MillionPlus

The Association for
Modern Universities

CONSULTATION RESPONSE

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

MillionPlus is the Association for Modern Universities in the UK, and the voice of 21st century higher education. We champion, promote and raise awareness of the essential role played by modern universities in a world-leading university system. Modern universities make up 52% of all UK undergraduates, and 37% of all postgraduates, with over one million students studying at modern institutions across the UK.

Modern universities are those universities that took title after 1992, and as such comprise the majority of higher education institutions offering the Teachers' Pension Scheme and the Local Government Pension Scheme to their employees.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Yes, though with the mitigations identified in our response to question 2.

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?

In principle we welcome the move to a four-year planning period as this would give more certainty from a financial planning perspective and allow greater time between valuations to make changes to the membership whilst retaining the valuation payment profile. However, in noting that the new system also allows the pension fund the opportunity between valuations to re-appraise the situation regarding contributions and/or funding, we would like to understand how in practice this would work and whether it would be fund-led or employer-led. The re-evaluation during a four year period, depending on how this is implemented, may mean that changes made to the membership profile trigger a re-evaluation within the four year planning period – and this may have a downside for a university if their changes cause concern to the pension scheme.

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

Yes

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

We agree that a 3-year valuation, and then a 2-year valuation period, to realign cycles is more appropriate than one single 5-year period.

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. Individual employers need the ability to engage with the process and challenge the assumptions and processes

Question 6 - Do you agree with the safeguards proposed?

There needs to be much more work on this to ensure individual employers are not disadvantaged. Currently in some schemes, local authority members are treated in a preferential way compared to other employers. The interim valuation has greater scope for this to happen so we would appreciate more information on how these safeguards will work.

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

Flexibility is absolutely vital, but employers also need some consistency to enable financial planning. The period between valuations is relatively short and so any changes to contributions between valuations would be at short notice. For this reason, employers would prefer to see contributions being set at reasonable levels following full valuations, with a reasonable but not excessive level of prudence applied, and for those contribution levels to be maintained.

As with our response to question 6, we would like to see consistency across schemes, and for employers to have the ability to separately decide how their assets are invested. This is not possible currently in some areas.

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?

Yes.

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

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?

Flexibility is vital. Employers should have the opportunity to spread repayments over a long period of time to ensure these are manageable. An option of up to 10 years would better than one single period of only 3 years.

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

Yes

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?

No. We believe it would be more appropriate for the exit amount to be capped on exit, but with the option to revalue and reduce as appropriate over time.

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?

Yes

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

Yes

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?

Scheme advisory board guidance should be available for options 2 and 3.

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?

Yes

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

Question 18 – Do you agree with our proposed approach?

MillionPlus has long-question the imposed obligation on modern universities (e.g. those that took university title after 1992) that mean some of them are unable to make decisions about the most appropriate pension scheme to offer employees. The current arrangement is a function of history, and does not make sense in the evolving HE landscape, with the introduction of new private providers (who have often low contribution DC schemes, and pre-92 universities who almost all have DC schemes for support staff).

However, proposals for changes to the employers required to offer local government pension scheme membership may look attractive at first glance, but they potentially offer only a small amount of pressure-relief for some employers. The guaranteed retention of existing staff within the LGPS means that only modest savings can be gained through the new employees' route (unless of course the organisation had significant staff turnover). This means that many employers will continue to be constrained by historic, centrally directed decisions that may harm their plans for long-term, sustainable investment in a high-quality student experience.

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?

Where employers have already established new arrangements, for example through the creation of subcos that provide employees with a DC pension scheme, experience has demonstrated that it is possible to do this without creating any negative equalities impacts.