Tier 3 employers in the LGPS

September 2018

Empower Results®

Table of Contents

Executive Summary

Background

The Local Government Pension Scheme Advisory Board is established under the Public Service Pensions Act 2013 to advise the Secretary of State for Housing, Communities and Local Government on the development of the Local Government Pension Scheme in England and Wales (LGPS), (the "Scheme").

Against the background of financial austerity and increasing pressure on the cost of providing pension benefits, the Scheme Advisory Board wished to explore options to protect local authority employers and taxpayers from the impact of scheme employers leaving the LGPS without any form of backing or sponsorship or guarantee to pay their outstanding liabilities. In the absence of any such guarantee, any unpaid liabilities on exit fall to be paid by other scheme employers within the same LGPS administering authority and by taxpayers as the final guarantor.

This report has therefore been commissioned by the Scheme Advisory Board to identify the potential funding, legal and administrative issues relating to Tier 3 employers and (in conjunction with the Board Secretariat) to identify options for change that would improve the funding, administration, participation and member experience with regard to Tier 3 employers.

Tier 3 employers are those employers participating in the LGPS who have no local or national taxpayer backing or do not have a full guarantee or other pass-through arrangement with a body with such backing. Examples of Tier 3 employers include universities, further education colleges, housing associations and charities.

In order to identify any issues Aon (in conjunction with the Board Secretariat) ran separate online surveys for Tier 3 employers, scheme members employed by a Tier 3 employer and administering authorities. Aon also ran a number of "listening sessions" with various stakeholder groups.

According to the data supplied by the four actuarial firms advising LGPS funds, there are approximately 1,750 Tier 3 employers participating in the LGPS with liabilities of about £27bn in respect of benefits for over 550,000 scheme members including active members, those who are in receipt of a pension and leavers with preserved benefits.

Main findings

Issues have been identified following engagement via surveys and listening sessions with key stakeholders including:

- Tier 3 employers'
- Members of the LGPS employed by Tier 3 employers'
- Administering authorities
- Representatives of the four actuarial firms advising LGPS funds

Potential options for change have been identified to address the issues raised. However, there are instances where there is a conflict between issues raised by different stakeholders. In particular we would highlight the conflict between administering authorities and employers being (generally) supportive of greater flexibility to support employers exiting the LGPS and member representatives who generally wish to maximise membership of the LGPS unless there are proven reasons, e.g. affordability grounds that the business can only survive if members currently in the LGPS leave the scheme for future benefits.

This report does not make any recommendations and the Board should be aware that due to the conflicts between the various stakeholders further analysis will be required before any options are taken forward as recommendations by the Board. Further options may also be identified through additional analysis, and the options set out in this report should not be taken as exhaustive.

Throughout the course of the information-gathering exercise a common area of discussion was around the question "Which employers should participate in the LGPS?" It is clear that the Scheme has evolved significantly over time, to include participation of employers which may no longer be categorised as providing services to local government and this is arguably what has triggered this review. In our view, any outcome from this review should be supported by an explicit policy decision by MHCLG on the extent to which Tier 3 employers should be encouraged (or required in some cases) to remain in the LGPS and to what extent they should be allowed to leave the Scheme.

Issues identified by Tier 3 employers

- A number of issues relating to the valuation process were raised, including:
  - A general lack of transparency, inability to negotiate and insufficient consideration of affordability by administering authorities and their actuaries.
  - A perceived inconsistency in approach across funds.
  - Valuation cycles not matching employer year-ends and insufficient notice of contribution changes to enable effective budgeting.
- A lack of flexibility in funding exit costs, leading to higher contributions than necessary potentially leading to further employer exits from the LGPS, or, employers being trapped in the scheme as they would be unable to afford the exit payment.
- High costs and a lack of visibility of costs associated with transferred-in benefits on redundancy.

Options which may address these key issues include:

- Changes to the funding regime, e.g. a separate valuation timetable for Tier 3 employers to support business planning and facilitate greater discussion and engagement and a requirement for administering authorities to include specific sections on their approach and the implications for Tier 3 employers within their funding strategy and investment strategy statements.
- Amendments to the LGPS regulations in relation to exiting employers (Regulation 64) to provide greater flexibility, e.g. similar to that set out in The Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018.
- A requirement for administering authorities to provide clearer/better information to employers regarding their LGPS membership, and introduction of an employer discretion in relation to members linking or transferring previous membership to help control redundancy costs.

Issues identified by members (including union representatives)

- Standards of communication are mixed and there is inconsistent member experience across the Scheme.
- The vast majority of members do not want to leave the LGPS to join an alternative pension arrangement and Union representatives do not favour increased flexibility for exiting employers. This is at odds with the direction of travel among Tier 3 employers.
- Lack of flexibility. 55% of members would welcome more flexibility in relation to benefits offered by the LGPS.

Options that may address these key issues include:

- Mandating/centralised communications or working toward a minimum standard.
- Closing potential loopholes in the Regulations or otherwise legislating to prevent approaches that enable scheduled body employers to exit the Scheme by stealth.
- Provide greater flexibility or choice of benefits within the LGPS e.g. the option to convert final salary benefits to CARE; improved awareness of the 50/50 option.

Issues identified by Administering Authorities

- Lack of flexibility in the exit process. 50 out of 64 survey respondents said they would be supportive of more flexibility in the funding and exit process.
- Tier 3 employers lack of understanding of the costs, funding risks or exit costs related to their participation in the Scheme. This is exacerbated by low levels of engagement in both investment and funding strategy.
- Variation in funding treatment for Tier 3 employers is a concern to some funds, especially those with exposure to larger Tier 3 employers.

Options that may address these key issues include:

- Amendments to the exit regulations (as above).
- Encouraging or compelling greater consultation on investment and funding strategy. Improving frequency and quality of information provided to employers by the administering authority on funding risks (ongoing and exit).
- Improving consistency of approach by encouraging best practice across all funds, including a requirement to understand the fund's risk exposure to Tier 3 employers. Consideration of covenant assessment and risk mitigation, insurance and use of sub-funds within funds.

Acknowledgements

Aon and the Secretariat to the Board have been delighted with the level of engagement and support both in response to the surveys and the lively and productive debate in the listening sessions.

Our thanks go to all of those who participated in and publicised the surveys, as well as contributors who added to the success of the listening sessions, including:

- Representatives from administering authorities who participated in our listening meetings, and the South West Councils.
- Representatives from housing associations and the National Housing Federation and their advisors.
- Representatives from universities, colleges, the Universities and Colleges Employers' Association and the Association of Colleges.
- Representatives of employers within the charities sector.
- Representatives from the Trades Unions.
- Representatives from the four actuarial firms advising LGPS funds.

Engaging with stakeholders

Executive Summary of Section

This section details the methods used to engage and gather feedback from the various stakeholder groups identified by the Scheme Advisory Board

Secretariat including:

- Tier 3 employers
- Members employed by Tier 3 employers
- Administering authorities; and
- Actuarial advisers to administering authorities

Information was gathered from a number of different sources including targeted surveys and listening sessions (covering face-to-face meetings or conference calls).

The surveys received a good response rate:

- Administering authority survey - 64 responses representing 59 funds
- Scheme member survey - 3,467 responses representing members from 62 funds
- Scheme employer survey - 299 responses representing employers from 58 funds

All key stakeholder groups were represented at the listening sessions:

- Administering authorities were represented by delegates at the Pension Managers' Conference and further attendees at additional meetings.
- Tier 3 employers were represented by employers and representatives from the:
  - charities sector
  - housing sector
  - higher and further education sector
- Tier 3 members were represented by GMB, UNISON and Unite
- LGPS advisers to the administering authorities were represented by Aon, Mercer, Barnett Waddingham and Hymans Robertson

Further detail on the engagement with stakeholders is provided in the remainder of this section.

Engaging with stakeholders

Objectives

The key objectives in relation to stakeholder engagement were as follows:

- Securing high levels of engagement with all stakeholder groups across the various employer categories.
- Facilitating well-run, targeted meetings that encourage views to be shared openly.
- Provision of timely notes on feedback from stakeholders to ensure views are accurately recorded/reflected.

To meet these objectives, Aon, in conjunction with the Board Secretariat, ran separate online surveys for Tier 3 employers, scheme members employed by a Tier 3 employer and administering authorities. Aon also ran a number of "listening sessions" with various stakeholder groups.

Further details regarding the surveys and listening sessions are set out below.

Surveys

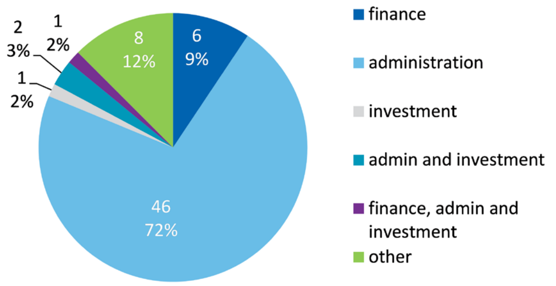
Working with the Board Secretariat, Aon designed and issued stakeholder surveys which ran from 27 November 2017 to 31 January 2018. Three separate surveys were launched covering Tier 3 employers, scheme members employed by a Tier 3 employer and administering authorities.

Administering authorities were encouraged to complete the administering authority survey and were asked to forward the employer and scheme member surveys to their Tier 3 employers. Regular reminders were sent to the administering authorities by both the Board Secretariat and Aon (verbally, via email, or through Aon's LGPS Newsletters).

Relevant industry bodies were also asked to publicise the surveys to their members (UCEA[1] and AoC[2] for higher/further education; NHF[3] for housing associations; and PLSA[4] for charities). The scheme members' survey was also publicised on the national scheme member website.

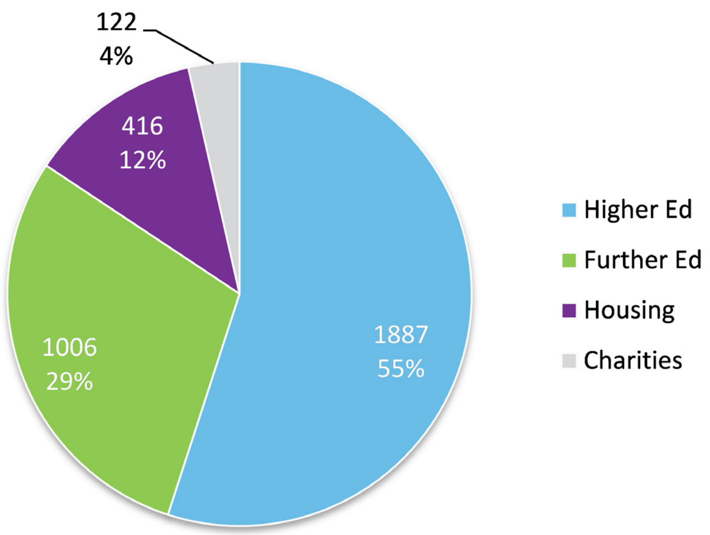
Responses:

Administering authority survey: 64 responses representing 59 funds, with representation across different departments including:

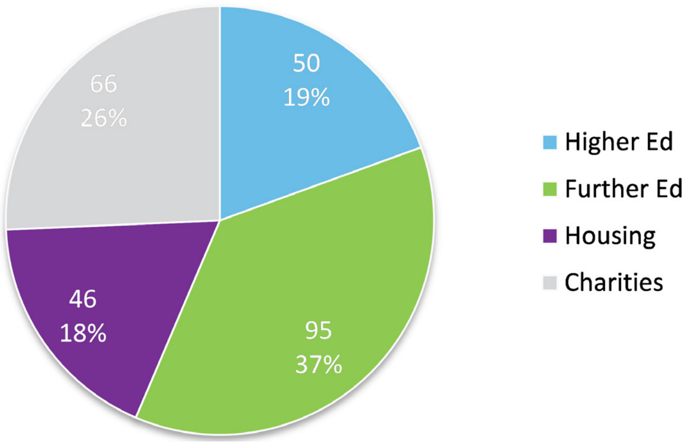


1 *UCEA: Universities and Colleges Employers Association*
2 *AoC: Association of Colleges*
3 *NHF: National Housing Federation*
4 *PLSA: Pensions and Lifetime Savings Association*

Scheme member survey: 3,467 fully completed responses including 1,887 from participating members working for a higher education employer, 1,006 working for a further education establishment, 416 working for a housing association and 122 working for a charity. 36 responses have been discounted as it was not clear whether the respondent worked for a Tier 3 employer. Responses covered members across 62 LGPS Funds (299 respondents were not sure which Fund they are a member of). The following chart illustrates the member responses received (split by employer sector):



Employer survey: 299 responses including 50 from a higher education establishment, 95 from a further education establishment, 46 from housing associations and 66 from a charities or other not-for-profit organisation. 42 responses were discounted as it was not clear whether the respondent represented a Tier 3 employer. Employer responses covered 58 LGPS Funds. The following chart illustrates the employer responses received (split by employer sector):



The administering authority and employer surveys included an opportunity for participants to request further involvement in the project.

Listening Sessions

Listening sessions were held with representatives from all identified key stakeholder groups. Survey respondents who indicated they would like an opportunity for further involvement in the project were included in invitations to a listening session.

Notes taken from listening sessions were shared with participants to ensure their views were accurately represented. These notes were also shared with anyone unable to make the meeting due to other commitments to enable further input if required.

A summary of all the sessions held is provided below.

Administering authority sessions:

- 3 concurrent sessions at the Pension Managers' Conference in Torquay on 21 November 2017. Delegates at the conference represented approximately 45 funds, mainly from the administration function.

- Further sessions in London on 15 March 2018 (15 participants); Birmingham on 23 February 2018 (4 participants) and Leeds on 27 February 2018 (5 participants) to enable administering authorities not in attendance at the Pensions Managers' Conference to participate in the review. These meetings also provided a further opportunity for input for any survey respondents who indicated that they wished to participate further in this research and as an opportunity to capture the views of administering authority officers in areas other than administration.

Member representatives:

- A session with representatives from GMB and UNISON on 19 January 2018, representing the scheme members employed by Tier 3 employers. Notes were shared with representatives from Unite for comment.

Employers

- A meeting on 22 January 2018 with representatives from housing associations (13 attendees, comprising 2 representatives from the National Housing Federation, 9 representatives from separate employers (of which 2 employers participate in multiple LGPS Funds) and 2 consultants at the request of the NHF). Notes were circulated to a further 3 employer representatives who were unable to attend the meeting.

- A meeting on 31 January 2018 with representatives from Higher Education and Further Education employers (27 attendees representing 15 Universities; 7 Colleges; UCEA and the AoC). Views of Higher Education and Further Education representatives were collated separately, recognising potential differences in views and issues.

- A series of individual calls with representatives of 5 charities participating in the LGPS over the period 13th – 20th March 2018.

Actuarial advisers

- A session on 24 November 2017 with representatives from the four actuarial firms advising administering authorities in the LGPS (Aon; Mercer; Barnett Waddingham and Hymans Robertson).

Tier 3: Employer views

Executive Summary of Section

This section summarises feedback from Tier 3 employers participating in the LGPS, following engagement via an online survey and a series of listening meetings/calls.

Feedback was collected from three different employer sectors covering charities, housing associations and the higher/further education sector.

Survey responses

In total 257 responses to the survey were received, split as follows:

Charities	Housing Association	Higher/Further Education	Total
66	46	50/95	257

For those who responded to the survey, only a very small proportion (less than 7%) of employers in the charity or housing association sectors admit new members to the LGPS, compared to a much higher proportion (c60%) in the Higher/Further education sector.

Charities tend to have a very small active membership (83% had less than 50 members), whilst the vast majority (c95%) of Higher/Further education institutions had more than 50 active members. Housing associations lie between the two with the majority (c74%) having more than 50 active members.

Contribution rates to the LGPS for charities and housing associations were generally higher than those paid by the Higher/Further education sector.

A very high proportion (i.e. 74% - 97%) of the employers surveyed believe:

- their employees understand or partly understand the LGPS benefits;
- they have sufficient access to expertise regarding their participation;
- they understand and comply with their responsibilities as an employer in the LGPS.

Issues that can be identified from the results of the survey are set out below:

- over half of the respondents did not know if the investment strategy was suitable for their employer (implying a lack of understanding/engagement in this area);
- a significant minority (c30% - 45%) sometimes or often experience difficulties in providing data for the administration of the Scheme;
- a reasonable proportion (c26%-28%) of respondents from the charity and housing association sector stated that the LGPS did not meet their overall needs;
- whilst the majority of employers appear to understand the exit process and exit costs a significant minority of employers did not.

Listening sessions

In total 38 employer representatives (plus 5 representatives from relevant associations) attended the listening sessions, split as follows:

Charities	Housing Association	Higher/Further Education	Total
5	9 plus 2 NHF reps	24 plus 2 UCEA reps and 1 AoC rep	38 plus 5 reps

A summary of the key issues identified from the listening meetings, is set out below.

Member experience

- Representatives from housing associations and the Higher/Further Education sector felt that members do not fully understand the "value" of their benefits and more could be done to engage all members (not just those close to retirement).
- There was some concern (particularly from housing associations and the Further Education sector) that members were not fully aware of the 50:50 option with further work being needed to educate employers on the financial impact of the 50:50 option.

Employer experience

- Concerns were raised over a number of aspects of the valuation process including:
  - general lack of transparency and inability to negotiate on funding strategy or contributions as part of valuation process;
  - inconsistencies across funds (in terms of willingness to engage with employers, default treatment and how employer specific information is taken into account);
  - valuation cycles not fitting into year-end cycles and contribution changes following a valuation coming into force too quickly, all of which create budgeting problems;
  - affordability not being taken into account (particularly for charities).
- Many issues were raised with regard to exit costs:
  - the general feeling was that more flexibility was needed with exit costs being determined in a fair and consistent manner;
  - the current approach left some employers feeling trapped – they can't afford or control ongoing costs but have no realistic or affordable means of ceasing future accrual.
- Many employers raised concerns about the risk and cost of members transferring other benefits into the Scheme if they are subsequently made redundant (and are aged 55 or over so are entitled to immediate, unreduced benefits).
- A number of employers (particularly housing associations and those in the Further/Higher Education sectors) said that the LGPS was impacting business planning (such as mergers and restructures).

Overall, particularly for the Further/Higher Education sectors, there was a view that the LGPS was less of a good fit both for employers and younger employees where more flexibility was deemed necessary to accommodate changing working patterns.

Further detail on the survey results and the information gathered from the listening sessions, split by employer sector, is set out in the remainder of this section.

Tier 3: Employer views

Introduction

The following sections set out the main issues identified by Tier 3 employers participating in the LGPS, compiled following engagement with this stakeholder group via an online survey and a series of listening sessions. Further detail on the feedback from the survey responses is set out in Appendix 1. Further detail on the feedback from the listening sessions is set out in Appendix 2.

Overall, across the Tier 3 employer stakeholder group, Aon and the LGPS Advisory Board received 257 survey responses from Tier 3 employers. In addition, separate listening meetings were held with higher education; further education; housing associations and charities.

Background on nature of participation

The Local Government Pension Scheme Regulations 2013 ("the Regulations") set out three categories of employer. Categories of employers listed in Part 1 of Schedule 2 to the Regulations are generally referred to as 'scheduled bodies'. These bodies are required to participate in the LGPS and admit new members to the Scheme. Bodies listed in Part 2 of Schedule 2 can choose to designate employees or roles for scheme membership – these bodies are known as 'designating bodies' or 'resolution bodies'. Schedule 2 Part 3 allows administering authorities to enter into an admission agreement with certain bodies so that some or all of their employees may participate in the Scheme – these bodies are known as 'admission bodies'. Admission bodies can choose to close the admission agreement to new employees and possibly to future accrual for existing employees.

Under earlier regulations, admission bodies were categorised as Transferee Admission Bodies (TABs) and Community Admission Bodies (CABs). TABs (now paragraph 1(d) bodies) are/were private sector bodies that had taken on staff as a result of an outsourcing from a scheme employer. CABs are/were bodies that at the time of joining the LGPS had sufficient links with local government to justify membership. CABs are generally charities or other not-for-profit admission bodies.

Universities

Participation of universities in the LGPS varies, with some (those created by the Further & Higher Education Act 1992) qualifying as scheme employers under Schedule 2 Part 1 of the Regulations, and others (those that don't fall under the definition in Schedule 2 Part 1) participating voluntarily as admission bodies. Not all universities participate in the LGPS – those not eligible to join the LGPS (principally pre-1992 institutions) often have their own arrangements, which have traditionally been self-administered trust-based schemes for non-academic staff but are increasingly defined contribution in nature.

Most universities only participate in the LGPS for their non-academic staff, with teaching staff generally eligible for the Teachers' Pension Scheme (in the case of post-1992 universities) or the Universities' Superannuation Scheme (USS).

Further Education Colleges

These bodies are required to participate in the LGPS, as they are bodies set up under the Further & Higher Education Act 1992 and are listed in Schedule 2 Part 1 as scheme employers.

Housing Associations

The majority of housing associations participate in the LGPS as admission bodies, although there are a small number that qualify as scheme employers under Schedule 2 Part 1. Most housing associations participate in the LGPS because they were originally part of a local authority and became admission bodies when they were established as separate entities providing social housing or other services to the local authority.

The majority of the housing associations which participated in this review do not offer the LGPS to new employees.

Charities

The majority of charities participate in the LGPS as Community Admission Bodies (CABs), although there are some that participate as Transferee Admission Bodies (TABs). TABs have a guarantee from the original scheme employer via Regulation 64 so have been excluded from the definition of a Tier 3 employer. This review includes charities that joined the LGPS before admission bodies were categorised as TABs or CABs (around the year 2000) including many who operate across local authority boundaries and no longer have a strong link to a particular Tier 1 scheme employer.

Charities

Charities engagement

We analysed 66 survey responses from employers identified as charities, and ran listening meetings with 5 employers.

Summary of issues identified

Issues raised directly or inferred from the information gathered include:

Duties

- Difficulties providing data

  A third (35%) of employers sometimes or often experience difficulties in providing data for the administration of the scheme. This was generally driven by lack of clarity on what they need to provide, along with difficulty meeting timescales and required levels of data quality and resourcing (e.g. as a result of the lack of a pensions specialist role).

Member experience

- Reliance on administering authority communications

  Whilst 92% of respondents believe their membership understands or partly understands the benefits the LGPS offers we noted from the listening meetings that these employers are heavily dependent on the communications from their local fund.

Employer experience

- Cost of participation / exit

  Charities typically face higher ongoing costs of participation compared to other employers (from the survey analysis) but with few resources to meet these costs or react to fluctuations in cost. Where exit costs are understood they are generally seen as prohibitive and the expectation of lump sum payments unrealistic (given a typical charity balance sheet). Employers can feel trapped as they can't afford the ongoing costs of the scheme, but neither can they afford the exit costs.

- Poor experience of triennial valuations

  The triennial valuation process generally does not work well for these employers - they find out results late in the process making it difficult or impossible to plan for rate changes (in particular unexpected increases) and do not understand the valuation results. Their view is that affordability is not sufficiently taken into account and there is insufficient time for discussion with the administering authority ahead of contributions coming into force.

- Possible inconsistency of responses / lack of understanding

  The survey results indicate a potential mismatch between the closed nature of participation (only 4 of 62 respondents said their employer admits new members to the LGPS) and low active membership and the relatively high proportion of employers (74%) not expecting to cease contributions to the scheme in the next 10 years.

Further, it is a concern that many do not understand the exit process or costs – only 57% of employers who expect to cease contributions said that they understood the exit process and only 47% understood the exit costs.

