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

Response from Hampshire County Council as Administering Authority for the Hampshire LGPS Fund

We welcome the opportunity to respond to this consultation as the Administering Authority for the Hampshire LGPS fund.

We do not agree that changes are required to the local valuation cycle to deliver the stated objective of greater stability of employer contribution rates and reduce costs. The Hampshire Pension Fund has been able to achieve stable employer contributions despite market volatility and significant changes to the LGPS benefit structure over the last decade. Moving to a four year cycle will increase employer costs and could lead to material changes to rates at each valuation.

Question 1: Do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

No – we do not feel that the case has been made for this change, and it is incorrect to assume this change is necessary simply because the scheme valuation is now on a four year cycle. We do not see that it will result in efficiencies but rather will increase costs to employers (as for example a four year cycle is unlikely to satisfy audit requirements for annual accounts, therefore requiring employers to pay more fees to get interim information).

We do not see that having local fund valuations in line with the scheme valuation will result in greater stability of employer contribution rates – nor that there is currently a level of volatility that is unacceptable to employers – so we disagree that there is a problem that needs resolving.

A four year cycle could negatively impact employers as having a less frequent review of the investment strategy may mean that opportunities to refine it are missed, leading to a greater cost.

Question 2: Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

As above, we believe that this change would increase employer costs. We are currently able to estimate costs for new employers who join the scheme between valuations, and a longer period between valuations will result in a higher risk that the amount will require a material adjustment at the following valuation.

Question 3: Do you agree that the local fund valuation should be carried out at the same date as the scheme valuation?

No – we do not agree that the scheme valuation needs to be aligned with the local fund valuation.

Question 4: Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Although our preference is for no change, if this proposal goes ahead, we do agree with the preferred approach to transition.

Question 5: Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Yes, we agree that there should be the power to carry out interim valuations in addition to the normal valuation cycle even if this remains as a triennial valuation.

Question 6: Do you agree with the safeguards proposed?

Yes we agree that the safeguards offer a sensible way of ensuring that an interim valuation cannot be used by employers to take advantage of short term market conditions.

Question 7: Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Yes we agree that each Fund should set out in their FSS the circumstances under which a review could take place, but that opportunities for employers to request a review should be limited to avoid potential for them to take advantage of short term market conditions (as per the proposed safeguards around interim valuations).

Question 8: Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

We think that it would be appropriate for there to be national guidance on the way in which these tools can be used, but that policies should continue to be set at the local level, taking into account the local needs of employers within each Fund. This guidance should be included as part of the guidance for the FSS rather than being separate guidance, potentially from a separate body.

Question 9: Are there other or additional areas on which guidance would be needed? Who do you think is best place to offer that guidance?

As above, guidance would be helpful to ensure consistency of process but not necessarily outcome. Whoever is providing the guidance should have sufficient understanding of local Fund issues.

Question 10: - Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Yes we would be happy to see this option set out formally in the regulations but with the flexibility for the administering authority to agree such payment terms as it deems reasonable, based on the circumstances of the exiting employer. In some cases this may be that the exiting employer pays off the debt by continuing to pay, in cash terms, what they were paying when they had an active member.

However the first option should always be that the employer pays the amount due if they can afford to do so.

Question 11: Do you agree with the introduction of deferred employer status into LGPS?

No, we disagree with this proposal as we believe that the same outcome can be achieved through spreading the exit payment over a suitable period. Deferred employer status builds in more uncertainty as there is never a defined point of exit whereas if a final exit payment is calculated, it is just the terms of payment that need to be agreed.

Question 12: Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

We do not see that there is a case to have deferred employer debt arrangements. However if regulation changes are bought in to allow these, there should be adequate protection for the Fund (i.e. Funds should not have to agree to a request, nor terms that would benefit the individual employer over the interests of the employers remaining in the Fund).

Question 13: Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

It would be helpful to have a consistent approach across Funds but the detail of any arrangement should rest with the local Fund, taking into account its own circumstances.

Question 14: Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments

No, we agree that option 2 should be an alternative (spreading an exit payment) but that option 1 should always apply if possible. However we do not agree with the introduction of option 3 (deferred employer debt approach).

Question 15: Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

If deferred employer debt is brought in, there should be statutory guidance as to its application.

Question 16: Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

We agree that the introduction of the exit credit regulations caused unintended consequences whereby the letting authority retained the pension risk but the contractor received the surplus which arose in the period of the contract. This impact was particularly caused by the retrospective application of the regulation to existing outsourcings, where employers had not considered the possibility of an exit credit in their agreement with their contractors.

However, we do not believe that administering authorities should be involved in assessing risk sharing between the letting authority and the contractor. Rather the letting authority should be required to consider the possibility of an exit credit when entering into an outsourcing arrangement.

The unintended consequence of the previous regulation change could be resolved by amending the regulation to say that no exit credit is payable for agreements entered into before the date of the new change, allowing scheme employers to build the possibility of an exit credit into any new contracts.

Question 17: Are there other factors that should be taken into account in considering a solution?

We feel strongly that the administering authority should not be involved in side agreements between a letting authority and the contractor.

Question 18: Do you agree with our proposed approach?

We agree that HE/FE establishments should not have to offer the LGPS to new members, but that existing members should retain the right to be in the scheme. However we would want to see clear information provided to any employer considering stopping LGPS membership which explained that this may increase their costs in the short/medium term as closing the scheme will change the way in which their liabilities (and therefore their employer contributions) are calculated.

Question 19: Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

We are not aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.