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Pensions Bulletin

The Management of the Local Government Pensions Scheme (LGPS) and the Statutory Role of its Scheme Advisory Board (SAB)

The LGPS in England and Wales is split into 86 separate funds, which are run by the assigned council, known as the administering authority (AA). The Scheme has a total of 6.7 million members and total assets under management (as of 31 March 2024) of approximately £390 billion.

All employees of local government service have a statutory right to join the LGPS (under regulation 3) and must be automatically enrolled.

The LGPS was reformed from a final salary scheme to a Career Average (CARE) scheme in 2014/15 and employer contribution rates are set every three years by local fund valuations, with all the reports put in the public domain once the valuations are completed. In 2022 the funding level of the scheme was 107% and the average total contribution rates had fallen to 21.10%, this is lower than other public sector schemes. 2025 is a valuation year and the funding level is expected to stay above 100%.

The LGPS delivers significant value, the typical member is a 47-year-old woman earning c.£18,000 a year, for whom the average pension is c. £5,000 a year. It is also incredibly efficient; it costs around half that of the unfunded public sector Defined Benefit (DB) schemes and lifts many recipients out of scope for means tested benefits. It delivers each £1 of retirement income 50% cheaper than Defined Contribution (DC) schemes.

The LGPS Scheme Advisory Board (SAB) is a statutory body with the dual purpose of advising the Secretary of State on the desirability of making changes to the scheme and providing advice to administering authorities and local pension boards. Notable work of the SAB in providing this advice includes

- The LGPS code of transparency (The Code) which now has c170 investment managers signed up to it.
- The Annual Report which provides a single source of information about the status of the LGPS for its members, employers, and other stakeholders.
- Continually providing and improving key information about the Scheme as a whole.
- The Responsible Investment (RI), Good Governance projects and Gender Pension Gap[1] projects.

[1] Research commissioned by the LGPS Advisory Board showed that 74 per cent of active scheme members within the LGPS in England and Wales are women, with a mean actual pay of £18,807, and a mean total pension of £3,198. Whilst male members account for 26 per cent of active membership, with a mean actual pay of £27,532 and a mean total pension of £5,416.

AAs have statutory and fiduciary duties around the investment of pension funds and there are also existing statutory controls (the LGPS Investment Regulations 2016) that ensure that LGPS funds hold diversified portfolios, explain their approach to non-financial considerations and take professional advice in relation to their investment decisions.

In the LGPS, the administering authority normally delegates responsibility for managing the investments of the fund to a pensions or investment committee, where councillors take collective decisions on matters like setting their investment strategy, including a strategic asset allocation, their responsible investment policy and their choice of professional advisers.

The new Pension Schemes Bill going through parliament takes broad powers for the Secretary of State to direct LGPS funds and pool companies as to the development and implementation of their investment strategies and the Bill places a duty for LGPS AAs to co-operate with “strategic authorities” (defined in the Bill) to identify and develop appropriate investment opportunities to relation to ‘local investments’. Local investments is defined in the bill as

> *“local investments”, in relation to a scheme manager, means investments in, or for the benefit of persons living or working in— (a) the scheme manager’s area, or (b) the areas of the other scheme managers participating in the same asset pool company as the scheme manager”*

In summary, the LGPS is one of the world’s most successful pension schemes delivering pension payments to millions of workers across the country. It has consistently demonstrated financial resilience and operational stability. It provides pensions on behalf of 15,000 employers and close to 7 million workers in Local Government with the average sum received being around £5,000 p.a.

It is an open, democratically run, accountable, value for money pension scheme that provides valuable benefits to some of the UKs lowest paid workers - women in particular – and invests monies in its local communities. Without it a lot more people would be worse off than they already are.

Like all significant UK pension schemes, the LGPS takes responsible investment seriously and integrates climate considerations into overall risk management. It has a strong record of investing in local areas and the highest proportion of investments in domestic assets in the UK pension sector.

So, Reform, if you are the friend of the workers you say you are, leave it alone!

Fire & Re-hire To Alter Pension Terms ‘Unfair’

The Government have made amendments to a clause in its Employment Rights Bill that aims to constrain the use of 'fire and re-hire' as a method of achieving contractual variations. As a result of the amendments, the dismissal of an employee will be considered automatically unfair if it’s done to make a 'restricted variation' to the employment contract. The list of restricted variations includes 'a variation of any term or condition relating to pensions or pension schemes'.

We welcome this amendment as it’s clearly designed to constrain employers implementing detrimental changes to contractual pensions terms.

Defined Benefits Schemes Funding Update

The Pensions Regulator’s latest funding analysis shows a strong improvement in the health of UK DB schemes. Of those schemes with valuation dates between September 2022 and September 2023, 62% reported a surplus. This compares with 27% for those with valuation dates between September 2019 and September 2020 (the previous valuation cycle). Schemes in deficit have also seen progress, with shorter recovery plans – an average length of 4.4 years, down from the previously reported 6.3 years.

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