan is a continuation of previous plans. The other changes are more difficult to prepare for until more is known on the final recommendation. However, the proposal covered in the Academy Approach section above is expected to put the Fund in a better position.
18. From a range of metrics, to identify potential issues in respect of solvency and long term cost efficiency, GAD provide a rating for each fund. In total, 70 out of 89 funds tested (including Leicestershire) had green flags on all metrics.

19. A link to the report is provided below:
<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016>

Scheme Advisory Board (SAB) Separation Project

20. In 2015, SAB commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from their host authorities. SAB's concern was to ensure there is no conflict of interest between the administering authority and the interest of the pension fund.
21. Part of SAB's 2018/19 work program established a further project to see how the recommendations that emerged from the exercise undertaken in 2015 could be made to work in practice.
22. In August 2018, SAB invited interested parties to assist in developing options for change.
23. Four separation options have been proposed ranging from improvements in guidance through to the establishment of new non-local authority entities to manage funds.
24. Officers feel there is already a clear distinction of roles and responsibilities between the Council and Administering Authority in Leicestershire and this is widely understood and appreciated. It is unclear when Funds will receive the outcome of the proposals.
25. The Scheme Actuary, Hymans Robertson has provided a "hot topics" document that expands on a number of the areas in the report. This is included as Appendix C.

Funding Strategy Statement Consultation

26. In advance of the next valuation exercise for the Fund, two areas would benefit from changes. These are set-out below.

Exit Credits

27. In May 2018 regulations changed so as to require any surplus in an employer sub fund to be refunded back to that employer, when their last active member leaves the scheme, which was not the case previously.
28. Officers and the Fund Actuary have concerns about the financial impact to the Fund of this regulation change because there will be cases where a refund is required. However, Officers are working with the Actuary on two changes to try to minimise the circumstances where refunds of surpluses will be required in the future.

29. A new strategy is being developed for new admission bodies. Following a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), the admission body and the outsourcing employer agree a fixed rate (the outsourcing employer's contribution rate, or similar as calculated by the Fund Actuary) under a "pass through arrangement" as defined in the revised Funding Strategy Statement. This ensures any remaining surplus or deficit when the admission body contract ends goes back to the outsourcing employer. This also has additional benefits as the outsourcing employer is able to predict the cost of the contract more clearly (as the employer rate is known). This should assist the outsourcing employer in bringing down the overall cost of the contract.
30. It also negates the need for a market related bond for the admission body as the deficit or surplus moves back to the outsourcing employer. The risk to the Fund is covered by the guarantor which is automatically in place (the outsourcing employer) and any surpluses are retained in the Fund.
31. On the 17 September 2018 the Pension Board received a report regarding bonds and guarantors when Academy and Multi Academy Trusts outsource work to new employers under TUPE.
32. Officers believe the new pass through arrangement complies with Regulation 64(3) of the Local Government Pension Scheme Regulations 2013. Work with external Lawyers has commenced to develop new admission agreements to reflect the proposed new arrangement for all employers, including Academy and Multi Academy Trusts.
33. Officers believe the issue raised by the Department for Education (DfE) in correspondence with the Council that an Academy or Multi Academy Trust cannot act as guarantor without the approval of the Secretary of State remains with the pass through approach. However, we understand that this issue is currently being addressed at a national level by the Local Government Association who are expecting MHCLG to issue further consultation on Fair Deal in the LGPS by the end of 2018. Effectively the outsourcing employer retains the same level of exposure they would have had if they continued to employ the staff, or have a pass through arrangement in place via the admission agreement with the admission body.

Regulation 64(3) states;

64.(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing-

- (a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the

body which is the **related employer** [i.e. the outsourcing employer] in relation to that admission body; and

- (b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

As part of the review current employers that are likely to be in surplus or close to surplus, will have their employer rate reduced to avoid a potential surplus at cessation.

b. **Academy Approach**

The Fund Actuary currently uses 2010 data when assessing Academy employer rates. This will roll forward to use the latest available data for future assessments.

This is a technical change requested by the Actuary and the Funding Strategy Statement has been amended to reflect the change.

Consultation

34. The Funding Strategy Statement has been amended to reflect the proposed changes. The amended version is attached as Appendix A, with changes highlighted in yellow (pages 13 and 14 of Appendix A).
35. A consultation has commenced with the employers. Employer views will be considered and a final version will be brought to the next Pension Committee meeting for approval prior to implementation. The Local Pension Board will be provided an update on the matter at its meeting on 4 March 2019.

Recommendation

36. It is recommended that the Pension Board notes the report.

Equality and Human Rights Implications

None specific

Appendix

Appendix A - Revised Funding Strategy Statement

Appendix B - Valuation Timetable

Appendix C - Hymans Hot Topics

Background Paper

Report to the Local Pension Board – 17 September 2018
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=1122&Mid=5380&Ver=4>

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