68% of participants did not know if the investment strategy of the Fund was suitable for them as an employer. Based on the listening meetings employers rely on the administering authority to provide the advice/information they need leading to a lack of independent thought and challenge. Participants were typically of the view that due to their size they accept they have little say in the investment strategy. Similarly the funding strategy statement and consultation process did not appear to be well understood by participants in the listening meetings.

Housing Associations

Housing Associations engagement

Aon analysed 46 survey responses from employers identified as housing associations, and ran a listening meeting on 22 January 2018 with representatives from 9 housing associations (including two employers who participate in multiple LGPS Funds), 2 representatives from the National Housing Federation and 2 consultants in attendance at the NHF's request. Notes were circulated to further representatives of housing associations who were unable to participate in the listening meeting, with additional comments captured and incorporated into the final notes.

Summary of issues identified

Issues raised directly or inferred from the information gathered include:

Duties

- Difficulties providing data

  28% of respondents sometimes or often experience difficulties in providing data for the administration of the scheme predominantly due to requirements being unclear and difficulty meeting the timescales. Detailed discussions during the listening meeting were consistent with these views.

Member experience

- Possible lack of appreciation of the value of benefits

  Whilst 89% of respondents believe their employer's membership understands or partly understands the benefits that the LGPS offers, some employer representatives questioned whether their LGPS membership understands the value of membership, in part due to communications from the employer.

- Lack of awareness of 50:50 option

  Most participants believe their members are not aware of the 50:50 Scheme option. Further, some employers are reluctant to communicate it due to a belief that it will not save them money as they will continue to pay full contributions. Further work is required to educate employers on the potential cost reductions and increase awareness of this option among members.

- Lack of consistency across funds

  Where workshops are run by administering authorities these are valued by members. However these are not available across the LGPS leading to inconsistent member experience.

Employer experience

- Mixed experience of administering authorities

  Employers have very different experiences (some good, some bad) of administering authorities in terms of communication, training and format of data requirements.

- Inconsistency of funding treatment

  The reasons for perceived inconsistency of funding treatment across the LGPS are not well understood by housing associations, suggesting that:

  – Communications from administering authorities regarding valuation approaches are not clear, and/or

  – There are some differences in approach which can only be justified by subjective factors.

  The use and extent of risk assessments by local funds differ markedly – some take into account employer specific information, whereas others apply a blanket policy based on type of participation only. Housing associations believe they should be treated differently to other CABs as they pose a lower risk than some other employers.

- Cost of participation / exit and perceived strong covenant

  Ongoing costs of participation for housing associations are higher than higher and further education institutions surveyed, with 24% of housing associations paying 26% or more of payroll towards contributions, compared to around 10% paying 26% or more in Higher and Further Education establishments. High costs were cited as a key reason why the LGPS does not (for some employers) meet the employer's overall needs.

  Increasing costs have already led many to close to new entrants, or keep participation under review. Only 3 of the 46 respondents said their employer continues to admit some new members to the LGPS and no respondents admit all new employees into the LGPS. Costs typically increase on closing to new entrants suggesting funds are anticipating exit, driven by the Regulations crystallising a debt at the point the last active member ceases contributing. Housing associations believe that they are of very strong covenant and could continue to meet pension contributions for many years into the future. Although the Regulations permit spreading of payments of a crystallised debt, some administering authorities are reluctant to allow this.

  While housing associations referenced their strong balance sheet they mentioned that their Regulator would not expect them to grant pension funds a charge over assets. It is therefore questionable what value and comfort these assets could provide to administering authorities.

- Redundancy costs for transfers-in/linked benefits

  Linking previous benefits and transfers-in can lead to high redundancy costs for employers. The lack of information from funds means it is difficult to plan effectively or to validate costs associated with unreduced early retirements. Housing associations are also concerned about the implications of the potential cap on exit costs.

- Lack of representation/influence

  Housing associations do not feel well represented or engaged in the running of the LGPS. 13% of respondents believed that the investment strategy of their Fund was not suitable for their employer and 43% did not know if the investment strategy was suitable or not. Satisfaction with the level of engagement employers have in the running of the scheme was broadly similar to that of other Tier 3 employers (i.e. only a small proportion are slightly or completely dissatisfied with the level of engagement).

- Effect on business planning

  Housing associations believe the LGPS impinges on business planning, including mergers and restructures. There is a risk of the goalpost moving upon restructure (renegotiation of admission and loss of guarantees) and the associated time and cost related to these issues can be high. This is particularly relevant given the survey showed 47% of employers were, or were thinking of restructuring their organisation (mainly mergers).

Higher and Further Education

Higher and Further Education engagement

Aon analysed 145 survey responses from employers identified as Higher Education (HE) or Further Education (FE), and held a listening meeting on 31 January 2018 with representatives from 15 universities, 8 colleges, UCEA and AoC. Notes were circulated to further representatives who were unable to participate in the listening meetings, with additional comments captured and incorporated into the final meeting notes.

Summary of issues identified

Issues raised directly or inferred from the information gathered include:

Duties

- Difficulties providing data

  Around half of the HE and a third of the FE survey respondents sometimes or often experience difficulties in providing data predominantly due to requirements being unclear and difficulty meeting the timescales. This is consistent with the views of attendees at the listening meeting.

- Mixed experiences with their local fund

  Similar to views from housing associations, HE/FE institutions have very different experiences of their local fund (some good, some bad) in terms of communication; training, format of data requirements and access to underlying pension data.

Member experience

- Lack of appreciation of the value of benefits

  90% of respondents believe their employer's membership either understands or partly understands the benefits that the LGPS offers. However, the majority of participants at the listening meeting felt that members did not fully understand the value of their benefits and more needed to be done to engage all members (not just those close to retirement).

- Lack of awareness of 50:50 option

  This related to the FE sector only - those in the HE sector felt that most of their membership was aware of the 50:50 Scheme option. Similar to comments made by housing associations, further work is required to educate employers on the potential cost reductions and to increase awareness of this option among members.

- Lack of flexibility

  Views from the listening meetings were that workforces are changing and the LGPS is too inflexible to provide members what they want or need throughout their career.

Employer experience

- Lack of transparency and inconsistency in valuation approach

  There is clear dissatisfaction over the lack of transparency and influence on the valuation process and inconsistencies between funds (e.g. in terms of how willing they are to engage in negotiations). Valuation cycles not fitting into year-end cycles also creates problems in relation to budgeting/financial planning for some HE/FE institutions.

  HE/FE institutions believe that the position of the sector is fundamentally different from other "Tier 3" employers and having their own category/status is something that they would welcome with more work being done to understand the covenant of the sector (as a default position).

- Cost of participation / exit

  Employers feel unable to control costs either by negotiation or by reducing benefits - some feel the current level of accrual is too generous.

  The survey shows that for 40% of respondents no new staff are eligible to join the LGPS. There are also a number of HE institutions investigating the option of setting up subsidiary companies to enable them to offer alternative pension provision (at least for new staff). The general view from the listening meeting is that more flexibility is needed in this area and exit costs need to be fair and affordable rather than prohibitive.

- Redundancy costs for transfers-in/linked benefits

  Similar to other employers, linkage of benefits and transfers in can pose a high cost to HE/FE institutions when dealing with redundancies.

- Lack of representation/influence

  A large minority of HE/FE institutions do not feel particularly well represented or engaged in the running of their Fund due primarily to:

  – lack of engagement in the investment strategy of the fund (although only 4% of respondents believed that the investment strategy of their Fund was not suitable for their employer, 50% did not know if the investment strategy was suitable or not); and

  – minimal representation at national or local level (satisfaction with the level of engagement HE/FE institutions have in the running of the Scheme was broadly similar to that of other Tier 3 employers, with 13% being dissatisfied, either slightly or completely, and around 30% being indifferent).

- Effect on business planning

  The LGPS impinges on business planning such as mergers and restructures. This is particularly relevant given the survey showed a relatively high proportion (30%) of HE/FE institutions were, or were thinking of, restructuring their organisation.

In general, the view from the listening meetings was that the LGPS is becoming less of a good fit for HE/FE institutions. This contrasts with the results of the survey which showed that only 5% (of HE) and 10% (of FE) institutions believed that the LGPS did not meet their overall needs. This difference may be due to views on the current position versus the expected future position as the sector acknowledges that pension provision for staff across their organisations is becoming more fragmented.

Tier 3: Members' views

Executive Summary of Section

This section summarises feedback from employees of Tier 3 employers who are members of the LGPS, following engagement via an online survey and a listening session held with union representatives.

In total 3,467[5] responses to the survey were received split by employer sector as follows:

Charities	Housing Association	Higher/Further Education	Total
122	416	1,887/1,006	3,431

A relatively high proportion (above 70%) of respondents believe that:

- they understand the retirement and death benefits offered by the LGPS; and
- the LGPS meets their retirement needs.

Whilst the majority of members (c76%) did not want the ability to join an alternative pension arrangement, a small majority of members (c55%) would like more flexibility in relation to the benefits offered by the LGPS.

Only 35% of members said they were completely or slightly satisfied with the level of engagement of their fund with a large number of members requesting more information to be provided in a clearer and possibly electronic format. Responses to member queries were felt to take too long with improvements needed in this area.

Members viewed the communication from the scheme as mixed – although a large proportion rated the communications they received as good or excellent.

Views from the unions were similar to those of the members although a number of concerns were raised in relation to the smaller Tier 3 employers (like charities):

- small HR departments hinders employers' ability to provide members with the information/support they need;
- discretions for smaller employers were felt to be less generous than larger employers;
- smaller employers have little representation in the running of the scheme.

The overall view from the unions was that as smaller employers don't have a "voice" funds often perceive them as a bigger risk which has a disproportionate effect on Tier 3 employers.

The unions identified a number of other issues:

- dialogue with funds over investment pooling was proving difficult with some councils believing that unions shouldn't be involved in investment decisions (unions do not agree with this view);
- some employers appear to be putting pressure on employees to opt-out of the scheme due to rising costs and the impact this has on job losses;
- sub-contracting or setting up separate companies to avoid having to enrol employees into the LGPS is becoming more prevalent.

Overall the unions felt that the LGPS was suitable for members and would not welcome additional flexibility. This is in slight contrast to the members' view.

Further detail on the survey results and the information gathered from the listening session, is set out in Appendices 3 and 4.

5 *36 of the 3,467 responses were discounted as it was not clear whether the respondent worked for a Tier 3 employer.*

Tier 3: Members' views

Scheme member engagement

Aon analysed 3,431 survey responses from scheme members who identified themselves as being employed by a Tier 3 employer, and ran a listening meeting on 19 January 2018 with representatives from Unison and GMB. Both unions have large numbers of members across the Tier 3 employer sectors. Aon shared the notes with representatives of Unite for comment.

Summary of issues identified

Issues raised directly or inferred from the information gathered include:

Members are being made to feel that they should opt out of the scheme, because employers are making clear to members how expensive the LGPS is and that jobs will need to go as a result.

Some Tier 3 employers are making offers to buy employees out of the scheme, or are sub-contracting/setting up separate companies to avoid the LGPS. In the unions' experience this is particularly prevalent in the FE sector. This needs to be resolved / prevented to stop members leaving the scheme.

Members of the smaller employers tend to have a poorer member experience than those of larger employers, although it is recognised that this isn't specific to Tier 3 employers.

A concern was raised about the impact on members of non-Tier 3 employers, if their employers are left to pick up the costs of a Tier 3 employer failing.

Generally, the unions felt that for members, the LGPS is suitable as it is, and would not welcome further flexibility - members find too much flexibility confusing and flexibility doesn't really work for the low-paid. The unions made it clear that they would not be happy with an alternative benefit structure for employees of Tier 3 employers. However, the survey results suggest that while members are happy to be offered the LGPS and don't want the flexibility of alternative schemes, members would welcome more flexibility within the LGPS – although given that a number of comments relate to a lack of understanding of the scheme (see below) it is not clear whether members are fully aware of the current flexibilities on offer.

The survey results suggest that communication about the scheme is mixed – although a large proportion of members rated the communications they receive as good or excellent, it is clear from the comments received that many members still struggle to understand their benefits and would welcome more opportunity for face-to-face meetings and presentations, as well as a quicker response when queries are raised. There is also an expectation from members for electronic access to up-to-date information about their benefits.

The level of engagement is mixed. Unions are well represented at both a national and local level and are satisfied with that position. However the survey results of the members themselves suggest that more could be done to engage those members who aren't in the unions and therefore don't hear about the work the unions do on the members' behalf.

Views of administering authorities

Executive Summary of Section

This section summarises feedback from administering authorities across the LGPS, following engagement via an online survey and a series of listening meetings.

Survey responses

In total 64 responses were received representing views from 59 funds. The majority of responses were provided from the individuals working within administration, but responses also included views from finance, investment, and other areas such as governance and pensions management.

50 of the 64 respondents agreed that there should be more flexibility in the funding and exit process for Tier 3 employers, but only 20 respondents would support more flexibility in the benefit structure of the LGPS for Tier 3 Employers.

A number of respondents believe employers do not understand their responsibilities, especially in the charities sector, and expressed concerns over inaccurate/incomplete data, and late year end returns.

Of further concern, fewer than half of respondents believe 'Tier 3 employers understand the cost of their participation in the scheme, the ongoing funding risks, or the exit funding risks'.

Participants also gave low scores in levels of engagement in investment and funding strategy, again there was more of a marked concern in the charities sector.

Listening sessions

4 listening meetings were held to enable views of administering authorities to be gathered, and a summary of the attendance at these meetings is set out below:

Meeting date	Number of administering authorities represented
22 November 2017	45
23 February 2018	4
27 February 2018	3
5 March 2018	18

The listening meetings provided further insight and context to survey results, including:

- A general view that while Tier 3 employers' understanding of their duties and responsibilities was mixed, this was reflective of most fund employers rather than specific to Tier 3.
- Engagement from Tier 3 employers is typically only during the triennial valuation process, and again while engagement in investment and funding strategy was perceived as low, this was also true for other employers in the funds.
- Funding treatment for Tier 3 employers varies across funds and employer risk is a concern, especially for the larger Tier 3 employers.

Further detail on the survey results and the information gathered from the listening sessions, is set out in Appendices 5 and 6.

Views of administering authorities

Administering authority engagement

We analysed 64 survey responses from administering authorities, as well as running a number of listening sessions:

- Pensions Managers' Conference in Torquay on 22 November 2017 where approximately 45 administering authorities were represented (mainly on the administration side)
- Meeting held on 23 February 2018 where 4 administering authorities were represented*
- Meeting held on 27 February 2018 where 3 administering authorities were represented*
- Meeting held on 5 March 2018 where 18 administering authorities were represented*

*some of those attending the later meetings were also represented at Torquay.

Summary of issues identified

Issues raised directly or inferred from the information gathered include:

Administering authorities are concerned about the lack of guarantee, particularly in respect of the HE/FE sector which tends to represent the largest liabilities compared to the other Tier 3 categories. There are also doubts about whether it is still appropriate for Tier 3 employers to participate in the LGPS, especially those which currently have no choice in the matter (e.g. HE/FE sector).

There is a lack of understanding among Tier 3 employers relating to their duties and responsibilities, but this is typical across all employers.

There is a discrepancy between how Tier 3 employers view their security and how funds view it – for example most funds raised concerns about FE colleges but one fund commented that the colleges themselves would not agree as they believe the Government will step in if a college fails. However, another fund has been told by DfE that the Government will not step in.

Funds also believe that more needs to be done to assist exits from the scheme – 50 of the 64 survey respondents said they would welcome more flexibility in the regulations allowing employers to pay off an exit debt gradually.

Views of LGPS fund actuaries

Executive Summary of Section

This section summarises feedback from representatives of the four firms advising administering authorities across the LGPS, following engagement via a listening meeting held on 24 November 2017.

Listening meeting

The listening meeting covered a variety of topics including:

- A discussion on the background on Tier 3 employers
- The risk Tier 3 employers pose to LGPS funds
- Employer duties, and engagement
- Workload generated by Tier 3 employers
- Investment and funding strategy

The discussion also covered various potential options for change covering areas of:

- Governance and disclosure
- The exit process and regulations
- Other options for protecting non Tier 3 employers

Views of LGPS fund actuaries

Actuarial firms represented in the listening meetings

The LGPS Administering Authorities are advised by four actuarial firms: Aon; Mercer; Barnett Waddingham and Hymans Robertson. Each firm was represented in a listening meeting held on 24 November 2017, by Chris Archer; John Livesey; Graeme Muir and Barry McKay respectively.

Background on Tier 3 employers and the risk to LGPS funds

The risk to LGPS funds associated with Tier 3 employers has increased over time due to:

- an increase in the number of Tier 3 employers through reorganisations including removal of services from local government control;
- increased costs of participation in the scheme;
- spending constraints impacting Tier 3 employers' income.

HE and FE in particular have been affected by changes in funding.

In recent years there has been a slowdown in Tier 3 employers joining the LGPS with all seeing more examples of Tier 3 employers exiting or considering exiting the scheme than looking to join. However, one actuary expressed a concern that some services still have potential for future reorganisation, such as social care.

Regarding funding strategy, the actuaries believe that employers are treated fairly within funds but acknowledge that there is inconsistency as strategy depends on the administering authority's approach and risk appetite.

Tier 3 employers are believed to be a significant issue for some funds, but for others the amounts at risk are so small they don't want to spend substantial governance budget in this area, especially where administering authority resource is constrained.

All stressed that some charities and other Tier 3 employers are currently trapped in the LGPS, and that ideally they should be able to stop accrual and not crystallise the exit debt. However, employer covenant is a key issue for funds so must be, or continue to be, addressed.

The current regulations mean some Tier 3 admission bodies are retaining a single active member to avoid crystallising an exit debt whilst seeking to minimise the costs of additional benefit accrual.

All participants have experience of re-structuring related to Tier 3 employers in the LGPS, including:

- Housing associations converting to a community benefits society. In one case the council agreed to become guarantor following the change in employer status. Housing associations are typically larger employers within a fund so are a concern.
- Housing associations merging, leading to legal advice on whether this would trigger exit debts. It was noted that ideally exit payments would not be needed if the transfer remains within the LGPS and liabilities continue to be backed by a participating employer.
- Colleges investigating whether they could merge and leave the Fund without paying exit debts for the former employees. In some cases colleges had been advised that they could leave without paying an exit debt which was a concern.
- Colleges and universities setting up wholly owned companies and offering an alternative arrangement (typically defined contribution schemes) for new employees, so ultimately leaving the LGPS.

Employer duties, engagement, and employer generated workload

All agreed that in general data for Tier 3 employers is no better or worse than for other employers. The key factor is the quality of payroll or administration contact at each employer and to some extent, how the administering authority communicates with employers.

It is not a significant issue for the LGPS as a whole if small employers' data is poor, except for the employer themselves (as their valuation results could be materially impacted).

Proportionally more time is spent on smaller employers:

- by actuaries on calculations, given membership movements have a larger proportionate effect, whether at the triennial valuation or on exit;
- by administering authorities, including at triennial valuations, e.g. justifying results late in the valuation process, typically following feedback and queries from employers on receipt of their valuation results.

This typically relates to charities rather than universities, colleges and housing associations.

Lack of administering authority resource is an issue - there are more employers but fewer staff to deal with them. Even though costs are borne by the fund, for many, resourcing is following that of other departments across local government (i.e. is reducing).

Other experience causing additional work includes where Tier 3 employers are advised by non-LGPS specialists on transfers (Direction orders) which can generate work that is arguably not always of value.

There was a range of views regarding perception of engagement levels of Tier 3 employers, in respect of FSS consultations, questions on valuation results etc. Some believe engagement is reducing, other disagree. All agreed experience varies by fund and how much effort the administering authority puts into encouraging engagement. Whilst there is no consistent pattern, all agreed that engagement levels could be improved.

Governance and disclosure

It was suggested that guidance should be provided on what should be required to be disclosed for Tier 3 to help make Tier 1 and Tier 2 employers (and the fund) aware of the risks, e.g. showing assets and liabilities for each Tier, and possibly further sub-categories because colleges; universities; housing associations and charities are so different.

Exit debts can come as a shock to employers at times and whilst some administering authorities disclose exit deficits alongside triennial valuation results it was suggested this should be a requirement.

A number of actuaries also noted that in some cases employers have voluntarily contributed more when they've been told the exit position or have commented that they would have paid more contributions earlier if they'd known the potential size of the exit debt.

Concerns were raised at a lack of transparency in relation to charities and councils (and support on exit). Some charities were providing a service to a local authority and perhaps administering authorities should be encouraged to seek council support/guarantee. A power to force a council to underwrite charity exit debt or subsume liabilities could be useful but as you would need to be able to trace the link to a council, may not be practical and introduces a potential moral hazard.

Treatment of orphan liabilities for funding purposes varies - some funds have created a pool for "dead" employers. If a ceased employer runs out of money then comes out of its existing pool and moves to the dead pool. Three of the four firms typically make orphan liabilities fully funded at each valuation, effectively spreading experience across contributing employers. Some actuaries would support further guidance encouraging consistency across funds and greater focus on dealing with orphan liabilities/dead employers, but others were content with the current position.

Investment strategy and funding - Exit valuations

It was suggested that the Regulations be amended so they don't require a one-off exit calculation, introducing more flexibility for managing down the liability.

Some actuaries believe that if Tier 3 employers could close to new accrual but remain an active employer the risk to the Fund is potentially reduced. Some have experience of administering authorities using legal side agreements to enable continuation of contributions and risk but agreed regulatory change could help. All firms agreed that greater flexibility in the exit regulations would be welcomed, without being too prescriptive.

It was also suggested that a local fund policy should set out how additional flexibilities at exit will be used if regulatory changes are made and aren't too prescriptive. The challenge would then be ensuring consistency across funds. Whilst the actuaries believe that administering authorities (as well as employers) would welcome flexibility, any flexibility should not be at the call of the employer - it should be the administering authority's power/discretion.

There is a need to balance flexibility against consistency and some stressed the importance of allowing for covenant in any approach. Employers are treated differently due to each administering authority's view of risk and issues such as covenant and paternalism (e.g. for charities linked to councils), but employers will talk and compare across funds so a consistent approach is important.

It was agreed that it would be an improvement if Regulation 64 permitted a review of contributions in the case of an employer re-structure.

Trapped surplus at exit was also discussed. Some actuaries would be supportive of regulations being amended to allow a refund of surplus to exiting employers*. One noted that this need not be on a gilts basis and could use corporate bonds instead. Another warned that if a more generous (to the exiting employer) basis is used at exit careful consideration would be needed in relation to return of surplus. Alternatively, it was suggested that short term employers should all be on pass through and therefore the issue of trapped surplus or large exit deficits is removed.

**Note that the meeting was held prior to a change to the regulations requiring a refund of surplus to exiting employers.*

Managing exits

Exit deficits are also a function of volatility between asset and liability movements. Most actuaries believe a more bespoke strategy can be beneficial and favour greater encouragement to administering authorities to consider/allow individual employer investment strategies.

One actuary wondered whether MHCLG should re-consider the participation of Tier 3 bodies for future accrual, or re-categorise some as Admission Bodies to enable exits. Another believes employers should be given the option to leave.

Firms would not want to rule out liability management exercises/member options (e.g. enhanced transfer values), but can see practical and professional difficulties.

Assumed investments at exit

Different views were expressed over the suitability of a low risk (gilts based) approach to calculating any exit liability but overall there was agreement that consideration should be given to the circumstances.

Under the current regulations there is no power to collect contributions from employers after the last active member leaves. There are issues around the use of legal side agreements allowing the 'spreading' of contributions leading to differing approaches by funds.

