Housing Bulletin – July 2019

LGPS Consultation – Valuation Cycles + Debt Risk

Our June Bulletin covered the significant risk that many organisations face through their participation in the Local Government Pension Scheme (the "LGPS") relating to cessation debt triggers. This area is particularly in focus at this time as the latest LGPS triennial valuation is now underway with an effective date of 31 March 2019.

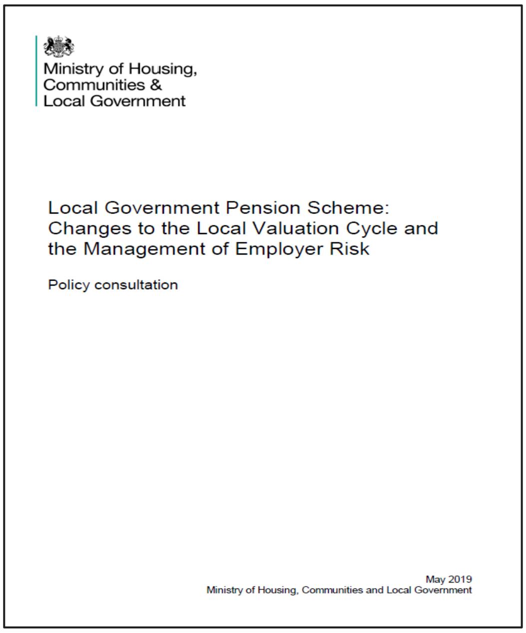
We also referred to Government consultation on both the treatment of cessation debts by administering authorities and potential changes to the current 3-yearly valuation cycle. This bulletin is a reminder of the key areas covered by the consultation and provides a link to First Actuarial's response.

LGPS Consultation – a reminder

In May 2019, the Government started a consultation on a number of matters relating to the LGPS. We believe that for the majority of our clients, the key areas of interest are as follows:

- moving from the current 3-year valuation cycle to a 4-year valuation cycle;
- a number of measures aimed at mitigating the risks of the above change to the cycle;
- proposals for greater flexibility on exit payments from the LGPS;
- proposals for further policy changes to exit credits; and
- proposals for policy changes to employers required to offer LGPS membership.

As highlighted in our June bulletin, the deadline for responses to the consultation was 31 July 2019.


Ministry of Housing, Communities & Local Government

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

Policy consultation

May 2019
Ministry of Housing, Communities and Local Government

First Actuarial Response

A link to First Actuarial's response to the consultation can be found here.

Whilst we have no material objection to the move to a 4-year valuation cycle, we are not supportive of many of the additional measures proposed (effectively "extra powers") to enable LGPS funds to mitigate the risk of moving to this longer period between valuations. We set out the reasoning for our contrary views in our response.

We are delighted that the Government is now starting the discussion regarding greater flexibility on exit payments – in particular, introducing a "deferred employer" status as a way for employers to defer paying an expensive cessation debt which would ordinarily trigger when their last employee in the LGPS leaves the scheme. Under these proposals, we understand an employer would be allowed to defer a cessation debt indefinitely and instead commit to paying ongoing funding contributions, provided the employer continues to pass certain tests (e.g. is viewed as sufficiently financially strong by the LGPS).

This is an area where First Actuarial has been lobbying Administering Authorities for many years. However, we believe that the consultation 'misses the point' in several areas relating to these debt payments. Our response has tried to redirect the debate on to the areas which really matter to our clients. For example, we believe that an expensive cessation debt should not automatically trigger in the first place when an employer's last active member leaves a scheme. There would then be no cessation debt to defer and no tests which need to be passed. We believe that a cessation debt should only be triggered if an employer wishes to volunteer a final payment to walk away from any future liability to contribute to the LGPS.

It is key to realise that the current regulations already provide administering authorities with considerable flexibility on cessation debts – indeed, we have successfully put in place alternative strategies with many LGPS funds. Crucially, the focus on 'least risk' valuation debts is not, in our opinion, justified where a strong organisation can still stand behind its liabilities over the long-term.

We will be continuing to monitor this important area on behalf of our clients and will, of course, keep you up to date with any major developments. However, with the Government's focus on other areas it seems unlikely that significant change in this area of legislation will take place anytime soon.

How First Actuarial can help

First Actuarial provides pensions advice to more housing associations than any other firm. We therefore have the experience to help you meet your objectives and make a real difference to your strategic planning. To discuss this bulletin, 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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