



# THE WEST MIDLANDS PENSION FUND

## The Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 Consultation on draft scheme valuation report and proposed employer cost cap

Consultation Response – January 2015

### Introduction

This document constitutes the West Midlands Pension Fund's (WMPF) formal response to the consultation on draft scheme valuation report and proposed employer cost cap, based upon GAD's draft report of 11 December 2014. This report follows the October 2014 consultation on a new Part 3 (Governance) of the Local Government Pension Scheme Regulations 2013 which came into force on 1 April 2014, as invited by the Department for Communities and Local Government by 21 November 2014.

The format of this response will aim to cover the WMPF's general comments and observations.

### General comments and observations

- 1.) It has been noted from the previous consultation, and also section 5 of the attaching Her Majesty's Treasury (HMT) document, "Public service pensions: actuarial valuations and the employer cost cap mechanism", that there are two cost control mechanisms which will run in parallel with one another:
  - An HMT process
  - An LGPS Advisory Board (LGPSAB) process

The cost caps set out for these two processes are as follows:

- HMT process: proposed overall cost cap 21.3% (**14.6% employer** 6.7% employee)
- SAB process: target cost 19.5% (**13% employer** 6.5% employee)

The WMPF would question why these processes are different and essentially why there is a need for two processes and not one? The WMPF would prefer simplification, in this case concerning cost management, and feel one process would aid this.

Whilst the WMPF accepts the proposed employer cost cap set out in section 1.3 of the GAD report, we feel that having two processes, with different cost caps, exacerbates confusion in this area.

- 2.) Section 4.3 of the GAD report and 5.5 of the HMT document confirms that no allowance for the 50/50 option is factored into the HMT cost cap, yet it is factored into the LGPSAB process.

The WMPF questions why there isn't a consistent approach maintained on this matter i.e. why could it not be that either both processes include an assumption for 50/50 or alternatively neither?

- 3.) Section 5.11 of the GAD report confirms that the HMT statutory employer cost cap will override that of the LGPSAB process and that, if triggered, the costs of the scheme will need to be returned to the level of the statutory cap, even if this moves the costs of the scheme away from the LGPSAB target of 19.5%.

Whilst we understand that the LGPSAB is in place to allow for the Board to recommend changes to the scheme arising from the Board's cost control process, we would query the purpose of the LGPSAB process if ultimately it is overridden anyway.

- 4.) The WMPF would ask for clarity on how the cost control mechanisms might apply in the context of the local (individual fund) environment versus that of the national environment. We understand that where the scheme costs rise above the ceiling or fall below the floor, the Act will require action to be taken to bring costs back to the "target cost" (employer cost cap) on the basis that a long-term increase would not be fair to taxpayers and a long-term decrease unfair to scheme members. This action is to take the form of either a change in the future benefit accrual rate or a change in member contributions. However, we would appreciate an open understanding of how this will apply at local level. For instance, if the target cost is breached at national level and action triggered, would it necessarily be reasonable for the action to be required, even though the target cost may have not been breached at local level?
- 5.) We understand that the proposed employer cost cap only applies to future service funding and not with a view to deficit funding. Therefore, with regards to the application of the employer cost cap, where a local level fund is closed to new members and therefore only funding deficit repair, how will the process apply?

Similarly, if a local level fund is already in excess of the employer cost cap i.e. potentially breached both the HMT and LGPSAB mechanisms, what action will be taken in this instance?

- 6.) Finally, with the application of required action, triggered by a breach, will there be discussions or consultation with practitioners as well as employers and members or will the action be automatic?

## **About the West Midlands Pension Fund (WMPF)**

The WMPF provides pension services to over 267,000 current and former employees of the seven West Midlands district councils and over 400 participating employers.

It is one of the largest funds in England and Wales, employing 115 full time equivalent members of staff and as at 31 March 2013 was valued at over £10 billion.

The WMPF strives to be a best practice organisation, delivering a customer-focused service, whilst providing value for money to its stakeholders.

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