The actuaries see a clear distinction between employers looking to walk away and those that would accept ongoing liability. For a walk away debt, a starting point based on gilts is justifiable to protect the remaining employers from having to underwrite investment risk. Others took the view that a gilts based approach would always be a start point for negotiations.

It was commented that the administering authority doesn't always invest assets in gilts following cessation which can expose other employers to investment risk in relation to orphan liabilities. A number of funds have adopted a notional gilts investment strategy for employers coming up to exit (depending on circumstances) to enable a more stable and managed approach to dealing with the exit debt and perhaps this could be further encouraged.

Alternative ways of protecting non Tier 3 employers

All participants agreed administering authorities should have the power to stop or reduce accrual if they believe an employer cannot afford the accruing liabilities, and for this to be linked to greater flexibility at exit. One actuary went further and believes it would be better if this was an option for employers, i.e. the employer should have the choice. In practice, from an actuarial funding perspective it is very similar to an employer exiting a fund whilst continuing to have an ongoing financial responsibility for funding the liabilities, as described above.

Experience on additional security is mixed – in some cases employers have resisted and care is needed as assets may end up with little/no value at the point they are needed. An example of a college property was given where it was not clear who owned the land nor what it could be used for.

Alternatives included notionally dividing funds (e.g. academies /councils/Tier 3) with Tier 3 potentially being underwritten by the PPF or a specific "LGPS PPF" which might offer a potential escape route for charities or guarantees from tax raising bodies where functions are removed from local authority control.

Options for change

Introduction

This section sets out a high level identification of options for change to potentially mitigate some of the key issues identified during the course of the project, and as described in the sections above. These options have been compiled in conjunction with the SAB secretariat and are intended to be discussed further by the full LGPS Advisory Board following publication of this report. The options are intentionally high level at this stage, and further work will be required in due course where the Board recommends further exploration of any of these options. The list of options is intended to facilitate debate and should not be taken as exhaustive. Further options may also be considered in due course.

Noting the differing views both between and within stakeholder groups there will be pros and cons that will need to be considered with any action that is taken forward. The options do not, therefore, constitute recommendations, as recommendations can only be made following a detailed impact analysis.

We have categorised the potential options for change into the following three categories:

- Non-statutory (guidance)
- Statutory (secondary) i.e. changes to regulations that may be within the gift of MHCLG
- Statutory (primary) i.e. changes to regulations that would likely require an Act of Parliament

Categorisation has been based on an initial view of the option under consideration with further investigation needed on any options the Board wishes to pursue.

We have further sub-categorised the key issues as:

- Funding and investment - *including communication on those issues*
- Communication, administration and employer duties - *including data requirements and employer responsibilities*
- Benefits

This sub-categorisation is intended to provide a logical split of the options, noting that the ongoing review of academies has proceeded with focussed working groups consisting of experts in appropriate fields.

We have also noted in the tables below the stakeholder group which raised the issue, but it should be noted that this does not mean the issue is universally agreed across that group – opinions will (and do) differ.

Non-statutory (guidance) – Funding and investment issues

Issue(s): Lack of consideration of affordability when setting contribution rates

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
1	**Increase emphasis on affordability considerations as well as employer strength in Funding Strategy Statement (FSS) guidance.**	**Pros** Would support more consideration, and greater transparency of expectations within the LGPS. **Cons** This would need to be caveated/limited to genuine likelihood of insolvency otherwise all employers will claim contributions are unaffordable and the benefits will be underfunded. This isn't consistent with recent regulatory changes, in particular Section 13 of the Public Service Pensions Act and the revised Regulation 62, so it is not clear if FSS guidance alone is enough. Further, reducing contributions to levels considered more affordable is not the same as having more affordable benefits – lower contributions now may simply mean higher contributions later – a policy decision is needed on whether the current level of benefits is appropriate for Tier 3 employers.

Issue(s): Unpredictability of accounting costs

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
2	**Allow/encourage bespoke investments to enable investment in matching assets**	**Pros** Should produces less volatility in the balance sheet if assets are matched to accounting liabilities. **Cons** May increase ongoing funding costs which may be prohibitively expensive. Potentially costly to administer and could affect overall LGPS investment strategy.

Issue(s): Lack of understanding/knowledge/engagement in investment strategy

Raised by: Employers; Administering authorities

ID	Option(s) for change	Potential high level pros/cons
3	**Increase requirements to consult on Investment Strategy Statement (ISS)** (regulatory or via guidance).	**Pros** Enhances scheme governance through an improved consultation process. **Cons** Does not solve the skills gap among some employers. Employer may still feel they have little say, particularly if no requirement to take account of feedback through the consultation process. May not be effective as long as there is a single ISS per fund.
4	**Encouragement or requirement for separate employer investment strategies** (ideally combined with above)	**Pros** Increases relevance of the strategy to this stakeholder group. Facilitates discussion between administering authorities and employers. **Cons** Does not solve the skills gap among some employers. Requires employers to engage and may have no practical effect if administering authorities not able/willing to implement different strategies. Could increase the overall cost of the scheme (both in terms of the potential cost of implementation and lower future investment returns).
5	**LGPS wide communications to employers on investment and funding risks.**	**Pros** Increases awareness and knowledge related to the ISS and FSS. Ensures consistency across funds. **Cons** Needs to be in conjunction with some of the above options to have meaningful impact.
6	**LGPS employer advice service** (would need to be funded by employers or by funds)	**Pros** Enables access to independent advice from skilled professionals. Avoids the time and cost associated with unworkable solutions being proposed by those unfamiliar with the LGPS. **Cons** Would need to be funded by employers or by funds so could increase costs for those not wanting/needing advice. Some employers may already have their own preferred advisor and would not wish to fund this.

Issue(s): Perceived unfairness of ongoing funding strategy (where treated differently to local authorities and on closing to new members)

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
7	**Enforce/encourage greater consideration of covenant/ financial strength through tPR or greater enforcement of existing Cipfa guidance on preparing and maintaining funding strategy statements** e.g. an audit of practice.	**Pros** Makes existing good quality guidance more effective / more consistently applied in practice. Supports best practice that Cipfa and tPR would like to see taking place. **Cons** Resource intensive for the body undertaking an audit in this area. May only change behaviours if there are penalties for non-compliance and even then some administering authorities may not engage.
8	**Undertake a review of funding valuations from an employer viewpoint to include review of the FSS and ensuring employer funding strategy is sufficiently clear.**	**Pros** Provides more transparency and reassurance for employers. May lead to a gradual shift to greater consistency across funds. **Cons** There will be an associated cost . There is not a one size fits all approach across funds so we would expect differences to remain. Requires expertise from the body undertaking the review and it is not clear who would be best placed to carry out this review nor how they would be appointed.
9	**Greater education of employers through improved communications (from Administering Authority or Actuary)**	**Pros** Provides more transparency and reassurance for employers. Could make administration easier if employers then provide more timely and better quality data and ask fewer ad hoc questions. **Cons** Time and cost associated (but this could be mitigated – see pros above). Many administering authorities would argue they already offer this but employers aren't engaging, e.g. poor attendance at AGMs/Employer Forums.

Issue(s): Lack of consultation on employer contribution changes

Raised by: Employers; Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
10	**Strengthen requirements to consult/communicate with employers;** e.g. clear guidance on timeframes, method, what should be taken into account.	**Pros** Avoids surprises for scheme employers. Should reduce time and cost of responding to employer queries. **Cons** There is already a lot to do as part of the valuation process, and would require additional resource. Unless penalties for non-compliance, it won't necessarily ensure consistency or improve administering authority communications uniformly.
11	**Provide central guidance (or principles) on effective valuation process and negotiations on funding,** e.g. extend the Pensions Regulator's remit to the LGPS	**Pros** More consistency across funds. Improves minimum standards. **Cons** May be seen as a local issue for local funds to manage. Will only be effective if there are sufficient incentives for administering authorities to adhere to the guidance. Not obvious the Pensions Regulator has the resources to take on any additional work in relation to the LGPS and doesn't currently have any experience on public sector scheme funding.

Issue(s): Lack of understanding of valuation process and approach

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
12	**Encourage funds to offer employer workshops to discuss valuation results**	**Pros** A more interactive opportunity to discuss results and answer employer queries. Could reduce later questions and pick up misunderstandings/any data issues before results are finalised. **Cons** A balance will need to be struck between the cost and value of any workshops. Not all Tier 3 employers would have the resources to send someone to these.
13	**Offer central valuation training** (may need to be split by actuarial firm). Could be via a webinar to encourage attendance.	**Pros** Further opportunity for employers to engage in the process. Provides generic advice/information. **Cons** Would not be the right forum for more individual discussion/questions. Funds may not wish to pay for this and charging employers likely to reduce attendance, particularly from small employers.
14	**Earlier deadlines for FSS changes, and guidance on the consultation process**	**Pros** Would provide more opportunity for employers to prepare for valuation results/impacts. Could improve the consultation and encourage more dialogue. **Cons** May be times where late changes to the FSS are required. Employers may already feel difficult to respond to the consultation without understanding the effect on valuation results and contributions so earlier consultation won't help.

Issue(s): Care is needed in the use of contingent assets as they may end up with little/no value at the point they are needed

Raised by: Administering Authorities; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
15	**Training for administering authorities**	**Pros** Better equip funds to understand the issues and make more informed decisions. If used to support development of an administering authority policy it would then avoid time and cost of exploring options on a case-by-case basis. **Cons** Would need regular refreshers due to turnover in funds/ committees.
16	**Guidance/Reinforce need for appropriate expertise**	**Pros** Better equip funds to understand the issues and make more informed decisions. **Cons** Cannot be sure the messages have been read / understood.

Statutory (secondary) – Funding and investment issues

Issue(s): Unaffordable contributions

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
17	**Extend use of the 50:50 Scheme in special circumstances at the option of the employer** e.g. employers could make monthly payroll adjustments where members are offered additional pay if they elect the 50:50 Scheme, as long as any legal requirements are met, e.g. employees retain the statutory right to opt back into the main scheme.	**Pros** This could for example facilitate continued membership where a college is in special administration or where an employer and administering authority agree to redirect more of an employer's LGPS contributions towards the deficit (so the existing level of employer contributions would be maintained but the cost of future service benefits would reduce if members accrue 50:50 Scheme benefits). **Cons** Would require regulatory change. Lower pension accrual for members. Potentially costly to administer.
18	**Require local councils to provide guarantees for charities/not for profit organisations in their area.**	**Pros** This addresses Tier 3 employer view that if guarantees had been required at the point they were established those guarantees would have been forthcoming. **Cons** Potential unexpected costs being passed to local authorities. Not always an obvious link back to a local authority.
19	**Introduce a cap on the pay to which final salary and/ or CARE accrual is applied with any additional pay non-pensionable.** Consideration would be needed as to how member contributions were then set for those earning above the pay cap and how that cap is indexed (or not) over time.	**Pros** Reduce the costs to employers with high earners – high proportionate impact. Reduce the likelihood of high earners breaching the lifetime allowance (and hence having to opt-out of the scheme, losing death-in-service and ill-health benefits). Levelling the value of the scheme between members of different pay bands (based on survey analysis, currently the scheme is valued more by higher paid members). **Cons** Lower pension benefits for some members. Possibly a less attractive scheme for some high earners. Potentially costly to administer (but savings in relation to maintaining pay records once cap breached)

Issue(s): Inflexibility in exit regulations / unaffordable contributions

Raised by: Employers; Administering Authorities; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
20	**Introduce regulatory provisions to allow employers to remain contributing employers after the last active member has left the scheme,** for example along the lines of the recently introduced DWP provisions (The Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018) and recent changes to the LGPS in Scotland.	**Pros** Enables greater flexibility in ongoing and exit funding which most stakeholders have indicated they would support. Brings the LGPS into alignment with other multi-employer schemes. **Cons** Would require regulatory change. Lower pension accrual for members if it encourages employers to close the scheme to new members and/or future accrual. Possible negative cash flow consideration (loss of contributions) and related investment considerations restraining investment options across the scheme if it encourages employers to close the scheme to new members and/or future accrual.
21	**MHCLG to take a policy decision on whether the LGPS is the right scheme for some/ all Tier3 employers, and, if not, introduce appropriate provisions to facilitate an "orderly exit" which is fair to all stakeholders**	**Pros** Clarification of the intended purpose of the scheme (back to its roots as a scheme for local government employees). Addresses concerns (from some employers) of being trapped in the scheme – not being able to afford to stay in the scheme nor get out. **Cons** Funding issues would need careful consideration. Won't necessarily lead to affordable exit costs. Possible negative cash flow consideration (loss of contributions) and related investment considerations restraining investment options across the scheme if it encourages (or requires) employers to exit the scheme.

Issue(s): Unaffordable contributions / lack of awareness of the 50:50 Scheme option / funding risk

Raised by: Employers; Administering Authorities; Members; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
22	**Ensuring that when a member does elect the 50:50 Scheme there is an immediate pay back for employers.**	**Pros** Better communication and evidence of savings from 50:50 may help with affordability concerns which in turn may increase/improve communication of the option by employers to members. Higher take-up could be a benefit if the 50:50 scheme is appropriate for the members and/or encourages the employer to remain in the Scheme rather than exit. **Cons** Admin costs/implications of immediately reducing employer contributions for 50:50 elections – tracking 50:50 take-up by employer and possibly having to certify two primary contribution rates. Maintaining contribution levels and re-directing the saving to deficit contributions might be preferable from an admin and funding perspective but this means no immediate saving for employers. If overall take-up increases (i.e. members who have opted-out completely join 50:50) it would cost employers more. May also lead to increased employer pressure on members to elect 50:50.

Issue(s): Lack of consideration of affordability when setting contribution rates

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
23	**Introduce additional options for funding, e.g. consideration of alternatives to contributions**	**Pros** May enable employers to meet fund obligations via alternative means. **Cons** Cost may be prohibitive. Value to the fund may be far lower than value to the employer. Employers may not have any suitable assets.
24	**Enable administering authorities to take steps to reduce build-up of further liabilities, e.g. cease future accrual or move members to 50:50.** See the Local Government Pension Scheme Regulations (Northern Ireland) for precedent for the former ..."The Committee may, with the approval of the Department, if it thinks necessary to protect the solvency of the fund or prevent liabilities in relation to one contributing body falling onto other contributing bodies, require active members employed by a particular contributing body to cease future accrual with effect from a date specified by the Committee so that the contributing body no longer employs active members."	**Pros** Addresses concerns (from some employers) of being trapped in the scheme – not being able to afford to stay in the scheme nor get out. **Cons** Funding issues would need careful consideration. Won't necessarily lead to affordable exit costs. Possible negative cash flow consideration (loss of contributions) and related investment considerations restraining investment options across the scheme if it encourages (or requires) employers to exit the scheme.

Issue(s): Unpredictability of accounting costs

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
25	**Another employer (e.g. a local authority) taking responsibility for funding risk with the employer participating on a defined contribution basis** (akin to a pass through arrangement between a Scheme Employer and contractor)	**Pros** Enables defined contribution accounting. Removes volatility of pension contributions for the Tier 3 employers. **Cons** Unlikely to be popular with the other scheme employers. May increase funding risk for other employers – especially in funds with a high proportion of tier 3 employers (unless investment strategies are revisited). Unlikely to be appropriate for the larger employers, including universities and housing associations. If set to reflect fair value for the risk transfer the DC costs may be prohibitive.

Issue(s): Lack of understanding/knowledge/engagement in investment strategy

Raised by: Employers; Administering authorities

ID	Option(s) for change	Potential high level pros/cons
26	**Introduce a requirement for the ISS to include a section on Tier 3 employers and how the strategy affects them**	**Pros** Increases relevance of the statement to this stakeholder group. Forces administering authorities to consider employers beyond the key local authority and other public sector bodies when setting investment strategy. **Cons** Does not solve the skills gap among some employers. Employer may still feel they have little say particularly if the requirement is simply to state the effect of the strategy on Tier 3 employers.

Issue(s): Perceived unfairness of ongoing funding strategy (where treated differently to local authorities and on closing to new members)

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
27	**Extend statutory deadline for valuation process to facilitate greater engagement/ discussions with employers** e.g. move to a 18 month valuation sign off date and/or introduce a statutory consultation period with employers.	Pros Timescales are currently very tight from receipt of data to valuation sign off and some funds have a considerable number of employers so longer timescales for the process would be beneficial for ensuring communications are more considered and timely. Cons May increase the overall costs of the exercise. Timescales need consideration to ensure that they work well with other deadlines, such as sign off of annual pension fund accounts and implementation of new contributions. Requires regulatory change.
28	**Introduce amendment regulations to permit ongoing contributions from (suitably financially strong) employers after the last active has left.**	Pros Provides greater flexibility for administering authorities Enables deferral of bullet payment on exit and to take into account employer covenant. Cons Requires regulatory change.
29	**Replace the current "single FSS for the fund" approach with one requiring sub-strategies for different employer groups, with associated consultation requirements.**	Pros Provides more transparency and reassurance for employers. Ensures the Administering Authority has appropriately considered the funding strategy for such sub groups. Cons May be duplication within the strategy perhaps leading to less clarity in the document overall.

ID	Option(s) for change	Potential high level pros/cons
30	**Require administering authorities to include information on the assets and liabilities of Tier 3 employers in the annual report and accounts.**	**Pros** Provides more context on the materiality of this issue by fund. Ensures funds consider this. Additional transparency could enhance consistency across funds and help explain why Tier 3 employers are treated differently for funding purposes. **Cons** Another disclosure requirement and potential additional cost. Not obvious anyone will use/read this information – needs to be clear what benefit/use to which this will be put.
31	**Permitting a refund of surplus on exit would address concerns that funding risk is asymmetric** (i.e. employers are responsible for any deficit on exit but cannot benefit from a surplus on exit).	This change was implemented after the commencement of this project and before publication of this report.
32	**Require separate sub-funds for Tier 1, Tier 2 and Tier 3 employers with potentially separate valuation timetables for each.**	**Pros** Extending such separation could facilitate a more appropriate and consultative approach to funding and investment strategy for Tier 3 employers. It may not reduce pension costs for the sector but greater engagement could improve their experience of participating in the LGPS. Would make it easier for Tier 3 employers to consolidate their interests in a single LGPS fund (via a Direction) if it means the administering authorities concerned are less likely to respond negatively to any consultation on the Direction. Could work very well in assisting with any plan to permit Tier 3 employers to exit the LGPS in future. **Cons** Given the administering authority effectively underwrites the benefits (where there is no employer guarantee) would need to consider how to most effectively separate each sub-fund. Considerable work (and hence cost) would be required to move to this model.

Issue(s): Valuation timetable does not enable time for business planning

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
33	**Separate out the valuation timetable for different categories of employer, with a different valuation date applying to Tier 3 employers.** This could, for example, fit with a move to a quadrennial cycle for local authorities and other Tier 1 and Tier 2 employers.	**Pros** Ensures that each employer group has adequate focus during the valuation. Should provide more time for discussing results with employers and fits in with separate section of funding and investment strategy statements. **Cons** Would work best with segregation of assets or for unitised funds – see below (otherwise would need to calculate assets and liabilities for all employers to ensure assets are appropriately allocated). May lead to additional work and costs for administering authorities (although costs could be allocated to each employer category).
34	**Extend the period of the Rates and Adjustments Certificate (e.g. to 6 years), with contributions only amended after 3 years where there is a strong reason for doing so.**	**Pros** Could help with employer budgeting and reduce volatility of contributions. **Cons** Not clear how this would fit with the Scheme Actuary's analysis and reporting under Section 13. Doesn't fit well with the need to prevent a material surplus or deficit building up for short-term/closed employers (so might not benefit many Tier 3 employers)

Issue(s): Concerns about other employers needing to meet costs of employers exiting the fund

Raised by: Administering Authorities; Members; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
35	**Create an LGPS pension protection fund (which every fund contributes** to, or just for certain sectors and employers to meet the costs)	**Pros** Reduces risk to individual employers and funds. Pooled concept may appeal in a national scheme. Would deliver consistency if implemented nationally although that would need detailed prescription. **Cons** Would need significant work to implement and ongoing costs to funds and/or employers. If administering authorities retain any discretion/flexibility the benefit of consistency may not be delivered. May lead to higher costs if investment strategy is amended and/or additional contributions may be required in light of higher perceived risk.

Issue(s): Perceived unfairness of exit costs

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
36	**Implement a "pass through" arrangement specific to the charity sector** (admission body Tier 3 employers only) whereby any members who were originally employed by one of the councils are treated as still being employed by the Council, with the Tier 3 employer making fixed contributions in relation to the liabilities for those members.	**Pros** It could be of material benefit to closed charities who currently feel trapped within the LGPS and could even be beneficial to the local authorities if it avoids them picking up a larger cost if the employer exits and cannot pay the exit deficit. **Cons** It is likely to be a non-trivial task to unwind the existing funding arrangements and many of the employees who originally transferred may have already left or retired. There will be differences of opinion on what constitutes a fair fixed rate of contribution.
37	**Require funds to adopt ongoing funding targets closer to the exit liabilities** (e.g. via FSS guidance) – to reduce the likelihood of material exit deficits arising but (materially) increase ongoing contributions in many cases	**Pros** More transparent and reduces risk of a large unexpected final payment. Likely to lead to more consistency across funds. **Cons** May need regulatory change or audit to ensure guidance is followed. May increase ongoing contributions for employers in some funds. Could lead to more exits in the short-term where the debt cannot be met by the employers (particularly for charities).

Issue(s): Perceived unfairness of lump sum exit payments being required

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
38	**Set say, a 3 or 5 year payment period as the default where the exiting employer continues to exist (regulatory or via guidance)** with flexibility for this to be extended at the discretion of the administering authority/ on agreement of the parties	**Pros** Consistency across funds. Enables exit payments to be met over a reasonable time horizon. Could save employers from insolvency and enable the fund to obtain more contributions (over a longer period). **Cons** Fund remains exposed to employer risk. May require regulatory change.
39	**Introduce greater flexibility in the Regulations to permit deferral of the exit valuation and continuing ongoing support/contributions where financial strength justifies it**	**Pros** Enables management of exit over a longer time frame. Enables outgoing employer to benefit from any positive experience after the exit date. Ensures the outgoing employer is on risk for any negative experiences after the exit date. **Cons** Fund remains exposed to employer risk. Could be seen to increase risk if employer would have been able to meet a low risk exit payment. Likely to require administering authority discretion so may not be applied consistently across the LGPS.
40	**(Re)introduction of the ability for the administering authority to review contribution rates between valuations in circumstances beyond those currently envisaged by Regulation 64.**	**Pros** This should reduce the likelihood of a material exit payment/credit arising. **Cons** Does not help unforeseen exits. Increases the burden on administering authorities (although they should already be monitoring employers which may exit and can amend their contributions under Regulation 64(4)).

Issue(s): Lack of consultation on employer contribution changes

Raised by: Employers; Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
41	**Strengthen requirements for employers to engage in the valuation process;** e.g. fine for non-attendance at annual employer meeting	**Pros** Likely to increase engagement from employers. **Cons** May be seen as draconian, and difficult to enforce, particularly for smaller employers who may not have sufficient resource to attend meetings.

Issue(s): A high proportion of Tier 3 employers expect to cease contributions to the scheme but do not understand the exit process or costs

Raised by: Employers; Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
42	**Minimum requirements for exit costs disclosure (triennially or preferably annually)** e.g. annual funding statement for employers (which could include other info too such as details of benefits transferred in – see later).	**Pros** Avoid surprises for scheme employers. Arguably best practice for short-term employers. **Cons** Additional time and cost to produce. May require additional support for employers to truly benefit.

