Housing Bulletin – February 2019

Spotlight on the LGPS

It's a busy time on planet pensions with the fallout from the Social Housing Pension Scheme valuation and increases to auto-enrolment contributions. However, this month our focus is on the Local Government Pension Scheme (the "LGPS"). Grab a drink and settle in for some light reading, here's seven hot topics to take on board.

(1) Employer costs reassessed at 31 March 2019

The effective date of the next triennial funding valuation is almost upon us, and results will likely be released in late summer / early autumn. This valuation is different from the annual accounting valuation as it determines the contributions that will be payable over the following three years and beyond. What will the results show? The good news is that at a national level, indications are that assets have outperformed expectations over the last three years. The bad news is that this may be more than offset by lower discount rates (the actuarial proxy for expected future investment returns) resulting in a higher value placed on the liabilities.

So, what will the net result look like? Well, as usual, the results will vary across LGPS employers for a variety of reasons. What type of organisation are you? Which regional fund are you in? Who is your Fund Actuary? Have you closed your admission to new entrants? Do you have a guarantor backing your participation?

Now is a good time to bring your governance committee and Board up-to-speed on the costs and risks attached with your current pension strategy. This will provide a solid platform on which to consider what the LGPS valuation results mean for you.

When your results are released, we can review these for you and help you engage with your regional fund. For example, could the length of time be extended to pay off your deficit? We have experience of assisting LGPS employers with interpreting, and sometimes adjusting, their LGPS valuation results and contribution requirements.

Consider putting a note in your diary to get in touch with us when your LGPS results are received. We can provide a simple sense check of the results or engage with your regional fund on your behalf to find out whether there's any "room for manoeuvre" in your results.

(2) The employer cost cap – neither the cost to employers, nor a cap

When the reformed public service pension schemes were implemented, an 'employer cost cap mechanism' was introduced with an objective to protect the taxpayer from rising pension costs. If costs are assessed to rise above a certain level, then either benefits are reduced or employees have to pay more. To complicate matters, not all cost increases are brought into the calculation of this "cost". Confused? We're not surprised.

Whereas initially all eyes were on containing rising pension "costs", in practice the costs measured by this process have actually breached the 'floor' – that is, pension costs have reduced mainly due to a slowing down of expected future mortality improvements*. This triggers an increase to member benefits or a reduction in member contributions (or a bit of both). Now, and please bear with us, but the counterintuitive nature of this process means that although pension costs measured by the cost cap have reduced this does not mean that employer costs measured by the funding valuation will reduce. Confused? We're not surprised. We're happy to explain this in more detail over a drink!

** This doesn't mean that life expectancy is now falling. It just means that the expected future increase in life expectancy has slowed down. Think of lower inflation still means rising prices!*

The LGPS Scheme Advisory Board proposed some increases to LGPS benefits and tweaks to member contributions from April 2019 to rectify the cost cap breach. However, that is now 'old news' due to some 'new news'….

(3) Uncertainty isn't limited to Brexit…

In a long-running saga, the McCloud judgement ruled in December that the transitional protections for older members of the public service pension scheme for judges breached age discrimination rules (similarly for the firefighters' scheme too). The impact will likely apply to all public service schemes – including the LGPS – with remedies to correct the position to be agreed. As the Government lost this case it is looking to appeal, meaning this will drag on for a while longer yet.

Due to the uncertainty around this legal case – the potential appeal, the possible compensation due to unprotected members, the interaction with the cost cap process – the proposed changes to benefits and member contributions outlined above are on hold. Please file this under "watch this space".

(4) One for the accountants

The end of March is a popular time for accounting year ends, so Fund Actuaries will be busy crunching accounting positions as well as the actuarial position. It's useful to remember that whereas employers have limited leverage for negotiating assumptions used in the funding valuation, the accounting assumptions are yours. As a starting point, the Fund Actuary will suggest a generic set of assumptions across the board, but employers are able to select their own assumptions where relevant – for example, is the general assumption for pay growth in line with your short and long terms views?

We can help you review and propose alternative accounting assumptions which are more appropriate to your situation.

(5) Brand New Fair Deal

The Ministry of Housing, Communities and Local Government ("MHCLG") has opened a second consultation (following on from the first attempt in 2016) to strengthen the pensions protections that apply following an outsourcing.

Proposals include the introduction of a "Fair Deal Employer" which would broadly be all LGPS employers except further/higher education bodies and admission bodies (such as housing associations). Individuals employed by a Fair Deal Employer ("protected transferees") will be entitled to continuing LGPS membership with a service provider as long as they deliver an outsourced service or function. The requirement for a broadly comparable scheme will be removed.

Where services are being outsourced, actuarial and legal input on pensions is crucial.

(6) Some clarity for LGPS obligations for mergers

The same consultation looks to address concerns around triggering LGPS exit payments as a consequence of a merger or takeover. The proposal is for LGPS assets and liabilities to automatically transfer to the successor organisation. It is not totally clear if the intention is to prevent unintentionally triggering an exit payment or that the exit payment will be due from the successor. Presumably all will become clear in time.

As always, pensions due diligence is critical where mergers, takeovers and restructures are taking place. Triggering an LGPS exit payment is one risk of many to be explored.

(7) Exit surplus

Let's end with some rare good pensions news for LGPS employers. With effect from 14 May 2018, when an employer exits the LGPS (for example, ceasing pension accrual), the fund will be required to pay an 'exit credit' to the exiting employer where there is a surplus in respect of its pension liabilities. But just to emphasise, in case you missed that important little caveat, you only get an exit credit if there's a surplus!

We can help you to regularly monitor your exit position, as well as spot any split infinitives.

How First Actuarial can help

First Actuarial provides independent, pensions advice to more housing associations than any other firm. To discuss your pension strategy, or any other pension matters, please contact your usual First Actuarial consultant, or any one of our nationwide team of housing consultants.

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