Essex Pension Fund
PO Box 11
County Hall
Chelmsford
Essex
CM1 1LX

Essex County Council

LGF Reform and Pensions Team
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

Your Ref:
Date: 25 July 2019

Dear Sirs,

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk Policy consultation

The Essex Pension Fund welcomes the opportunity to comment on the proposals for changes to the LGPS local fund valuation cycle, flexibility on exit payments, further policy changes to exit credits and policy changes to employers required to offer LGPS membership. We are responding in our capacity as an Administering Authority within the Local Government Pension Scheme.

Changes to the Local Valuation Cycle

The fund does not agree with the proposal to move local LGPS fund valuations to a four-year cycle; apart from synchronising the LGPS valuation timescale with those of other (unfunded) pension schemes, there appears little justification for this move.

The consultation paper claims that "Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates" however most, if not all, LGPS Funds currently use a form a stabilisation, particularly in relation to tax raising bodies. Setting employer contribution rates every four years instead of every three years would make it harder, not easier, to maintain stable contribution rates.

We believe the paper's claim that the change would reduce costs is both marginal in the long term and, if migration were based on the "3 years, then 2 years, then 4 years" approach, would actually increase costs in the short term because more cycles equals higher actuarial and officer time costs. Even if the 5 year transition option was used it is likely that most, if not all funds, would need to undertake an interim valuation; meaning more cycles and again leading to increased costs in the short term.

The consultation document says, "now is the best opportunity to achieve consistency". However, there are no other consistencies between the unfunded schemes, which have a single valuation of liabilities only and set one single employer rate, and the LGPS (E&W) which has 88 valuations of both liabilities and

/…

assets and set the individual employer rates and deficit contributions for around 15,000 separate employers. We would question whether it is necessary or desirable to pursue this one consistency?

We do not believe that the proposals would achieve the stated aims of delivering greater stability in employer contribution rates and reduce costs and the rationale for this change is, therefore, weak.

A range of further provisions are proposed to mitigate the impact of the proposed change, including the ability of Funds to:

a) conduct interim valuations (within the four-year cycle) including the review of employer contributions;
b) have flexibility in relation to the termination payments required from exiting & deferred employers; and
c) take account of employer risk exposure in relation to exit credits.

The Essex Pension Fund's existing approach already adopts aspects of what is proposed in a) & b). The proposal c) arises out of unintended consequences of previous regulations when applied to "pass through" contribution arrangements when local authorities outsource services.

Flexibility on exit payments and deferred employers

The fund supports the spreading of exit payments provided the administering authority is satisfied that this provides the best method of reducing risk to other employers.

Any SAB guidance covering deferred employer status must ensure that other scheme employers are protected from the risk of such employers defaulting and that all scheme stakeholders are fully aware of the extent and nature of such arrangements.

Exit credits under the LGPS Regulations 2013

The fund supports the changes to allow fund actuaries to take side agreements into account for exit credits. However, regulations must be carefully drafted to ensure administering authorities are not dragged into contractual disputes between contracting authorities and service providers.

Employers required to offer LGPS membership

With regards to the proposal that the requirement for further education, higher education and sixth form colleges to offer new employees access to the LGPS is removed. Flexibility to determine this locally may be welcomed, however universal stakeholder consensus is unlikely.

The fund is concerned about the potential impact on future cash flows and scheme membership profiles which could result from this proposal and impact on remaining employers. The fund would wish to see detailed impact analysis before committing to a view on this proposal.

/…

The fund is aware of the SAB's Tier 3 project which was commissioned to investigate, report and make proposals on issues such as the status of higher and further education establishments and suggests it may be advisable to wait for the outcome of that project before progressing this proposal.

Yours sincerely

David R Tucker

David Tucker
Technical Hub Manager

Telephone: 01245 431912
Fax: 033301 33966
Internet: www.essexpensionfund.co.uk
E-Mail: pensionenquiries@essex.gov.uk
Office Hours: Monday to Thursday 8.30am to 5.30pm,
Friday 8.30am to 5.00pm