Issue(s): Lack of understanding of valuation process and approach

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
43	**Require funds to hold an annual meeting/employer forum for employers.**	Pros Encourages engagement and planning ahead. Cons Additional time and cost. Attendance may be low / only those employers which are already engaged may attend.
44	**Introduce minimum standards for valuation communications for employers/standardised format (via Regulations or guidance)** noting that the lack of a standardised valuation report is arguably not helpful either	Pros More consistency across funds. Raises standards. Cons Could potentially constrain information provided. Different funding approaches adopted by different funds may make this difficult to achieve in practice.
45	**Require administering authorities to hold an annual meeting specifically for Tier 3 employers to ensure the issues pertinent to them are given more airing** (acknowledging that the Tier 3 employers are themselves quite diverse)	Pros Could tailor meetings appropriately and make more valuable to Tier 3 employers. Cons Additional time and cost may be more valued in some funds (high Tier 3 exposure) than others.

Issue(s): Employers trapped in a scheme they cannot afford to be in or leave

Raised by: Employers; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
46	**Change status of some Tier 3 employers (remove from Part 1 of Schedule 2)** NB: funding related issues creating the feeling of being trapped are covered above.	Pros Would enable employers to make choices over pension provision. Would prevent additional time and cost of exploring the pension implications of establishing a wholly owned company not participating in the LGPS. Cons Staff/members may be worse off as a result if employers elect to close the scheme to new entrants/future accrual. Loss of contribution income to the scheme (member contributions will be lost even if total employer contributions are unchanged).

Issue(s): Employers exiting through the back door (restructures)

Raised by: Members, Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
47	**Power to enforce exit payment on successor/ parent company.**	Pros Strengthens regulations and increase protection for the funds. Could facilitate managed exits if parent company/successor body responsible for future funding even if it doesn't participate in the LGPS. Could reduce likelihood of employers re-structuring to avoid pension deficits (noting issues with historic college mergers in particular). Cons Would need regulatory change. Unlikely to be popular with some employers.
48	**Greater flexibility for managed exits.**	Pros Enables planned and orderly exits so reduces likelihood of exit by stealth. Cons May be seen as encouraging employers to exit. Loss of accrual for members.
49	**Power to amend contributions on employer restructures** (see also recommendation 40 above)	Pros If administering authorities have the power to amend ongoing contributions this could reduce the need to try to invoke Regulation 64(1). Cons Employers may complain administering authorities use these powers to amend contributions to take account of poor experience (e.g. if investment markets have not performed well) which would not be applicable to other employers. Where administering authorities have discretion likely to lead to different treatment, i.e. applied inconsistently.

Issue(s): Suitability of a low risk (gilts based) approach to calculating any exit liability

Raised by: Employers; Fund actuaries, Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
50	**Prescribe maximum cost** – e.g. based on insurance buy-in	**Pros** Provides clear guidance and expectations. **Cons** Buy in costs not known. Costs may be higher than where the fund self-insures the benefits without use of insurance.
51	**Enforce funds to match orphan liabilities with suitable investments**	**Pros** Ensures the exit cost reflects realities of investments held. Materially reduces the risk of future investment losses on orphan liabilities which would otherwise fall on the remaining employers. **Cons** May be seen as constraining funds investment options. May increase long term cost of the fund.

Issue(s): Potential for future creation of Tier 3 employers/risk

Raised by: Fund actuaries; Members

ID	Option(s) for change	Potential high level pros/cons
52	**Requirement that new employers (including scheduled bodies) can only join the fund with guarantee from a tax raising body.**	**Pros** Future proofs the scheme from further exposure to risky employers. Reflects existing policy for most funds in relation to new admissions. **Cons** Requires legislative change. May be seen as unfair to members caught up in a reorganisation if it means they cannot remain in the LGPS.

Statutory (primary) – Funding and investment issues

Issue(s): Unaffordable contributions

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
53	**Provide greater flexibility and choice for members to manage their benefits, e.g. for tax purposes.** An example could be the breaking of the final salary link on pre-2014 benefits which could reduce the number of members breaching the annual allowance.	**Pros** If the options centre on alternatives which reduce the overall level of benefits this could have the added advantage of reducing costs / funding risk for employers. **Cons** There is likely to be pressure to ensure members don't lose out through the election of options (although agreement was reached to less than cost neutral commutation factors). If members were given the option to convert their final salary benefits to CARE (e.g. via conversion factors set by the Government Actuary's Department) this could have the opposite effect for employers and leave employers exposed to additional cost, noting that the level at which any conversion factors are set could be controversial with employers and member representatives taking different views. Further, even if costs did reduce, member options will not enable employers to manage their costs.

Issue(s): Perceived unfairness of exit costs

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
54	**Introduce statutory guarantee** e.g. Require local councils to provide funding for charities/ not for profit organisations' liabilities post-exit; and central government for HE/FE	**Pros** Would enable more flexibility in determining the appropriate exit basis. **Cons** May be difficult where employers are operating across local authority boundaries. May not be clear why the council/government should be responsible for these liabilities. Would require significant legislative change which will likely be challenged.

Non-statutory (guidance) – Communication, administration and employers duties

Issue(s): Lack of knowledge of the 50:50 Scheme/expensive scheme

Raised by: Employers; Members

ID	Option(s) for change	Potential high level pros/cons
1	**Improve publicity of 50:50 Scheme option** (without encouraging members to opt out of the main scheme).	Already included in the SAB work plan.

Issue(s): Difficulty providing data on time, and of required quality

Raised by: Employers; Administering Authorities; Members

ID	Option(s) for change	Potential high level pros/cons
2	**Increase resources to help support/train employers**	**Pros** Will lead to improved data. **Cons** Comes at a cost.
3	**Consider a "kite mark" system for payroll providers identifying those which are capable of providing the information required.**	**Pros** Ensures payroll providers are skilled and compatible with the pensions systems already being considered as part of the Academies review work streams. **Cons** Difficult to change existing suppliers in some instances (if required). May not be appropriate for employers where LGPS membership is small proportion of employees.

Issue(s): Greater proportionate workload at valuations

Raised by: Administering Authorities; Fund actuaries

ID	Option(s) for change	Potential high level pros/cons
4	**Encourage pooled approach to employer contributions**	**Pros** Reduces actuarial time/costs associated with provision of individual employer valuation results and contributions. Greater sharing of risks (which may benefit smaller employers). **Cons** Exposes employers (and in the case of tax raising bodies, potentially the taxpayer) to cross subsidy which may be considered unfair. A “u turn” on previous changes in many funds. Could lead to greater costs in relation to other calculations, e.g. when employers exit, or there are other movements in membership such as bulk transfers or employer mergers/disaggregation from the pool.
5	**Encourage more resource at Administering Authorities**	**Pros** Increases capacity and scope to manage the process. **Cons** Resource cost involved. Cipfa’s Pensions Panel has already raised this (in general, not specifically in relation to valuations) and not clear it has had any effect.

Statutory (secondary) – Communication, administration and employers duties

Issue(s): Poor level of communication from Administering Authorities

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
6	**Provide more central support on training/guidance/support for employers to improve performance of poorly performing administering authorities and consistency of employer experience**	**Pros** Provides clear guidance and expectations. Reduces cost if produced centrally due to economies of scale. **Cons** Additional work to set up further guidance and ensure funds follow this. Effectiveness depends upon administering authority engagement and poorly performing funds may be least likely to adhere to central guidance.
7	**Check/ audit of administering authorities' performance relative to their communication strategy and best practice**	**Pros** Encourage more funds to follow guidance. **Cons** Additional work to audit this.

Issue(s): Variable communications and training from employers

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
8	**Many Tier 3 employers are heavily dependent on the communications from their local fund so consider minimum standards or a centralised training team and communications.**	**Pros** Provides an improved and more consistent member experience. **Cons** Some funds already do very well in this area, could worsen member experience in some instances. Could increase costs.
9	**Where workshops are run by administering authorities these are valued by members. Consider running workshops centrally or include this within a new minimum standard for funds.**	**Pros** Provides an improved and more consistent member experience. **Cons** Significant resource required and not practical to run for all members of the scheme.

Issue(s): Not clear that the LGPS membership understands the value of the membership

Raised by: Employers; Members

ID	Option(s) for change	Potential high level pros/cons
10	**Employer contributions could be included on member benefit statements**	Pros May make it clearer to members just how valuable their benefits are in the LGPS. Cons Arguably an employer issue rather than a Fund one. Would lead to different messages for different members and possibly confusion since benefits not linked to contributions.

Issue(s): Lack of Tier 3 representation (more so in some sectors than others) within fund governance structures

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
11	**Enable participation on Pension Fund Committees (not just Local Pension Boards).**	Pros Provides a voice on a decision making committee. Cons May make it more difficult to reach consensus opinion. Overall balance of the committees may need a re-think to ensure they are balanced and effective. May not have voting rights depending upon the constitution of the committee.
12	**Introduce requirement for employer representatives to consult with all employers, possibly on a sector-basis.**	Pros Provides a voice on a decision making committee. Increases effectiveness of Local Pension Boards (LPBs). Cons May slow down various processes/decision making. Still difficult to influence when one step removed.

Issue(s): Poor levels of engagement and understanding from employers in FSS/ valuation process

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
13	**Require minimum training/ Continuous Professional Development (CPD) from nominated employer reps.**	**Pros** Increases the chances of an effective dialogue. **Cons** Difficult to monitor/enforce. Not clear who would pay for this.
14	**Centralised/mandatory communications and timetables**	**Pros** Encourages timely communications of required content for a more meaningful consultation. **Cons** On the communications side there may be some difficulty in centralising where local funding practice differs.

Issue(s): Difficulty providing data on time, and of required quality

Raised by: Employers; Administering Authorities; Members

ID	Option(s) for change	Potential high level pros/cons
15	**Simplify the scheme – e.g. remove Assumed Pensionable Pay, set CARE pay equal to pre-2008 pay in the future; convert final salary benefits into a CARE pension**	**Pros** Will make the scheme simpler to administer and data easier to gather at required quality. **Cons** Difficult to monitor/enforce. Will have implications for members' benefits and possibly for costs depending upon how any conversion is calculated.
16	**Provide more central communication and support on training, guidance and support for employers to improve performance of poorly performing administering authorities and consistency of employer experience**	**Pros** Improves performance of poorly performing administering authorities. More consistency in employer experience. **Cons** Resource cost involved. May not improve performance if administering authorities don't engage.

17	**Increase timescales for provision of data, e.g. for year-end returns.**	Pros Gives more opportunity to clean data and/or time to get it right first time. Cons Will slow down other processes (e.g. benefit statements), so may need to amend statutory disclosure requirements.

ID	Option(s) for change	Potential high level pros/cons
18	**Introduce minimum system requirements and enforce those standards**	Pros Consistent experience for employers across the scheme. Cons Could be high costs where system changes are required.
19	**Introduce a requirement for an agreement (SLA) between the AA and employers and perhaps operate a variable expense loading to encourage greater engagement/ensure employers pick up the cost where accurate or timely data isn't provided.**	Pros Clear sanctions are likely to improve data supply. Cons Could be subject to challenge, and may be seen as excessive.

Non-statutory (guidance) – Benefits

Issue(s): Over generous benefits to members / Two or multi-tier workforce

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
1	**Allow employers to incentivise members to select 50:50 Scheme.**	Pros Reduces the benefits (and costs). Already a possibility so no additional work required. Cons May not be in the best interest of members.

Statutory (secondary) – Benefits

Issue(s): Over generous benefits to members / Two or multi-tier workforce

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
2	**Enable existing scheduled body Tier 3 employers to leave the scheme**	Pros Gives greater choice and control to employer. Cons Potential loss of contributions to the scheme. Probably lower benefits for members.

Issue(s): Cost of redundancy for over 55s impinges on business planning/work-force management

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
3	**Amend Regulations so immediate pension is discretionary (for employer)**	Pros Helps contain costs where required. Cons Different treatment for members depending on their employer. Loss of valued benefit for some. Not clear how this fits with potential proposals from HM Treasury.

4	**Remove service linkage provisions / amend benefits such that only membership with current employer is payable unreduced**	**Pros** Costs better reflect service with the current employer/ loyalty to that employer. Reduces exit payments when exit is triggered by redundancy of last active member(s). **Cons** Lower benefits for some members. Care needed where employment has moved as a result of restructure/ outsourcing – i.e. not the member's choice. Could lead to additional complexity.
5	**Permit greater spreading of redundancy costs (may need to link to financial strength/ covenant of employer rather than funding level)**	**Pros** Retains staff benefits. More likely to make redundancy an affordable option. **Cons** May not reduce costs for all employers (depending on mechanism).

NB: It is not yet clear if proposals on a cap on exit payments will help here if these are implemented for public sector employers only, although they might if there are scheme-wide changes to the regulations on efficiency/redundancy early retirements.

Issue(s): Cost of transfers in (and subsequent early retirement costs)

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
6	**Amend Regulations so transfers in are an employer discretion (currently funds can elect not to accept non-Club transfers)**	**Pros** Enables employers to manage risk exposure. **Cons** May not be straightforward to extend to Club transfers. Discourages pension simplification (one pot) for members.
7	**Increase disclosure requirements from funds to employers**	**Pros** Employers would be aware of pension choices of their members. Enables better understand and to manage pension risk. **Cons** Increase workload in the administering authority (or pension adminstration provider).

8	**Change the regulations so that transferred service does not qualify for immediate payment unreduced on redundancy**	Pros Costs better reflect service with the current employer/loyalty to that employer. Cons Lower benefits for some. Care where employment has moved as a result of restructure/outsourcing – i.e. not the member's choice. Not clear if/how linkage of benefits for members moving between employers within a fund could be separated for this purpose.

Issue(s): Lack of flexibility (in scheme benefits)

Raised by: Members; Employers

ID	Option(s) for change	Potential high level pros/cons
9	**Consider offering more flexible benefits; e.g. conversion of salary linked benefits to CARE; DC options etc.**	Pros May enable the scheme to better meet the needs of its members. Cons Too many options can be confusing. Who would advise the member on options. Difficult to fund and administer the scheme.

Issue(s): List of employers no longer reflects local government.

Raised by: Administering Authorities

ID	Option(s) for change	Potential high level pros/cons
10	**Make it optional for colleges and universities, i.e. change status for Part 1 scheduled bodies**	Pros Move back to a scheme for local government. Cons Not all administering authorities/members support this as would lead to loss of members and income. Counter argument is these employers are supplying local services.

Statutory (primary) – Benefits

Issue(s): Over generous benefits to members / Two or multi-tier workforce

Raised by: Employers

ID	Option(s) for change	Potential high level pros/cons
11	**Introduce a new section to the LGPS (e.g. DC but with decent level of contributions)**	**Pros** Reduces costs and or risks. Aligns to typical provision in the private sector. **Cons** Arguably not long since the last review of the scheme. Complex and possibly costly to administer another section (unless managed centrally for all Tier 3 employers electing such benefits). Potentially lower/not defined expected benefits for members.
12	**Open up the LGPS to more staff from Tier 3 employers**	**Pros** Provides access to equitable pension provision. Could increase funding position and improve cash flow position if members transfer from (say) USS. **Cons** Probably limited demand for this given the cost of the scheme. Not consistent with the concept of the LGPS as being for local government employees. Increases risk to other LGPS employers.

Appendix 1: Employer survey results

Overview

The Tier 3 employer survey was launched on 27 November 2017 and closed on 31 January 2018.

We received 299 responses including 50 from a higher education establishment, 95 from a further education establishment, 46 from housing associations and 66 from charities or other not-for-profit organisation. 42 responses were discounted as it was not clear whether the respondent represented a Tier 3 employer. Employer responses covered 58 LGPS Funds.

The sections below summarise the results of that survey.

Charities - an overview of survey results

The following key features were identified from the employer survey responses (for charities) :

- Only 4 of the 66 respondents said that their employer continues to admit some new members to the LGPS, and no respondents admit all new employees.
- Where staff are not eligible to join the LGPS the employers typically offer a defined contribution scheme alternative (92% of alternative schemes compared to 8% defined benefit).
- Employers typically have very small active (contributing) membership with 83% of respondents having fewer than 50 contributing members and 21% only having 1 contributing member left.
- Employers typically pay higher contributions compared to Higher and Further Education establishments surveyed, with 5 respondents paying over 35% of payroll.
- 26% of respondents stated that the LGPS did not meet their overall needs. This is predominantly driven by:
  - high level of contributions compared and to a lesser extent;
  - complex administration;
  - overly generous benefits offered to members;
  - a poor standard of communication from the administering authority (AA).
- 92% of respondents believe their membership understands or partly understands the benefits the LGPS offers.
- 79% of respondents believe their employer has sufficient access to expertise in relation to its participation in the Fund.
- Only 6% of respondents believe the investment strategy of the fund was not suitable for their employer, but the majority (68%) did not know if the investment strategy was suitable or not.
- 82% of respondents believe they fully understand and comply with their responsibilities as an employer in the LGPS.
- 35% of employers 'sometimes' or 'often' experience difficulties in providing data for the administration of the scheme. This was generally driven by it not being clear what they need to provide, along with difficulty meeting timescales and required levels of data quality.

- Despite typically low levels of contributing membership and the majority of employers no longer admitting new entrants, 55% of employers don't expect to stop contributing to the scheme, and only 26% of employers expected to cease contributing to the scheme in the next 10 years. Most employers who expected to stop contributions anticipated that this would be driven by the last active member of the scheme leaving, but some will cease future accrual for all current members.

- Only 57% of employers who expect to cease contributions said that they understood the exit process, and only 47% understood the exit costs.

- Satisfaction with the level of engagement in the running of the scheme was similar to that of other Tier 3 employers, but with a greater proportion stating that they do not want to be involved with the running of the scheme.

- 18% of employers were, or were thinking about, restructuring their organisation.

- 26% of employers were considering offering their staff flexibility relating to pensions benefits, and the majority of these expected to do so within the next 12 months.

Housing Associations - an overview of survey results

The following key features were identified from the employer survey responses (for housing associations):

- Only 3 of the 46 respondents said that their employer continues to admit some new members to the LGPS and no respondents admit all new employees into the LGPS.

- Where staff are not eligible to join the LGPS the employers typically offer a defined contribution scheme alternative (77% of alternative schemes compared to 23% defined benefit).

- There is a reasonable spread in the typical size of active (contributing) membership with 26% of respondents having fewer than 50 contributing members and 74% with 50 or more contributing members. 2 of the 46 respondents said that their employer has only 1 active member remaining.

- Employers typically pay higher contributions to the LGPS than Higher and Further Education establishments surveyed, with 24% of employers contributing 26% or more of payroll, compared to around 10% of Higher and Further Education institutions contributing 26% of payroll or more.

- 28% of respondents stated that the LGPS did not meet their employer's overall needs. This is predominantly driven by:

  - high level of contributions compared to the private sector and to a lesser extent;

  - overly generous benefits offered to members;

  - lack of flexibility of a national scheme;

  - complex administration

- 89% of respondents believe their employer's membership either understands or partly understands the benefits that the LGPS offers.

- 74% of respondents believe their employer has sufficient access to expertise in relation to their participation in the Scheme.

- Only 13% of respondents believe the investment strategy of their fund was not suitable for their employer and 43% did not know if the investment strategy was suitable or not.
- 91% of respondents believe they fully understand and comply with their responsibilities as an employer in the LGPS.
- 28% of employers sometimes or often experience difficulties in providing data for the administration of the scheme. This was generally driven by it not being clear what they need to provide, along with difficulty meeting timescales.
- Despite the majority of employers no longer admitting any new entrants to the LGPS, 55% of employers expect to continue contributing to the scheme and only 20% of employers expect to cease contributing to the scheme in the next 10 years. Most employers who expected to stop contributions anticipated that this would be driven by the last active member of the scheme leaving, but some will cease future accrual for all current members.
- 77% of employers who expect to cease contributions said they understood the exit process and 86% understood the exit costs.
- Satisfaction with the level of involvement employers have in the running of the scheme was broadly similar to that of other Tier 3 employers, but with a greater proportion (7%) being completely dissatisfied.
- A relatively high proportion (47%) of employers are, or are thinking of restructuring their organisation, with the main reason being restructuring the bodies within a group e.g. mergers.
- 22% of employers are considering offering their staff flexibility relating to pensions benefits and the majority of these expect to do so within the short term, i.e. next 3 years.

Higher and Further Education - an overview of survey results

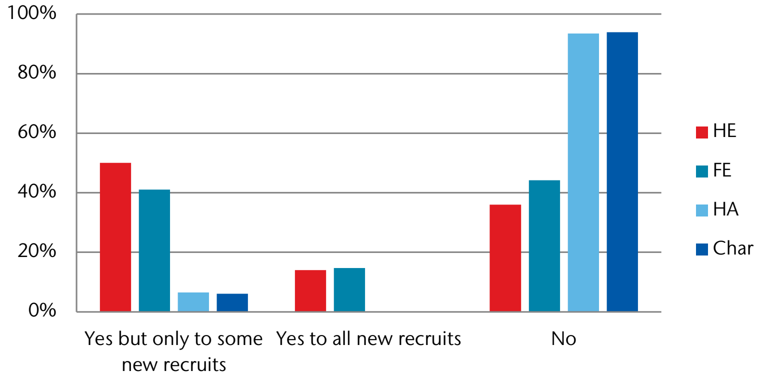
Analysis of the employer survey responses of the 145 respondents (from HE and FE institutions, split 50 HE, 95 FE), identified the following:

- Around 60% of respondents said their employer either allows all (15%) or some (45%) new staff to join the LGPS, with 40% saying new staff are not eligible to join the LGPS.
- Where staff are not eligible to join the LGPS, the employers typically offer an alternative defined benefit scheme (80% defined benefit compared to 20% defined contribution).
- The vast majority (around 95%) of respondents said that they have more than 50 contributing members.
- 90% of respondents said their employers pay less than 25% of payroll (with 30% paying less than 15% of payroll) in pension contributions, with only 10% paying 26% or more.
- Only 5% (of HE) and 10% (of FE) respondents stated that the LGPS did not meet their employers overall needs, predominantly driven by:
  - high level of contributions compared to the private sector and to a lesser extent;
  - lack of flexibility of a national scheme.
- 90% of respondents believe their employer's membership either understands or partly understands the benefits that the LGPS offers.

- 82% of respondents believe that their employer has sufficient access to expertise in relation to their participation in the fund.
- Only 4% of respondents believe that the investment strategy of their fund is not suitable for their employer and around 50% did not know if the investment strategy was suitable or not.
- 97% of respondents believe they fully understand and comply with their responsibilities as an employer in the LGPS.
- 45% (of HE) and 30% (of FE) respondents said their employers sometimes or often experience difficulties in providing data for the administration of the scheme. This was generally driven by it not being clear what they need to provide, along with difficulty meeting timescales.
- 78% (of HE) and 97% (of FE) respondents expect their employer to continue contributing to the scheme and only 12% (of HE) and 2% (of FE) expect their employer to cease contributing to the scheme in the next 10 years. Of the small number of employers who expect to stop contributing the majority anticipate that this would be driven by employers ceasing future accrual for all current members, as opposed to being driven by the last active member of the scheme leaving.
- Around 57% of employers who expect to cease contributions said they understood the exit process and 71% understood the exit costs.
- Satisfaction with the level of engagement employers have in the running of the scheme was broadly similar to that of other Tier 3 employers, with only 13% being dissatisfied (either slightly or completely) and around 30% being indifferent.
- Around 30% of employers are, or are thinking of, restructuring their organisation, with the main changes being the creation of an arms-length company (for HE), restructuring employers within a group and mergers (for FE).
- 36% (of HE) and 17% (of FE) respondents said their employers were considering offering their staff flexibility relating to pensions benefits, with the majority of these expected to do so within the next 3 years.

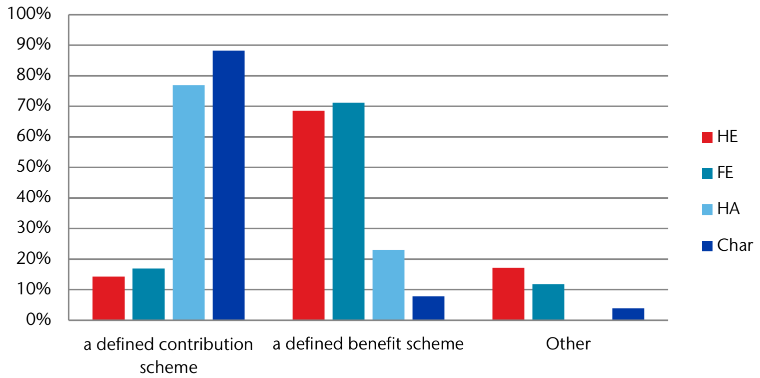
Section 1: About you/your organisation

Do you offer membership of the LGPS to new recruits?



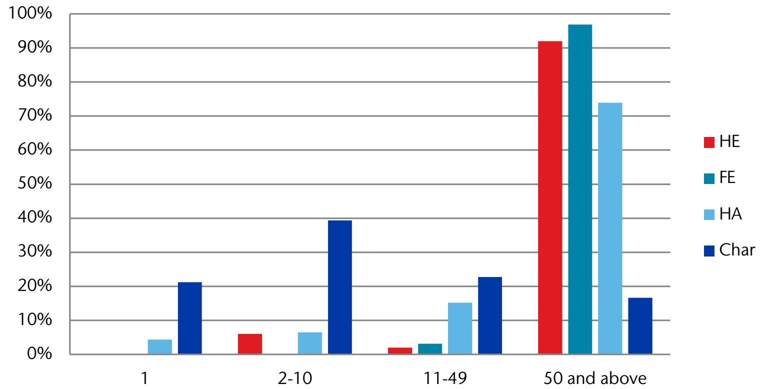
Commentary: The majority of Housing Associations and Charities who responded to the survey are closed to new entrants, whereas the Higher and Further Education establishments are more evenly split between open (to all or some) new entrants and closed to new entrants.

What type of pension scheme is offered to your staff that are not eligible for the LGPS?



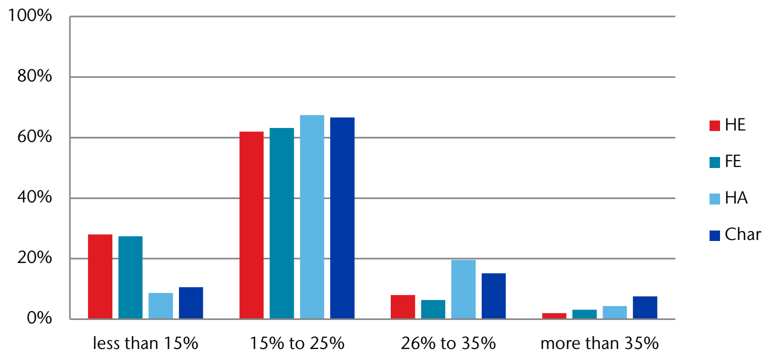
Commentary: The majority of Housing Associations and Charities offer a defined contribution arrangement to staff that are not eligible for the LGPS. Higher and Further education establishments are more likely to have a defined benefit alternative for staff not eligible for the LGPS.

How many active (contributing) members does your organisation have in the LGPS?



Commentary: Charities in particular, and some Housing Associations and Higher Education establishments have a low active membership (less than or equal to 10 members).

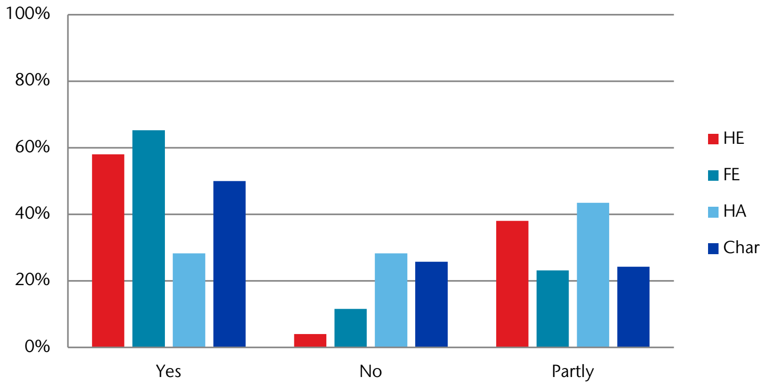
How much does your organisation pay into the scheme every year in total as a % of pay of your LGPS members?



Commentary: There is a spread in contributions payable by employers in each sector. A greater proportion of Charities and Housing Associations responding to the survey are paying rates of 26% or more compared to that of Higher/Further education establishments.

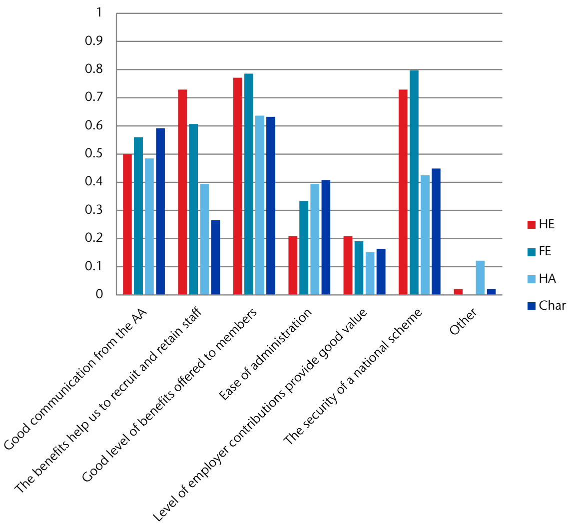
Section 2: Your views on the LGPS

In the context of your organisation's objectives, does the LGPS meet your overall needs?



Commentary: The majority of tier 3 employers responding to the survey believe the LGPS meets or partly meets their overall objectives. However, a higher proportion of Housing Associations and Charities believe the LGPS does not meet their needs.

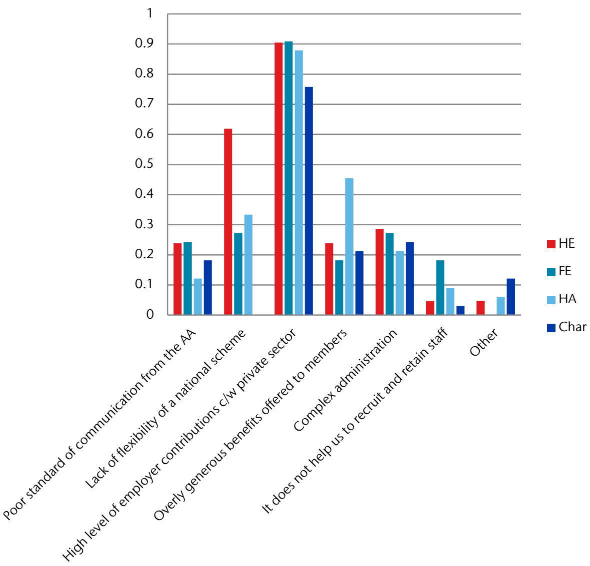
Which needs does it meet from below (please select multiple)



Commentary: Where employers stated the LGPS meets or partly meets their needs the main needs met, as illustrated in the above frequency distribution, included;

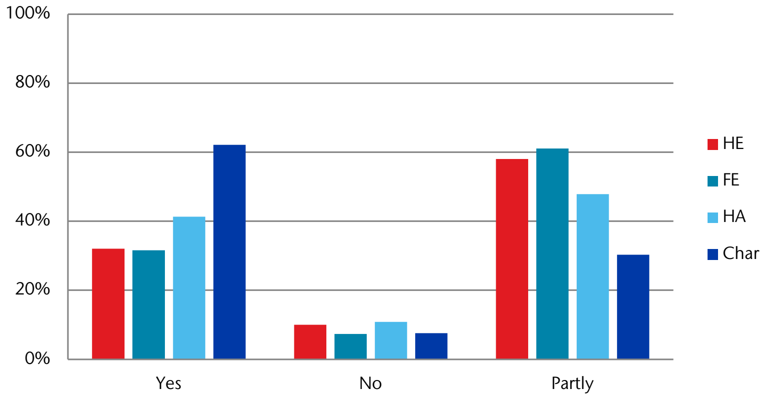
- *A good level of benefits offered to members*
- *Good Communication from the Administering Authority*
- *The benefits help to recruit and retain staff,*
- *The security of a national scheme; and to a lesser extent*
- *Ease of administration*

Please select the areas where it is failing to meet your needs (please select multiple)



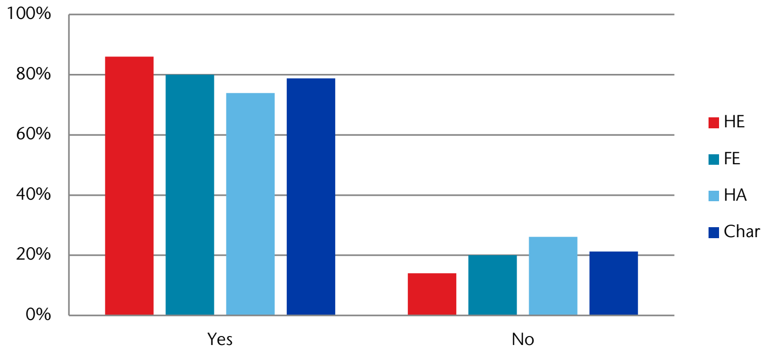
Commentary: Where employers stated the LGPS does not meet or only partly meets their needs the main areas where it is failing to meet their needs are illustrated in the above frequency distribution, with the main reason being the high level of employer contributions required compared to typical pension costs in the private sector. In addition Higher Education establishments in particular highlighted a lack of flexibility of a nation al scheme, and Housing Associations highlighted overly generous benefits being offered to members.

Do you believe your employees understand the benefits that the LGPS offers?



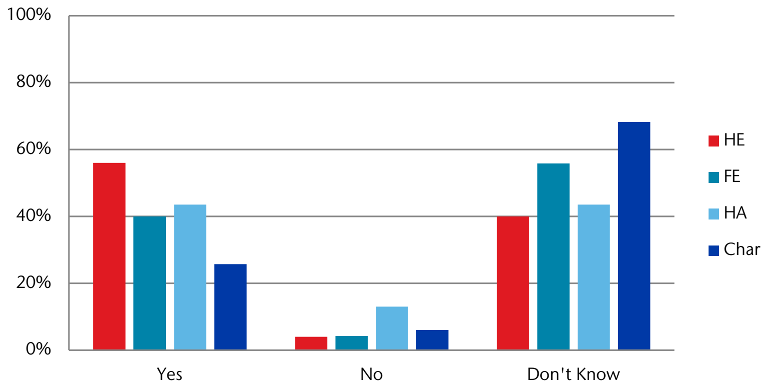
Commentary: The majority of employers believe their members understand or partly understand the benefits that the LGPS offers.

Do you believe you have access to advice and expertise in relation to your participation in the Fund?



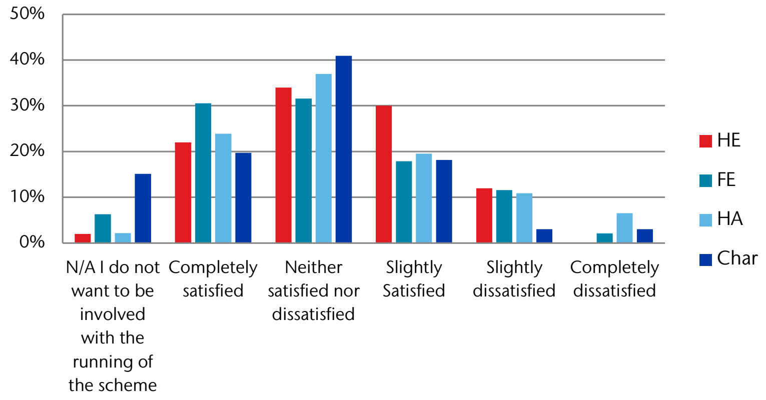
Commentary: The majority of employers believe they have access to advice and expertise in relation to their participation in the Fund.

Do you believe the investment strategy of the Fund is suitable for you as an employer?



Commentary: Employer were fairly evenly split between either believing that the investment strategy of their LGPS fund is suitable for them as an employer and not knowing whether it was suitable. Charities in particular were unsure.

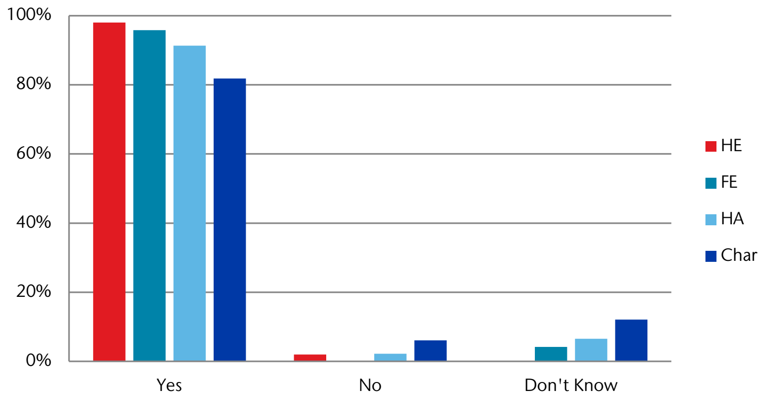
How satisfied are you with the level of engagement you have in the running of the scheme?



Commentary: Few employers responding to the survey were either slightly dissatisfied or completely dissatisfied with the level of engagement they have in the running of the scheme.

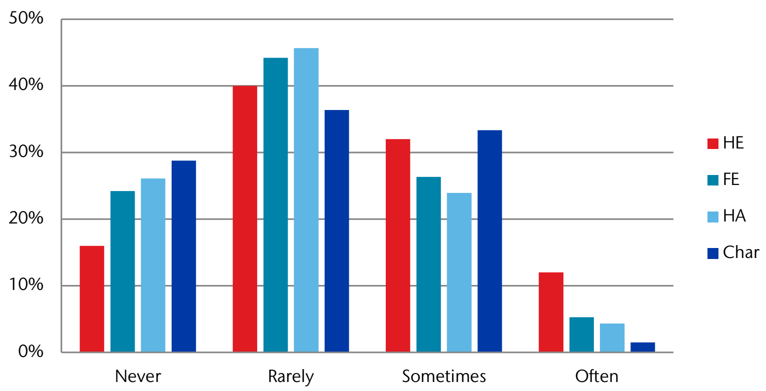
Section 3: Meeting your obligations

Do you fully understand and comply with your responsibilities as an employer in the LGPS



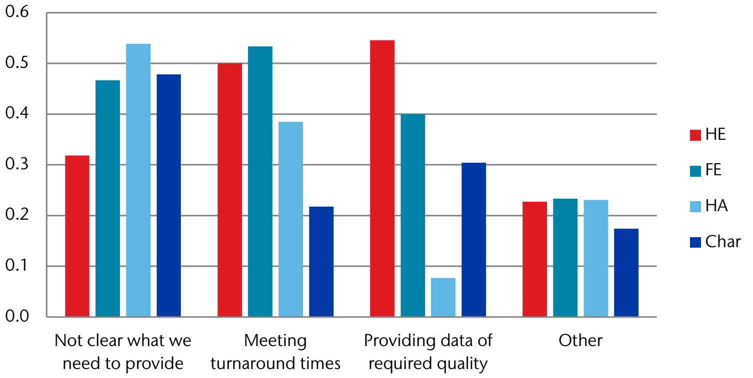
Commentary: Most employers responding to the survey believed that they both understood and complied with their responsibilities as an employer in the LGPS.

Have you experienced difficulties in providing data for the administration of the scheme?



Commentary: A high proportion of employers responding to the survey either sometimes or often experience difficulties in providing data for the administration of the scheme.

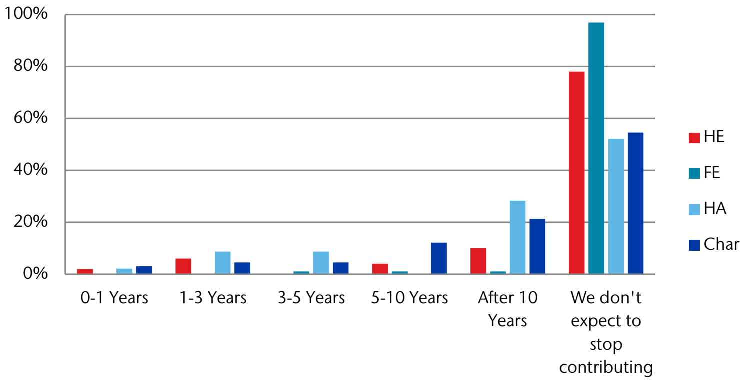
What are the difficulties you have experienced from the following? (Please select multiple)



Commentary: Where employers either sometimes or often experience difficulties in providing data for the administration of the scheme, the main difficulties were meeting turnaround times, not being clear what they need to provide and, possibly with the exception of Housing Associations, difficulty providing data of the required quality.

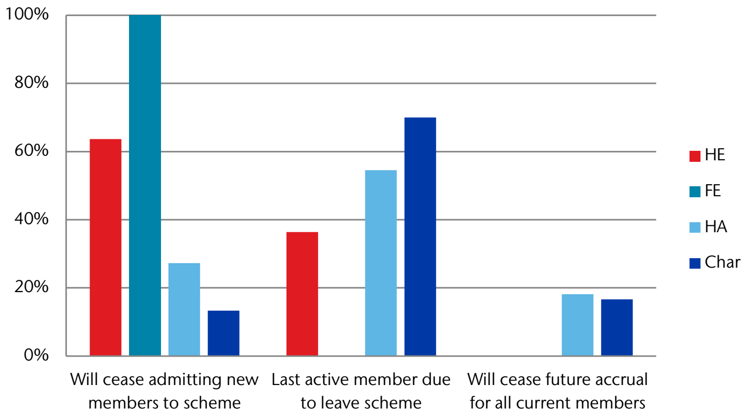
Section 4: Your future plans

When do you expect that your organisation will stop contributing to the LGPS?



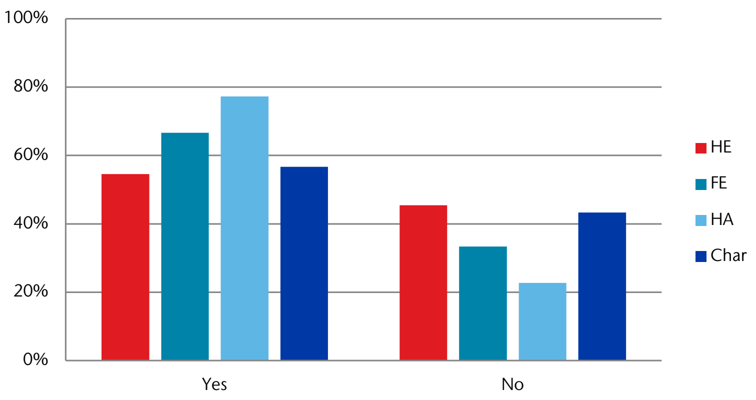
Commentary: Few employers expect to stop contributing to the LGPS in the short term; this is especially true for Further Education establishments.

Why do you expect to stop contributing to the LGPS?



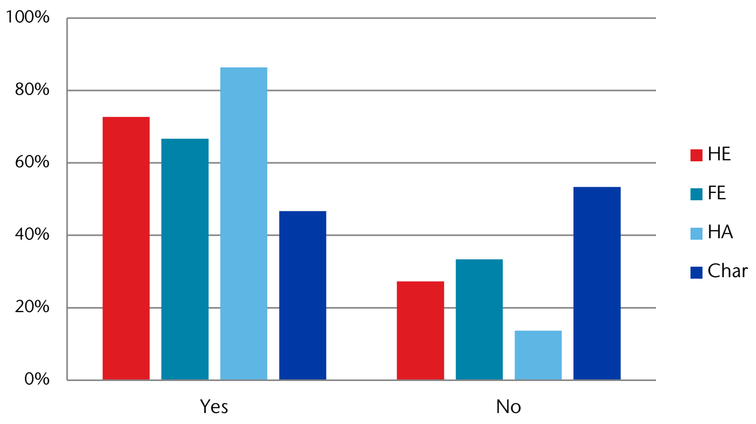
Commentary: For those employers who expect to stop contributing to the LGPS the main reason given by Higher and Further Education establishments was that they will cease admitting new members to the scheme, whereas the main reason given by Charities and Housing Associations was that the last active member was due to leave the scheme.

Do you understand the exit process from the scheme as an employer?



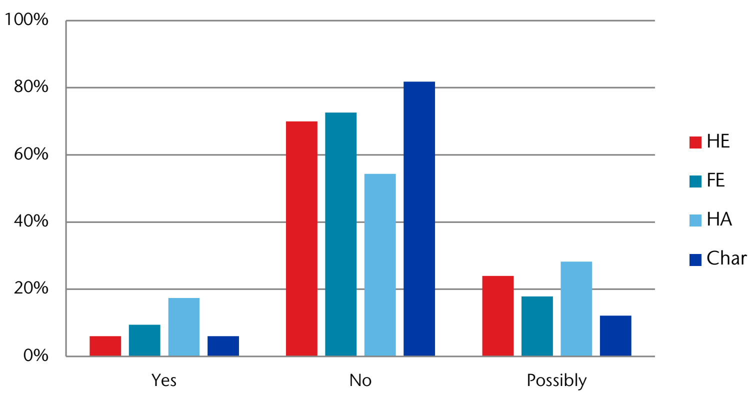
Commentary: A reasonably high proportion of employers which expect to exit the LGPS do not understand the exit process.

Do you understand the exit costs payable as an employer?



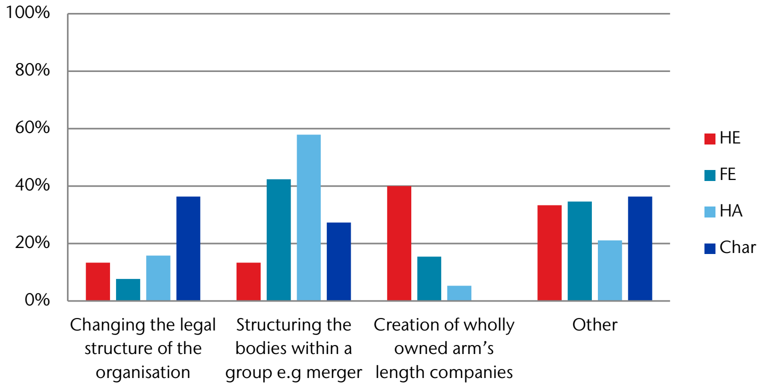
Commentary: A reasonably high proportion of employers which expect to exit the LGPS do not understand the exit costs involved. This is especially true of Charities.

Are you planning or expecting to restructure your organisation?



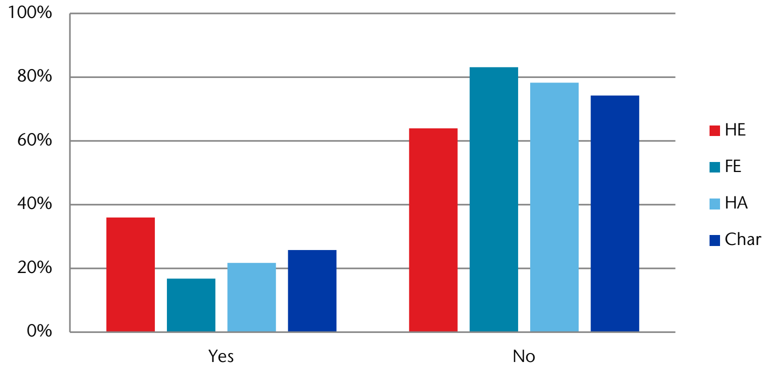
Commentary: Around 30% of employers participating in the survey were planning or expecting to restructure their organisation.

What are you planning or expecting to change within your organisation?



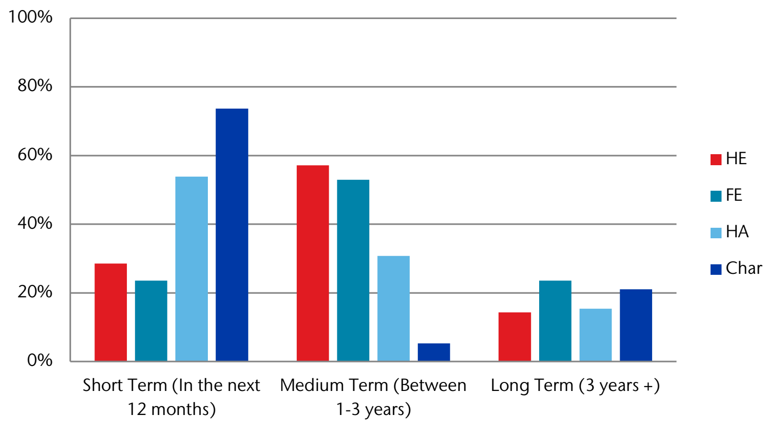
Commentary: A variety of changes were being planned or expected as illustrated in the chart above.

Are you thinking of introducing any flexibility relating to pensions into your staff benefits e.g. offering an alternative pension scheme?



Commentary: Around 20% of employers responding to the survey were thinking of introducing flexibility relating to pensions for their staff, with around 35% of Higher Education establishments considering this.

What is the timescale of introducing this flexibility?



Commentary: Where pension flexibility was being considered, the timescales were typically either in the next 12 months (at time of completing the survey), or between 1 and 3 years.

Appendix 2: Feedback from Employer Listening Sessions

Charities – an overview of employers represented in the listening sessions

The 5 participants were from a range of employer sizes (14 – 250 staff) but with low LGPS membership (between 1 and 28 participating members).

All participants stated that their employer's participation in the LGPS was closed, or effectively closed, to new entrants.

In all cases staff were being auto enrolled into defined contribution schemes, with employer rates lower than payable to the LGPS.

The participants typically have links with a council although some feel the link is weakening and funding is a chief concern.

Communications from the local fund were rated between average and very good.

Charities - duties

All said they were clear on their responsibilities and deadlines related to scheme returns. 1 participant commented that pressure of other work can make it difficult to meet deadlines. It was noted that payroll and pensions is only a part of the participant's role (given it is a small employer). While there is training available for year end the focus of the training was more geared to the bigger employers in the fund, and a smaller session for new staff and smaller employers would be beneficial.

Only 2 of the 5 participants believed they had discretionary policies in place for their LGPS staff. For participants who did not have discretionary policies in place, the number of staff in the LGPS was low, and the fund had never requested information on the employer's discretionary policies.

Charities – member experience

On the whole all participants believe their LGPS membership understand and value the LGPS. Most participants said their LGPS members believe the scheme benefits are more valuable than those available to other staff (for example through their auto enrolment defined contribution scheme).

However, a common theme was that communications from the fund can be overly technical and daunting for staff, including annual benefit statements and new member packs.

One participant commented that the benefits of the scheme are such that members can feel tied to the job; but an alternative view expressed is that they have a bigger incentive to stay.

Most of the participants believed that their LGPS membership was unaware of the 50:50 option.

Most participants rely on communication from the fund to members (direct or via the employer) with little if any communication driven by the employers. One participant acts as a point of contact and any queries are referred to a client advisory service run by the administering authority.

Participants had mixed views on whether their LGPS membership has sufficient access to expertise and training. As these employers typically rely on their local fund, the different practices/resource levels at local funds leads to differences in member experience.

Charities – employer experience

Participants were generally complimentary about the training offered by their local fund. Areas that were identified that could be improved include more detailed training on specific tasks, e.g. on some of the forms that need to be completed.

One participant had received independent advice related to funding issues and another had relied on the national network of employers to obtain additional advice, but most rely on administering authorities providing the information, training and expertise that they need.

Positives of the scheme from an employer perspective include the provision of benefits that are valued by members. One participant noted that it was an attraction for new joiners (before the employer closed the scheme to new entrants); although another commented that no employees had been put off joining as a result of the defined contribution pension offer. The fact that the scheme is centrally administered and communications are dealt with by the fund makes it easy for the employer and reduces the administration burden.

Employer costs generated the strongest views. A common theme for charities is that they typically have little or no contingency on their balance sheets to absorb unexpected pension cost increases. As one participant stated "there is a mismatch between funding risk and resources". In addition their funding stream can be very uncertain and short term so the ongoing costs of participation can also be prohibitive (i.e. primary contributions to meet the costs of benefits accruing to existing members).

Costs can appear unfair when compared to the cost of defined contribution contributions payable for other staff (i.e. issues related to a two tier workforce). Further, the costs are met by funding that could otherwise be put towards the primary purpose of the charity.

In all cases costs and risks relating to cost (in particular the risk of future deficits) was cited as the reason for closure to new entrants.

Further exacerbating factors were said to be:

- Changes in accounting treatment under the accounting standard FRS102. The pension deficit now disclosed on the employer's balance sheet can dwarf the day to day running costs and make employers insolvent on an accounting basis.
- The financial crisis in 2008 driving increases in contributions and increasing awareness of funding risks.
- Austerity in recent years, leading to funding cuts or an increased risk of funding cuts.

The LGPS liability was also believed to impinge on business decisions such as mergers, with employers reluctant to merge with another employer carrying a large balance sheet risk.

Exit costs were also a source of concern. Some participants commented on a low risk approach being used and the costs appearing unfair or onerous, and being prohibitive.

One participant said he would prefer to be able to continue to contribute after the last active member leaves the scheme as recently legislated for in the Occupational Pension Schemes (Employer Debt and Miscellaneous Amendments) Regulations 2018 for employers in private sector defined benefit multi-employer occupational pension schemes.

Other participants believed exit costs would be prohibitive but had not looked into exit in any detail as they did not believe that it was imminent.

Only one participant believed they had assets that could be used to improve their perceived covenant.

The general consensus was that the scheme is not sufficiently flexible to assist with planned exit strategies due to the crystallisation of the exit debt as well as administering authorities being wary of striking deals with individual organisations for fear of setting a precedent and leading to contagion. One participant hoped the (exit) regulations might change. It was also commented that if there is no flexibility charities will simply fold and then the councils will need to pick up the liabilities in the fund as well as the provision of the service.

Participants had no particularly strong views on the investment strategy of their fund, although it was noted that there was no engagement / a perception that the employer would have no say in any case, especially given their size.

The valuation process was also an area of concern for the majority of participants. The problems identified included :

- a lack of clarity on why there was a huge increase in rates,
- a lack of willingness from the administering authority to engage in discussion early in the process,
- communications from the actuary and the administering authority being too technical for employers to understand the implications,
- the valuation process being too back end loaded with employers only learning of their rates shortly before they are due to come into effect impinging on budgeting,
- a view that affordability was not taken into account sufficiently when setting rates

Some participants were unaware of the funding strategy and had no involvement in its review.

Housing Associations – an overview of employers represented in the listening meetings

9 housing associations were directly represented with the National Housing Federation also in attendance.

Some participants stated that their employer’s participation in the LGPS was closed to new entrants and the majority (though not all) of the others indicated that they keep their participation under review.

Two of the participants represented an employer that participated in multiple local LGPS funds.

The majority of employers participate as pre 1997 admission bodies, but one attendee represented an employer who commenced participation more recently as a Community Admission Body.

The National Housing Federation (NHF) set out some useful background on the sector including observations that the NHF’s view is that housing associations are long-term secure employers based on:

- Surpluses being generated by the sector and increasing year in year
- Debt typically being considered investment grade

- A zero default record
- Oversight from the Homes and Communities Agency – the sector's financial regulator – including review of Associations' 30 year financial plans
- A strong asset base

The sector's response to the 1% rent cut announced by George Osborne in his July 2015 budget (which had also referred to greater efficiencies and seemed to imply mergers were expected by Government) was viewed as demonstrating that the sector can adapt and change. No housing associations have gone into liquidation and proactive mergers are about planning for the future. It was felt that this reflects how well the sector is run.

The core purpose is to develop social homes. Those homes are provided for the local authorities. They also provide other services for tenants and wider community such as employment help, e.g. for those with learning disabilities and provision of training. Whilst recent rent cuts have slightly reduced those services they remain important providers of local services.

Housing Associations - duties

Attendees indicated that they are generally clear on their responsibilities and the requirement to have a discretionary policy in place. This was partly due to notifications on data requirements and deadlines from the administering authority, with one attendee referring positively to quarterly Newsletters from the administering authority and employer workshops run by the administering authority. However, it was noted by another participant that this was very different to the experience in their fund.

It was mentioned that there is a lack of consistency between templates and format of provision of information across the funds. Where employers participate in multiple funds this is very inefficient.

Housing Associations – member experience

There was a mixed response from participants as to whether they believe their employer's LGPS membership understand and value the LGPS.

Some said that in general members don't realise what the scheme is worth and that housing associations don't always communicate the value of the scheme, but this varies across organisations.

Others indicated the opposite – that members do understand and value the scheme. Where this was the case, this was partly explained by regular meetings with members run by the administering authority.

There were mixed views as to whether the LGPS was a useful tool for recruitment and retention; different subgroups may have different needs and values. For example, millennials may (generally) not value pensions but the over 40s (perhaps) would.

A participant also believed that where there is a strong union membership within the employer, the LGPS would be seen as an important tool for recruitment and retention.

Most participants believed that their LGPS membership was unaware of the 50:50 Scheme option. There was a comment that "the 50:50 Scheme was never going to work if the employer still has to pay the full contribution rate".

It was also acknowledged that where workshops are run by administering authorities these are very much valued by members.

Housing Associations – employer experience – funding, covenant and valuations

The consensus was that whilst a lower cost scheme would appeal to some, a more pressing concern is about how contributions are set than the generosity of the benefits.

A number of attendees mentioned that the main criterion used by administering authorities / their actuaries to set funding strategy appeared to be whether the employer is an admitted body or not with no consideration of the financial strength of the employer. Many attendees felt that recognition of sector would be helpful rather than grouping them all together as "Tier 3". Some administering authorities treat housing associations as a scheduled body in terms of contributions so some felt administering authority discretion is important and should be retained. Some said they would pay for advice for the administering authority (e.g. on covenant) but would prefer them to use info already out there - credit rating agencies or by the local authority accountants reviewing their accounts. One attendee mentioned that their administering authority does engage more, e.g. wants to look at their business plan.

The issues aren't new but there was a perception local authorities are now more stringently applying "the rules" – e.g. requiring bonds, making things more difficult for the sector.

The lack of consistency across administering authorities was a recurring theme during discussions and identified by the NHF as one of the main issues at outset.

Other comments included an observation that contributions at each valuation seem to go up regardless of funding levels and that the assumptions adopted appear to place too much emphasis on current market conditions. Where costs increase it is believed this is not necessarily in the best interest of the scheme because it can encourage employers to close (so reducing cash flows).

It was acknowledged that when conditions are good more prudent assumptions should be welcomed, as well as a reference to previous employer contribution holidays and the 75% funding target being at least partly responsible for employer contribution increases over recent years.

A number of attendees mentioned that there can be a step change in approach and assumptions if the administering authority changes actuary. Others commented on the effect of closing to new entrants: one had been quoted a contribution rate increase equivalent to 12% of pay. It was questioned why the contribution rate for a closed scheme should be different to an open scheme, on the assumption that housing associations are secure and would be able to pay contributions well into the future. The LGPS regulations were seen as the barrier to this as they crystallise an exit debt when members cease to accrue benefits.

An alternative view expressed was that if closed and open employers are treated the same for funding purposes it would be easy to close, which might end up with members losing (future) LGPS benefits.

There was a consensus that the Regulations should require the employer to carry on contributing after the last active member has left.

One attendee mentioned it would be helpful if they could spread exit debt over a period (this is already permitted by the Regulations) to enable them to carry on paying after last active member leaves in the belief that housing associations have the ability to continue to service a debt after the last active member has left. Experience varies, with some LGPS funds willing to engage, others not.

Other related comments included:

- Local authorities / government should consider the effect of the current approach – higher contributions have a cost in terms of houses and hit the income and expenditure which potentially hurts the local authorities who they are intended to help.

- (Typically) When housing associations were formed guarantees were not required nor requested. In the current environment local authorities are not going to sign guarantees and some housing associations are being asked to provide bonds. It was argued that administering authorities should not now be able to change the rules - if at the time of the transfer the administering authorities had requested a guarantee or commitment to subsume the assets and liabilities after any exit of a housing association the local authorities would have provided it (to facilitate the transfer). It is too late to request this now. A further problem is that housing associations no longer (necessarily) follow the local authority geographical areas, so less clear which local authority would offer a guarantee.

- (Typically) When stock transfers were made funds were mostly in surplus but housing associations started fully funded and any surplus went back to the local authority (within the fund).

Regarding security, attendees noted that their Regulator does not support housing associations providing a charge over assets and would not previously have given consent. Although technically consent is no longer needed HCA has given a specific indication that it wouldn't expect housing associations to grant pension funds a charge over assets. However, this sometimes happens indirectly, e.g. a bond being secured over a property. If done directly it was expected that the Regulator may downgrade you and hence lenders and rating agencies would take a dim view. It was thought that the position may be slightly different if a charge were granted over non-social housing assets, e.g. office blocks.

One attendee who had been asked to provide a bond felt strongly that this was a waste of money and the organisation would rather have paid the cost of the bond into the Fund. The cost was c 50% of the housing association's employer contributions.

Overall it was believed that housing associations should be treated differently to other community admission bodies given the chances of any housing associations going bust are extremely low. One housing association where a covenant assessment had been carried out had received a score of 9 out of 10, confirming they were very low risk.

Attendees observed that some administering authorities treat them the same way as a "transient company" which is not equitable and leads to a huge cost. One participant quoted contributions of 26.3% of pay being requested when if they had been a scheduled body they wouldn't have had a deficit.

One participant stated that the stock was of such value that large exit payments could be paid, but this was not reflected in the risk assessment

Housing Associations – employer experience – other

The impact of the LGPS on business planning was discussed. The consensus was that the LGPS can and does impinge on business planning. Mergers can end up being arranged to minimise pension implications, an example was given of two organisations being amalgamated rather than a new one set up. It was noted that when admissions change guarantors can take opportunity to bail out as guarantors and on novation the administering authority takes the opportunity to re-negotiate the terms of the admission agreement.

It was suggested that it would be helpful if the LGPS Regulations explicitly permitted the transfer of pension liabilities on merger, i.e. the liabilities automatically transfer to the new merged organisation rather than needing legal advice etc. to enable this.

Another issue related to redundancies. Employers don't know which individuals have transferred in other benefits into the scheme and how that affect costs – e.g. when someone over 55 transfers benefits in and is then made redundant. There is a disconnect between what the fund and the employer knows which is unhelpful for business planning. Further it was suggested that CETVs in from other (non-club) schemes could be made an employer discretion – again due to the potential for costs which housing associations believe shouldn't be borne by the employer.

Employers also said that they are not provided with any information on the capital cost calculations themselves (just the answer). The figures can come out of the blue and can be really high. There was also a concern at the lack of information on a possible exit cap which would affect the sector if rules were changed.

The session also covered reasons why employers have closed or are keeping under review a decision to close to new entrants: the impact of costs covered above, pension risk in general and a different external environment - for example private sector schemes are either closed or closing and this can influence Board members' views.

Participants also discussed investment strategies - there is very little consultation with employers. With schemes now in surplus it was felt employers could and should be consulted on what action the administering authority was taking given employers would presumably pick up the costs if there was a crash in the stock-market.

As a comparison, one attendee mentioned that Social Housing Pension Scheme have changed their governance arrangements to include greater employer input.

Employer representation was also discussed and Local Pension Boards were felt to have made little difference to employer engagement and communication so far. Housing associations have better insight but no more influence. The approach of 1 vote per employer was questioned since it meant a school with (say) 5 members had the same influence as a housing association with 1,000 members. The very small number of employer representatives means little opportunity for housing associations to get involved (attendees were aware of 2 housing association representatives across the LGPS) and there is no mechanism for employer representatives to consult with other employers to ensure their views are represented. It was suggested that more could be done to facilitate that from a fund perspective.

It was observed that the sector as a whole influenced “with difficulty”. There had been a meeting with SAB a few years ago but nothing had come of it. The NHF responds to all consultations but its voice isn't really heard at a national level. As there are typically only 1 or 2 housing associations in individual pension funds they face difficulty influencing locally too. The NHF had estimated housing associations accounted for 2%-4% of total LGPS assets. This wasn't previously considered enough to justify a seat on the LGPS Advisory Board although still a lot of money. It was suggested that there could be a housing association sector co-optee on the LGPS Advisory Board.

Higher and Further Education – an overview of employers represented in the listening meetings

15 universities and 8 colleges were directly represented in the listening meeting with additional representation from UCEA and AoC.

The attendees were spread across a number of different roles primarily finance, HR, pensions and payroll. The majority of the employers represented are scheduled bodies, but some are admission bodies.

The vast majority still admit new members into the LGPS (as is a requirement for scheduled bodies) although a small minority had set up, or were in the process of setting up, a wholly owned company which would employ new hires and not offer membership of the LGPS. Such changes were driven by cost issues and lack of flexibility in the LGPS with other employers considering similar changes to meet the demands of a changing workforce (i.e. younger and more mobile).

The UCEA representative commented that HE institutions are increasingly interested in the options available to them regarding participation in the LGPS with pension provision high on the agenda.

Higher and Further Education – duties

Most attendees said they are generally clear on their responsibilities and the requirement to have a discretionary policy in place although some felt that fulfilling certain duties was made harder by the archaic way in which data is supplied /shared. There was a general view that the timescales for completing the annual return were inadequate.

Whilst some had access to the underlying data /administration information (to help answer staff queries) others didn't, raising issues of inconsistency across funds. In addition access to an online portal was available to some but not all and in some circumstances even when it was available, the functionality was seen as poor and not intuitive.

Higher and Further Education – member experience

The majority felt that overall employees were not fully aware of the value of the LGPS (except for those close to retirement age i.e. those in their 50's). For the small number who thought employees did understand and value the LGPS it was felt more could be done to engage members.

In terms of member opt-outs the consensus was that they were quite low except for casual workers, those on the lowest low salaries and high earners/long service members with tax issues. For those with annual allowance and lifetime allowance issues some felt that the LGPS had not done enough to flag the potential issues to members with the communications that had been sent out to members being very poor.

Views as to whether or not the LGPS was seen as a useful tool for recruitment and retention were similar to housing associations, i.e. it depended on the employee subgroup (for example, over 40s (perhaps) would view LGPS as a reason to stay, whilst younger staff might view it as inflexible and/or less important to them).

For those in the HE sector the general feeling was that most members knew about the 50:50 Scheme option (although take-up had been quite low). In contrast those in the FE sector felt their LGPS members were unaware of the 50:50 option and since the initial announcements in 2014 it had not been widely publicised. Similar to a comment made in the housing association listening meeting some HE/FE institutions did not appreciate that their contribution would be lower in future if members opted for the 50:50 option.

Views on the quality of communications to members were mixed and depended on whether HE/FE institutions provided additional resources to top-up communications received from the LGPS funds. Whilst some HE/FE institutions wanted to (and did) provide additional help to staff, this was often hampered by concerns over "being seen to provide financial advice". There was also some concern over the quality of communications once this had been outsourced to third parties and most benefit statements only being provided online which meant a lot of members wouldn't read them. A number of participants also said they were looking into the concept of total reward statements to help articulate the value of the LGPS to staff.

An overarching theme in terms of the "member experience" was that workforces are changing and the LGPS is too inflexible to provide members what they want or need throughout their career.

Higher and Further Education – employer experience – funding, covenant and valuations

There was no consensus on whether or not HE/FE institutions had access to sufficient training or expertise regarding their participation in the LGPS and mixed views on employer communications from the various LGPS funds (some viewed them as good and others poor).

A clear theme expressed by the majority of those present was a general lack of transparency in relation to the valuation process and a feeling that it was very difficult to influence the valuation process or outcome. UCEA confirmed that they had experienced a large amount of negative feedback in relation to the valuation process where HE institutions were (by default) being classed as higher risk and were having to battle with administering authorities over valuation assumptions. There was also general agreement that there was inconsistency of treatment both between and within funds.

All attendees felt that institutions should be given their own category/status rather than the simplified "Tier 3" categorisation. It was felt that the regulatory environment within which they operate should be reflected and the default position that a University or College represents a "high risk" is incorrect. The consensus was that they should be treated the same as local authorities/councils.

The role of providing additional security in valuations was discussed. A small minority had provided some form of contingent security (i.e. charge over property, negative pledge). Others had been asked to provide security but the majority had declined.

Some HE/FE institutions expressed concerns with the valuation cycle fitting into the local government year-end which wasn't helpful for HE institutions. The timing of the valuation results also created budget/ financial planning issues for some.

There was no consensus on whether the ongoing cost (i.e. cost of future accrual only) is too high but some HE/FE institutions felt the current accrual rate was too generous. Most HE/FE institutions were more concerned about the volatility of costs, their inability to control them (either by negotiating valuation assumptions or changing benefits) and the impact on the balance sheet. This is driving some HE institutions to investigate the subsidiary route which would provide defined contribution benefits for new staff and limit their exposure to the LGPS.

The view of the HE institutions was that the exit process/cost for leaving the LGPS was prohibitive and this was heavily influencing decisions on future pension strategy.

The consensus was that the assumptions used to crystallise the exit cost are far too prudent and a repayment plan should be permitted rather than a one-off lump sum (which some funds would require). One attendee said that a subsidiary company of their employer was in the process of negotiating an exit with a repayment plan rather than a lump sum – highlighting inconsistencies between the treatment/willingness to engage on exits between funds. It was felt that the LGPS Regulations need to be changed to allow more flexibility in this area and whilst there may be employer relations/Union issues it may be appropriate for some HE/FE employers to stop admitting new entrants into the LGPS. This would, over the longer term, reduce the employer's exposure to pension risk putting it in stronger position to deal with legacy pension deficits.

Higher and Further Education – employer experience – other

The impact of the LGPS on business planning was discussed. The consensus on this was that the LGPS can and does impinge on business planning, with the best plan of action from a business perspective not always being actioned because of pension issues. Overall, pensions are viewed as a high risk factor in mergers.

Particular concerns were raised over the cost of redundancies for staff over 55 which can be a by-product of a restructuring. Similar to the issues raised by housing associations, HE/FE institutions don't know and can't control which individuals have transferred benefits into the LGPS which can materially affect costs. Some attendees noted that there were inconsistencies with the treatment in TPS which gave rise to issues of equity and fairness across their workforce.

The vast majority of participants felt they had no influence over the investment strategy with little or no communication from the funds. Only one attendee said that their fund had recently given them the opportunity to influence their strategy.

In terms of employer representation and the impact of Local Pension Boards (LPBs), HE/FE institutions had similar to views to the housing associations, i.e. the Boards have made little difference to employer engagement and communication so far. One attendee, who was on a LPB said that there didn't appear to be a mechanism for employer representatives to consult with other employers, and LPBs are not decision-making and have a focus on compliance.

Appendix 3: Member survey results

Overview

The member survey was launched on 27 November 2017 and closed on 31 January 2018.

3,467 fully completed responses were received, including 1,887 from members working for a higher education institution, 1,006 working for further education establishment, 416 working for a housing association and 122 working for a charity. 36 responses have been discounted as it was not clear whether the person worked for a Tier 3 employer. Responses covered members across 62 LGPS Funds.

The sections below summarise the results of that survey.

Overview of survey results

The majority of members do understand the retirement benefits offered by the LGPS, with 2,654 (77%) answering 'yes' or 'partly' to this question. The number was similar in respect of understanding death benefits, with 2,622 (76%) members answering' yes' or 'partly'.

2,498 (73%) members answered 'yes' when asked if they believe the LGPS meets their needs, with 788 (23%) answering 'partly'. Of those who answered 'no' or 'partly', the main reason given (by 317 members) was a lack of understanding of the scheme, with 122 members also citing a lack of communication and 170 citing lower benefits/higher contributions. Members were able to select more than one option when answering this question.

When asked what members value most about the LGPS, 2,155 value employer contributions, and 1,705 value the level of pension. 1,233 members value the fact that benefits are guaranteed and 1,712 value the benefits offered on death. Again, members were able to choose more than one option for this question.

Members were asked about flexibility. Members appear to be happy with the LGPS, with only 840 (24%) wishing that their employer offered more flexibility to join an alternative pension scheme. However, when asked about flexibility within the benefits offered by the LGPS the results were more balanced, with 1,899 (55%) wishing there was more flexibility and 1,532 (45%) happy with the flexibility currently offered.

Members are generally happy with the communications they receive, with 1,572 (46%) rating the communications from their administering authority as 'good' or 'excellent', and 1,505 (44%) rating the communications they receive from their employer as 'good' or 'excellent'.

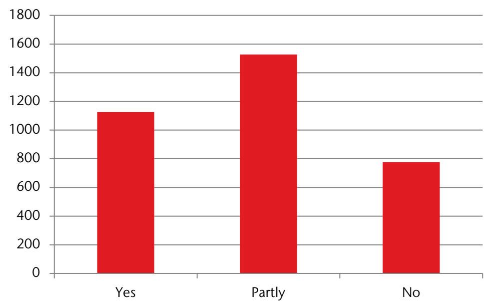
Members may welcome more opportunity to engage with the scheme. Only 1,191 (35%) were completely or slightly satisfied with their level of engagement, with 1,459 (43%) saying they were neither satisfied nor unsatisfied. 757 (22%) are slightly or completely dissatisfied with their level of engagement.

Members were asked what they would change if they could change one thing about the scheme. A number unsurprisingly referenced higher benefits, lower employee contributions and/or a lower retirement age, but the highest numbers of comments were in relation to receiving information about the scheme.

Members would like more information about the scheme, and would like this information to be clearer. Many members want the information available electronically to be better - there is an expectation from many members to be able to log in and view up-to-date information about their benefits. However, there were also several comments from members wishing to retain non-electronic forms of communication. Finally, a number of comments referred to the time taken to respond to member queries and felt this could be improved.

Section 1: Your views on the LGPS – benefits

Do you understand the benefits that the LGPS offers in relation to benefits on retirement?



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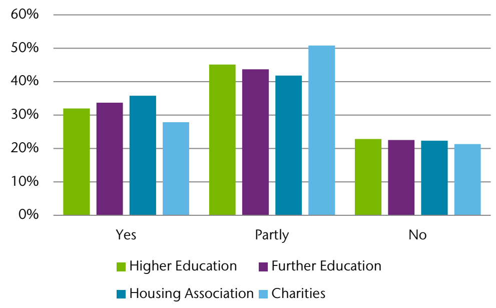
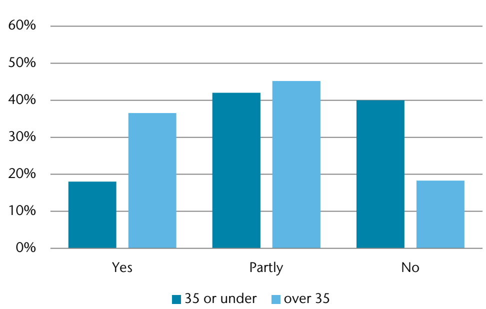
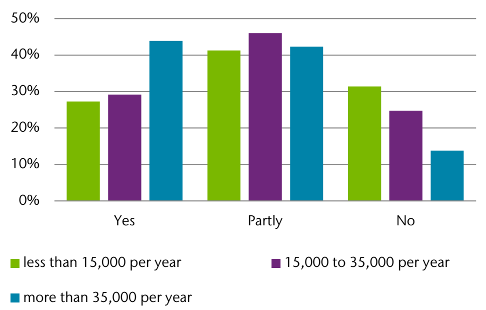


by Sector



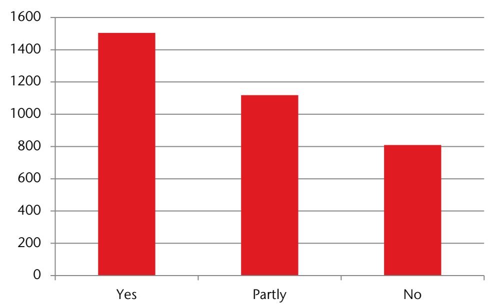
by Age



by Salary Band

Commentary: The level of understanding of the benefits on retirement was mixed among survey respondents, with benefits better understood by over 35s and higher paid members.

Do you understand the benefits the LGPS offers your family in the event of your death?



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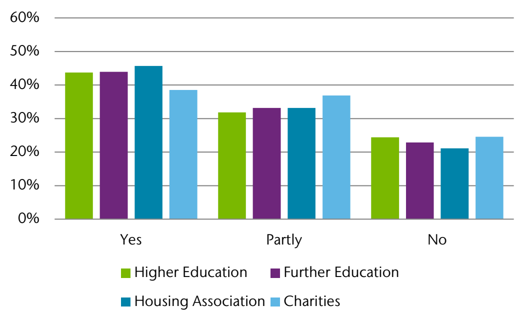
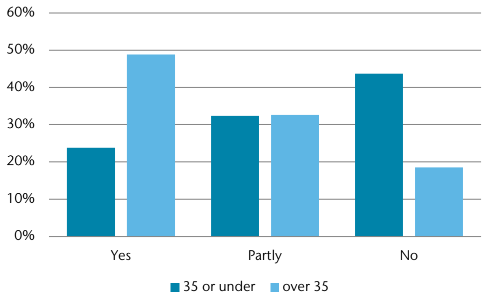


by Sector

Commentary: The level of understanding of the benefits offered to dependents on death was mixed among survey respondents, again with benefits better understood by over 35s and higher paid members.



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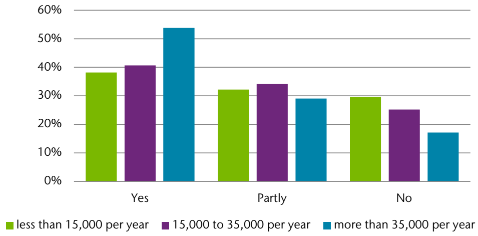
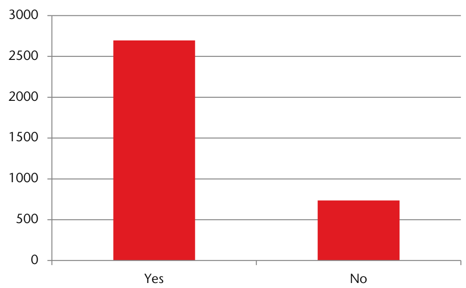


by Salary Band

Commentary: The level of understanding of the benefits offered to dependents on death was mixed among survey respondents, again with benefits better understood by over 35s and higher paid members.

Did you know the scheme provides a death in service lump sum and a pension for your dependents in the event of your death?



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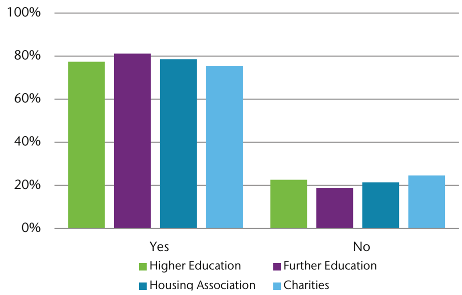

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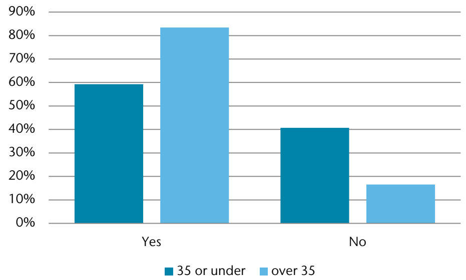

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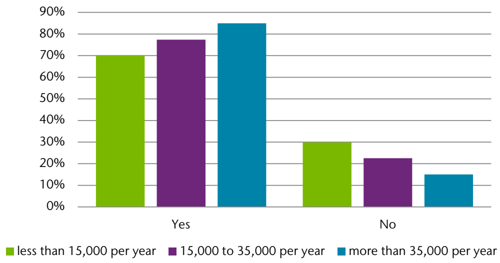
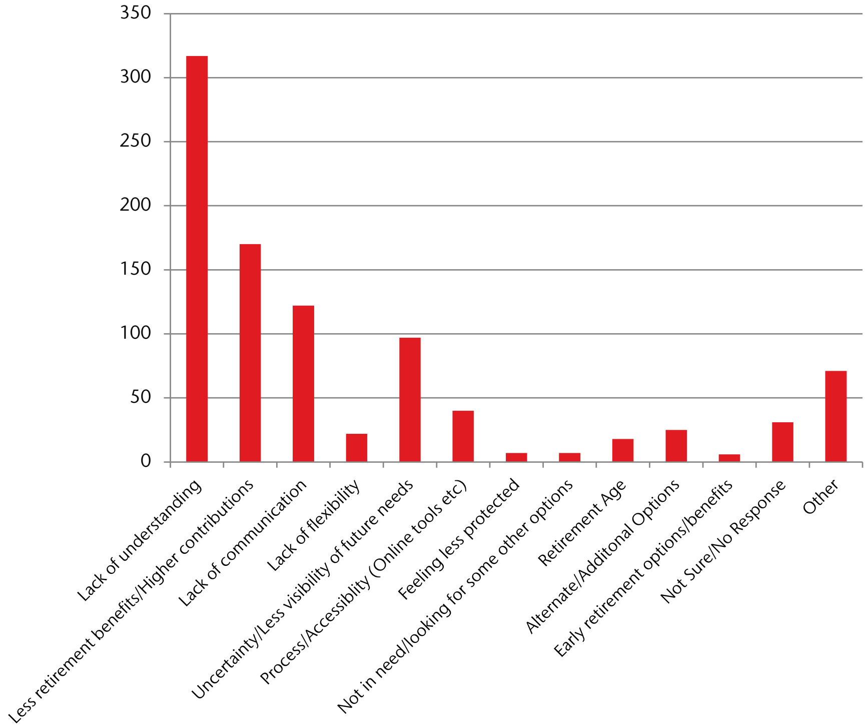


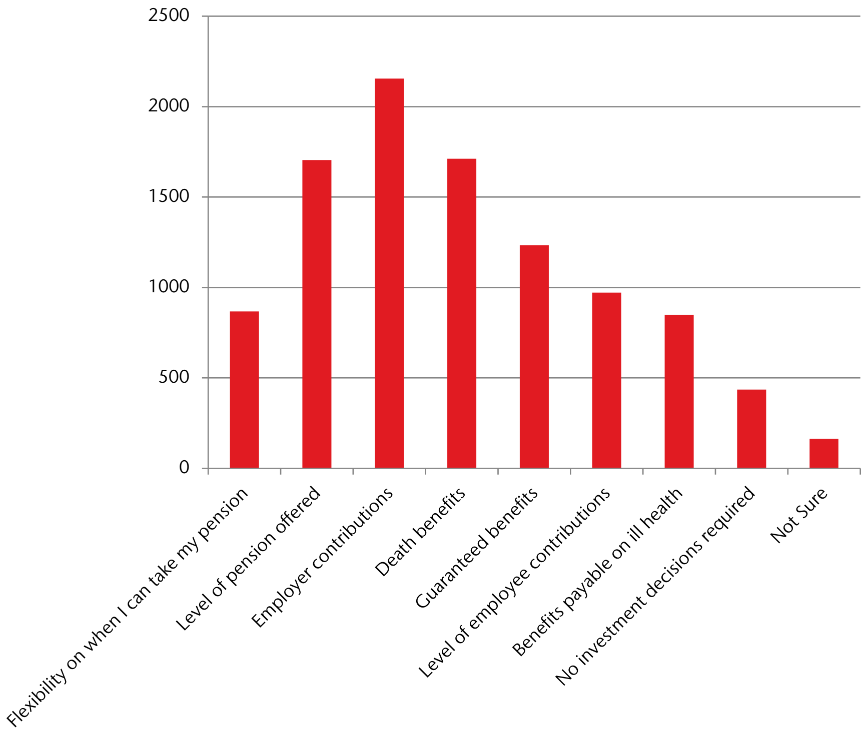
by Salary Band

Commentary: A high proportion of respondents were aware that a death in service lump sum and pension was provided to dependents on death, with a higher proportion of the over 35s aware.

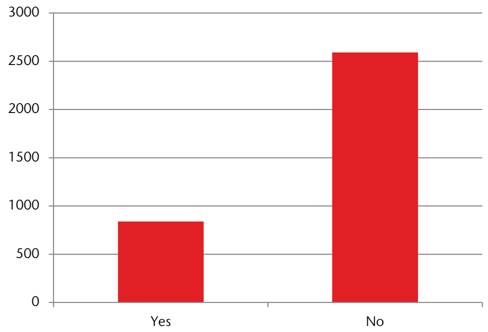
Why do you feel that the LGPS does not meet, or only partly meets, your needs? (For those respondents who did not feel the LGPS fully meets their needs)



Which needs does it (the LGPS) meet from the below (For those respondents who said the LPGS meets or partly meets their needs)



Would you like your employer to offer more flexibility with regard to pension provision, for example: the opportunity to join a different pension scheme other than the LGPS?



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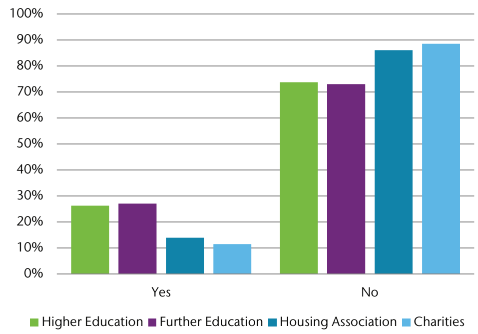

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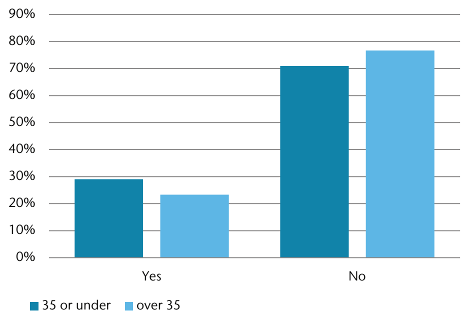

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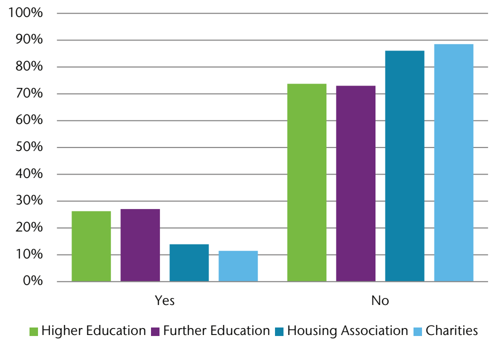
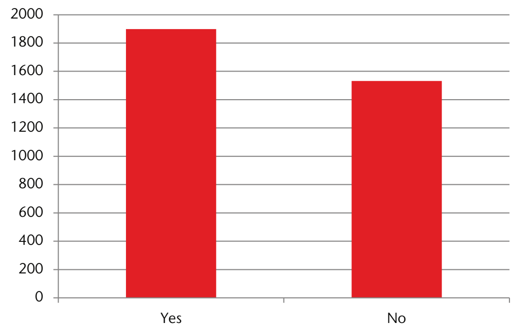


by Salary Band

Commentary: Most respondents would not like the opportunity to join a different pension scheme other than the LGPS.

Would you like your employer to offer more flexibility with regard to pension provision, for example: more flexibility in the benefits offered by the LGPS?



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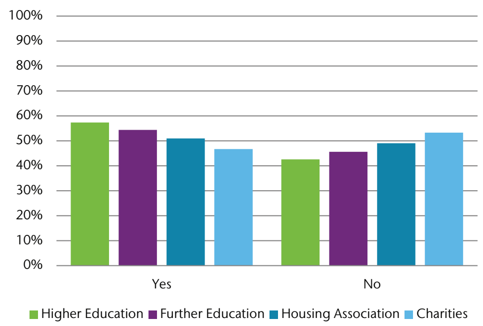
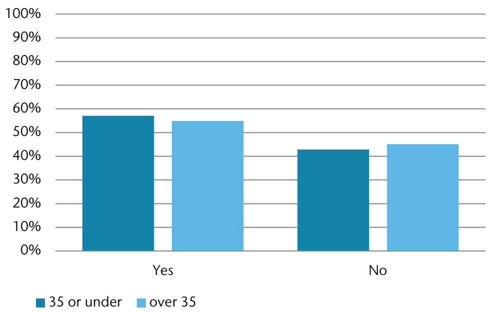
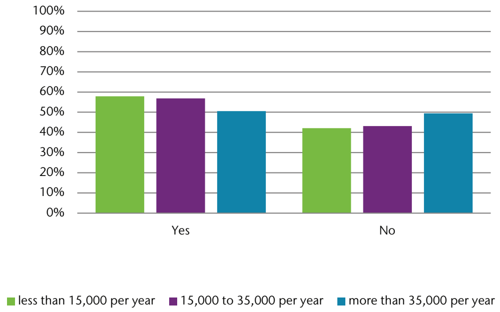


by Sector



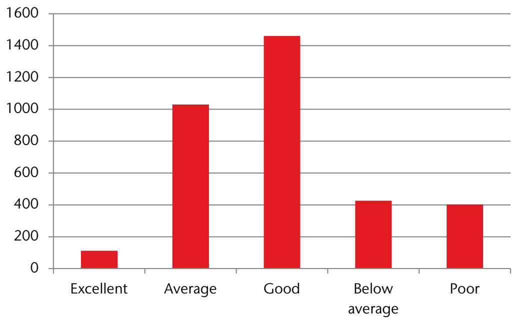


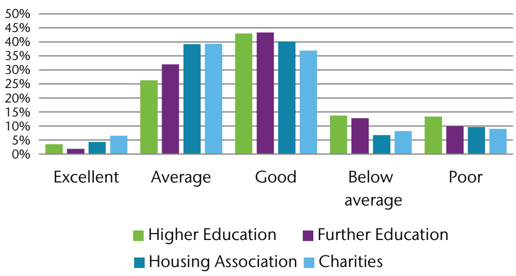
by Age **by Salary Band**

Commentary: Slightly more respondents would like more flexibility in the benefits offered by the LGPS.

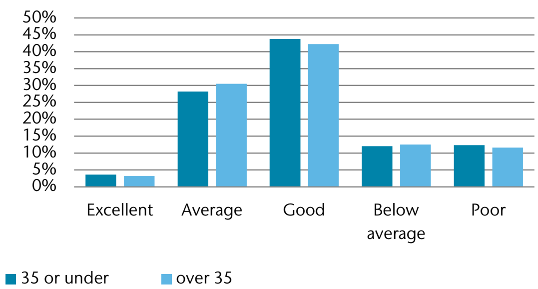
Section 2: Your views on the LGPS – engagement

How do you rate the communications received about the LGPS: [a. from your pension fund]





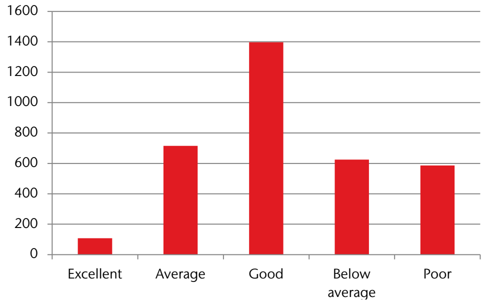
Total **by Sector**



by Age **by Salary Band**

Commentary: *Most respondents rated the communications received from their pension fund as good or average, but with a significant minority rating the communications as below average or poor.*

How do you rate the communications received about the LGPS: [b. from your employer]



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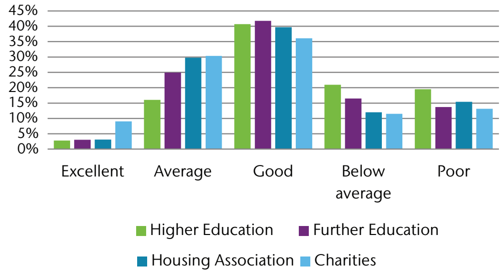

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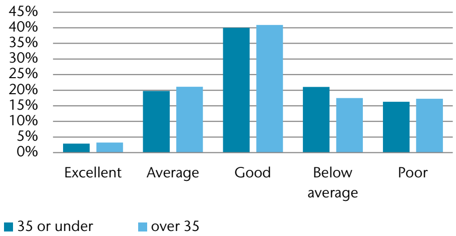

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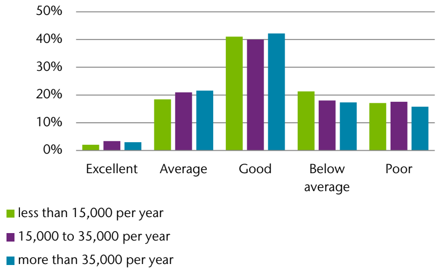
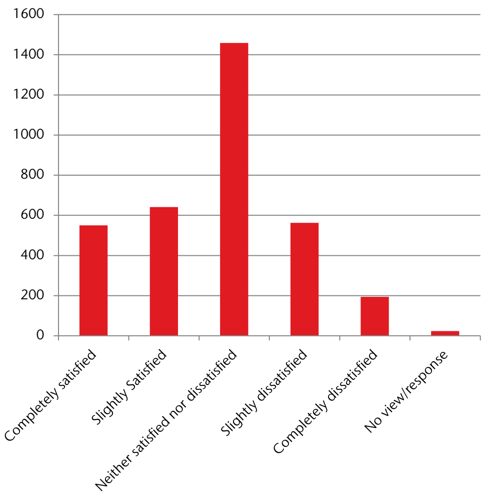


by Salary Band

Commentary: Most respondents rated the communications received from their pension fund as good or average, but with a significant minority rating the communications as below average or poor, especially within the higher education sector.

How satisfied are you with the level of engagement you have with the scheme?



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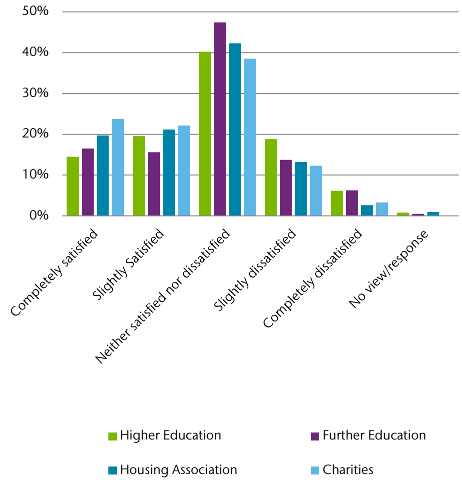

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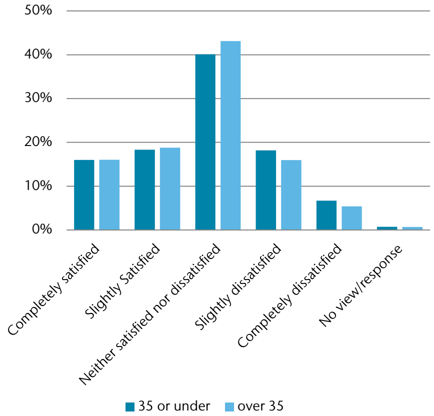
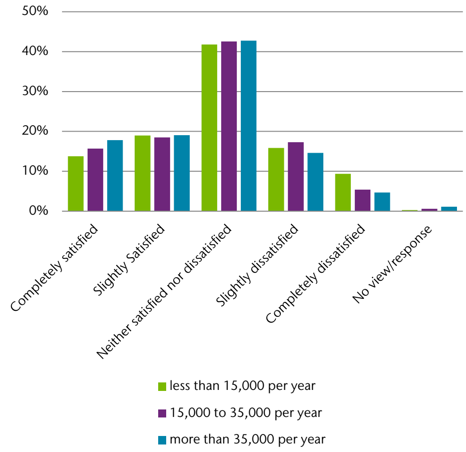




by Age **by Salary Band**

Commentary: Most respondents were neither satisfied nor dissatisfied with the level of engagement they have in the scheme, however, a minority were completely dissatisfied, particularly evident on the low paid and within the higher and further education sectors.

Appendix 4: Feedback from Member Listening Session

Scheme members – listening session with Trades Union representatives

Scheme Members - Member understanding (union viewpoint)

The unions' general view is that the LGPS is a good scheme and does meet members' needs. There was some doubt whether members fully understand the scheme, but this applies to all scheme members not specifically those employed by Tier 3 employers. Differences in member understanding are largely down to employer size rather than sector - larger employers are generally better at providing information to members. Members do have access to the information if they are interested in finding out more. However, there is concern that employees of some Tier 3 employers do not fully understand the risk that their employer is not fully committed to the scheme.

Scheme Members - Member experience (union viewpoint)

As mentioned above, larger employers are generally viewed as better at providing information and communicating with members. Smaller employers may not always act in the best interests of their employees, due to having smaller HR departments/less access to HR advice. This can cause an issue for members, particularly in funds that rely on employers to distribute information.

Tier 3 employers are starting to make members aware of the cost of their pension arrangements which is concerning for members. This is especially prevalent in the FE sector. There is anecdotal evidence of members feeling obliged to give up their pension rights – they are being told that jobs will have to go as a result of the costs of the LGPS.

Some employers are coming up with ways to avoid LGPS participation, such as setting up new companies.

Tier 3 members often have less union backing (smaller employers may discourage union membership) so miss out on information and backing union membership can provide.

Where the employer exercises a discretion, it is likely to be less generous in smaller employers than in larger employers, although this is not specific to Tier 3 employers. Part of the reason for this is that smaller employers find it harder to be flexible (for example, a smaller employer may be more likely to refuse flexible retirement as it's harder to cover the work than it is in a larger employer).

Employees of some Tier 3 employers are less represented in the running of the scheme – employee and employer representatives on boards and committees tend to come from the larger organisations. This means the HE/FE sector might be represented, but smaller charities are much less likely to have representatives.

Scheme members – member engagement (union viewpoint)

The unions are happy with the level of engagement they have in the running of the scheme, as the national Scheme Advisory Board has union representatives, and each administering authority has union representatives on either its board or committee/panel.

However, achieving a dialogue with the investment pools is proving difficult. There is some evidence that councils think that unions shouldn't have a say in investment decisions – the councils' view is that this doesn't affect members, but the unions think it does and want to represent their members' views about what the funds should invest in.

However, beyond the unions, representation of Tier 3 members is poor, at both a local and national level. Employees of smaller employers are less likely to be able to take time off to attend meetings so are far less likely to act as employer/member representatives. This has the effect that smaller employers don't have a 'voice' so funds perceive them as a bigger risk and this has a disproportionate effect on Tier 3 employers.

Appendix 5: Administering Authority survey results

Overview

The Tier 3 survey for Administering Authorities was launched on 27 November 2017 and closed on 31 January 2018.

64 responses were received representing views from 59 funds, including 6 responses from those working in finance and 46 working in administration, 1 in investment, 2 in administration and investment, 1 in finance and administration and investment and 8 in other areas (including governance and pensions management).

The sections below summarise the results of that survey.

Administering authorities - an overview of survey results

Based on the survey responses, the following key features were identified:

- 50 of the 64 respondents agreed that there should be more flexibility in the funding and exit process for Tier 3 employers. There were several comments on the prescription of Regulation 64 of the LGPS 2013, with more flexibility in managing exits welcomed.
- Only 20 respondents would support more flexibility in the benefit structure of the LGPS for Tier 3 Employers.
- 7 respondents would like to see bonds or government guarantees for Tier 3 employers, similar to the DfE guarantee for academies.
- 5 respondents agreed that Tier 3 employers should not be permitted to join the LGPS.

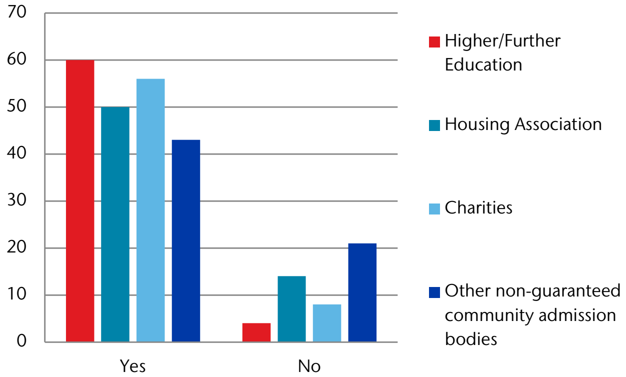
A number of questions were asked, designed to capture data across the main Tier 3 employer sectors: Higher/ Further Education, Housing and the Charities sector. Administering authorities were asked whether they agreed with the following statements in respect of each of the sectors.

- 'Employers don't understand their responsibilities'. 25% agreed with this for Higher/ Further Education, 26% for the Housing sector and 70% for the Charities sector, showing that levels of understanding can be sector specific.
- 'Member data is inaccurate or incomplete'. 33% agreed with this for Higher/ Further Education, 30% for the Housing sector and 39% for the Charities sector suggesting that around two thirds of Tier 3 employers produce accurate data.
- 'Year-end returns are late'. 28% agreed with this for Higher/ Further Education, 14% for the Housing sector and 27% for the Charities sector. This suggests that the majority of employers submit their data on time.
- 'Tier 3 employers understand the cost of their participation in the scheme'. Fewer than half of the respondents agreed with this and again there was a sector difference. 43% agreed to this statement for Higher/ Further Education, 42% for the Housing sector but only 32% in respect of the Charities sector.
- 'Tier 3 employers understand ongoing funding risks'. The results showed higher agreement (of 37%) for Higher/ Further Education and the Housing sector (44%) but a lack of understanding for the Charity sector at 29%.
- 'Tier 3 employers understand exit funding risks'. The results showed similar levels of agreement -38% for Higher/ Further Education, 28% for the Housing sector and 36% for the Charity sector.

- ‘Tier 3 employers understand the benefits of the scheme’. Fewer than half of administering authorities believe employers generally understand the scheme benefits. 42% for Higher/ Further Education, 48% for the Housing sector and 32% in the Charities sector.
- ‘Concerns about the risk to other scheme employers picking up scheme deficits of exiting Tier 3 employers’. Less than a third of administering authorities have concerns about this: 24% for Higher/ Further Education, 18% for the Housing sector and 32% for the Charity sector.
- ‘How do you rate engagement in investment strategy’. The results show that employers are generally not engaged – 22% of administering authorities said that engagement was low for Higher/ Further Education, 22% for the Housing sector and 50% for the Charities sector. Conversely, ‘fully engaged’ results were 17%, 14% & 5% respectively.
- ‘How do you rate engagement in funding strategy’. Here results were better than for investment strategy -administering authorities believe that employers are neither fully engaged nor not engaged. There was a scale of engagement between 1-5 and the majority elected the midpoint of the scale: 45% for Higher/ Further Education, 40% in the Housing sector and 25% in the Charities sector. However, 32% of administering authorities felt that the Charities sector was not engaged.
- ‘How do you rate engagement with fund communications’. Again the results show that the administering authorities believe that employers are neither fully engaged nor not engaged, with 42% for Higher/ Further Education, 42% for the Housing sector and 21% for the Charities sector being rated at the mid-point on the engagement scale.

Section 1: Exposure to Tier 3 employers

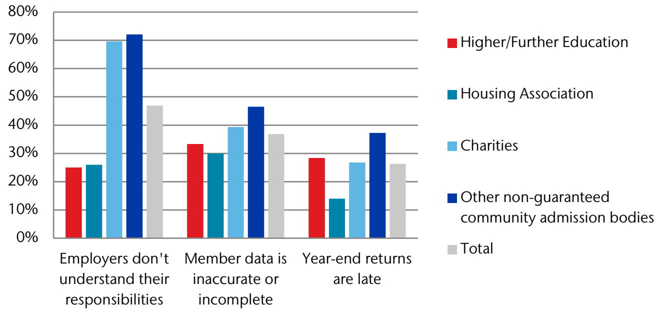
Do you have the following types of Tier 3 employers in your Fund?



Commentary: *The respondents had exposure to a wide range of Tier 3 employers as illustrated.*

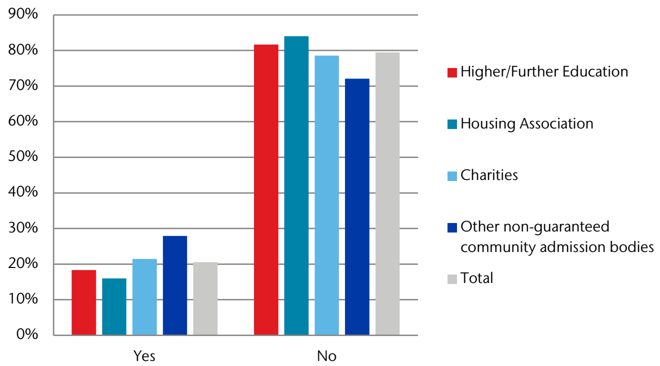
Section 2: Concerns about Tier 3 employers participation in the LGPS

Please indicate whether any of the following potential concerns apply in your fund in respect of Tier 3 employers meeting their responsibilities



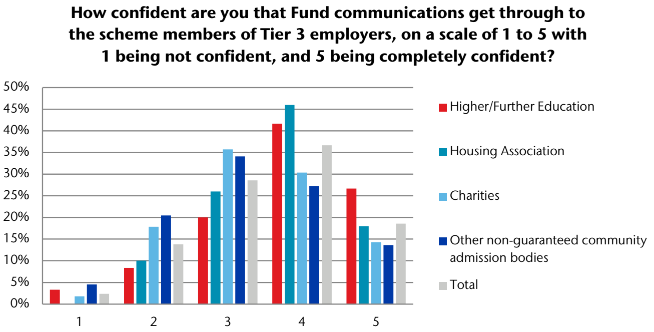
Commentary: The survey results indicate that the Administering Authorities are concerned in particular about charities and other non-guaranteed community admission bodies' level of understanding of their responsibilities. Additionally there is some concern around inaccurate or incomplete member data and, to a lesser extent, late returns.

Do you find that you receive more administration queries from Tier 3 employers than other employers?



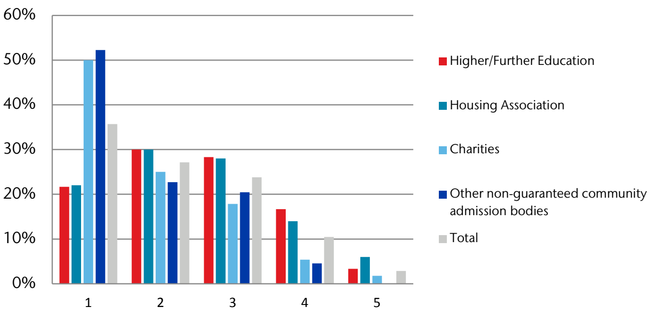
Commentary: Generally the consensus from respondents is that administering authorities do not receive more administration queries form Tier 3 employers. However, this is not true in all funds.

How confident are you that Fund communications get through to the scheme members of Tier 3 employers, on a scale of 1 to 5 with 1 being not confident, and 5 being completely confident?



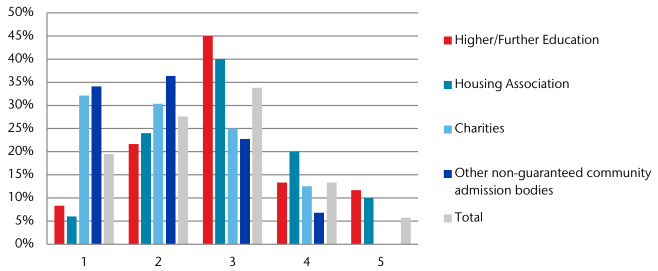
Commentary: Generally administering authorities were reasonably confident that their communications were reaching members of tier 3 employers. However, where administering authorities were less confident this was particularly true for charities and other non-guaranteed community admission bodies.

How would you rate the below on a scale of 1-5, with 1 being not engaged and 5 being fully engaged? [Engagement in investment strategy]



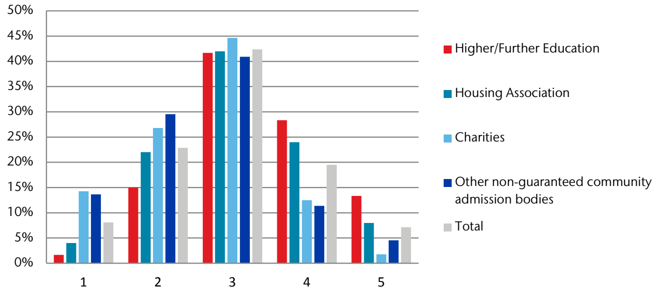
Commentary: Administering authorities in general provided a low score for levels of engagement in the investment strategy of the Fund. Engagement appears lowest for charities and other non-guaranteed community admission bodies.

How would you rate the below on a scale of 1-5, with 1 being not engaged and 5 being fully engaged?[Engagement in funding strategy]



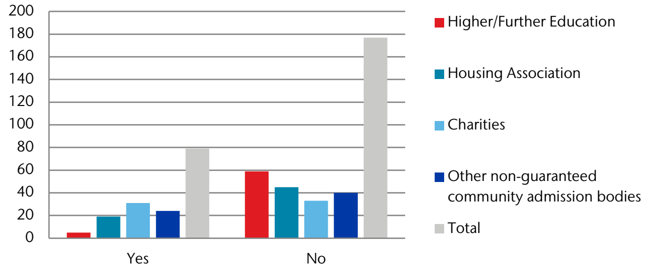
Commentary: Administering authorities in general provided a low score for levels of engagement in the funding strategy (although higher levels than with the investment strategy). Again there was a marked difference by employer type, with lower levels of engagement from charities and other non-guaranteed community admission bodies.

How would you rate the below on a scale of 1-5, with 1 being not engaged and 5 being fully engaged? [Engagement with your communications]



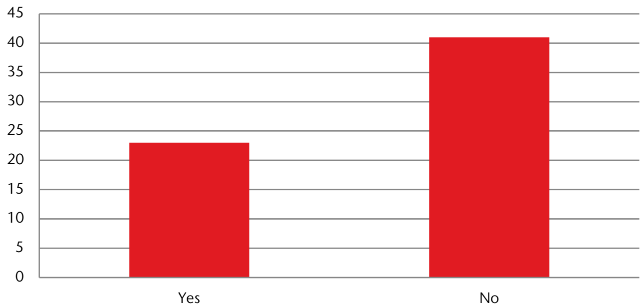
Commentary: There was a spread in scores on engagement with administering authorities' communications, with slightly lower levels of engagement from charities and other non-guaranteed community admission bodies.

Do you have any employers with low active membership who don't seem committed to participating in the scheme?



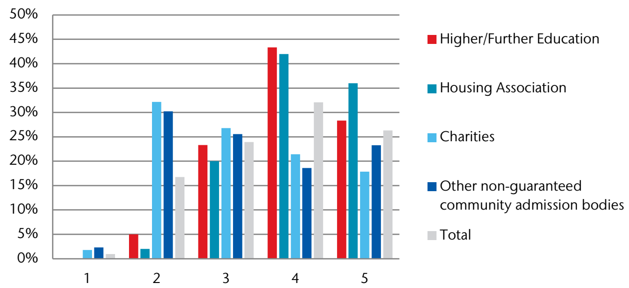
Commentary: Based on the survey responses, there are a number of employers who administering authorities believe do not seem committed to participating in the scheme.

If you answered yes to the above question in respect of any sector, do you see this lack of commitment to participating in the scheme as a concern for your Fund?



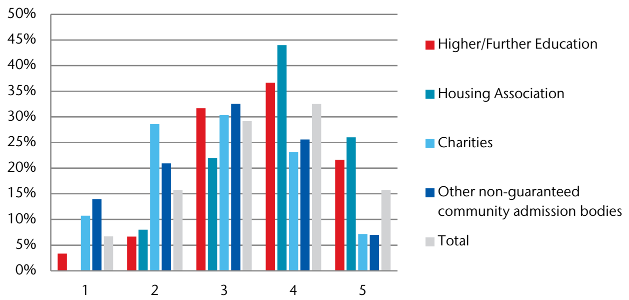
Commentary: Although the administering authorities believed some employers were not committed to participating in the scheme, a low proportion believed this was a concern for their fund.

How would you rate the below on a scale of 1-5? 1 being no understanding, 5 being full understanding. [Tier 3 employers understanding of the cost of their participation in the scheme]



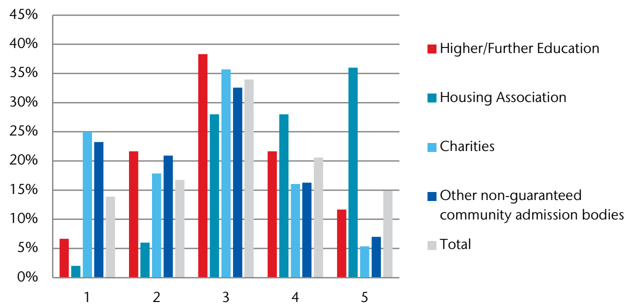
Commentary: The general view of respondents was that charities and other non-guaranteed community admission bodies have a lower level of understanding of the cost of their participation in the scheme.

How would you rate the below on a scale of 1-5? 1 being no understanding, 5 being full understanding. [Tier 3 employers understanding of the ongoing funding risks of the scheme]



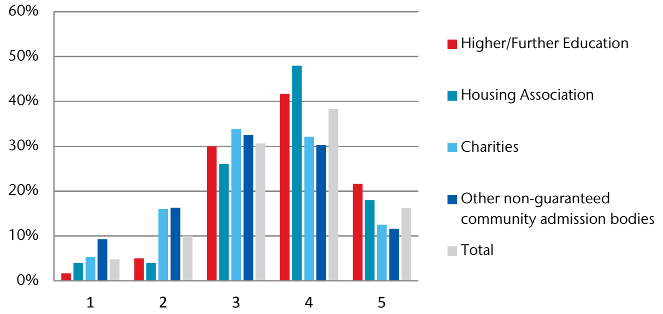
Commentary: The general view of respondents was that charities and other non-guaranteed community admission bodies have a lower level of understanding of the ongoing funding risks of participation in the scheme. However, there are also some examples of higher/further education perceived as having no understanding in this area.

How would you rate the below on a scale of 1-5? 1 being no understanding, 5 being full understanding. [Tier 3 employers understanding of the exit funding risks of the scheme]



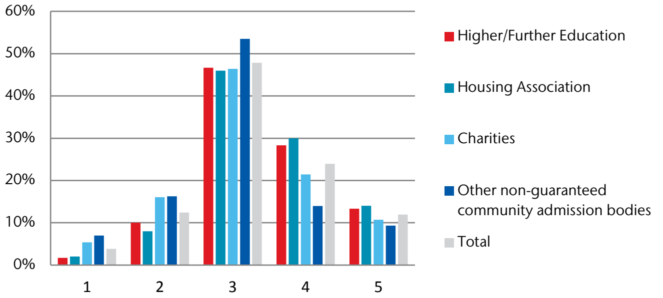
Commentary: There was a mix of views across the various sectors. The general view was that charities and other non-guaranteed community admission bodies have a lower level of understanding of the exit funding risks, whereas housing association are typically perceived as having a good level of understanding in this area.

How would you rate the below on a scale of 1-5? 1 being no understanding, 5 being full understanding. [Tier 3 employers understanding of the benefits of the scheme]



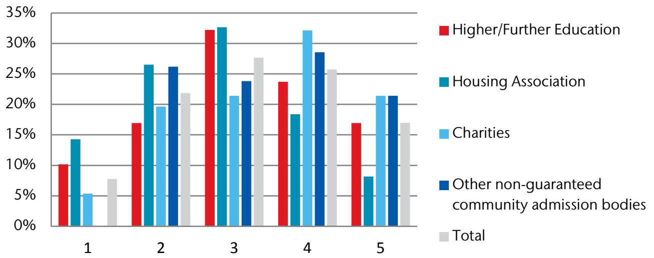
Commentary: In general the perception is that the level of understanding of the benefits of the scheme among tier 3 employers is good.

How would you rate the below on a scale of 1-5? 1 being no understanding, 5 being full understanding. [the scheme members of Tier 3 employers understanding of the benefits of the scheme]



Commentary: In general the perception is that the level of understanding of the benefits of the scheme among the members of tier 3 employers is around 3 out of 5.

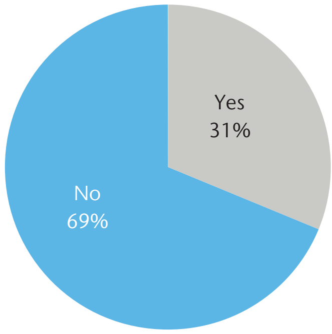
Do you have concerns about Tier 3 covenant and/or risk to other scheme employers of picking up deficit of exiting Tier 3 employers (1 being not concerned, 5 being very concerned)



Commentary: There was a diverse range of views among respondents to this question.

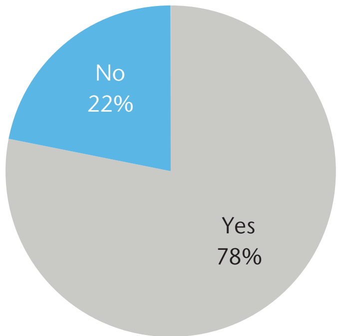
Section 3: Additional support for Tier 3 employers

Would you support more flexibility in the benefit structure of the Scheme for Tier 3 employers?



Commentary: The majority of respondents would not support more flexibility in the benefits structure of the Scheme for Tier 3 employers.

Would you support more flexibility in the funding and exit process of the Scheme for Tier 3 employers?



Commentary: The majority of respondents would support more flexibility in the funding and exit process for Tier 3 employers.

Appendix 6: Feedback from Administering Authority listening sessions

Administering Authority – listening sessions

Administering authorities – employer duties and responsibilities

Opinions about whether Tier 3 employers understand their duties and responsibilities were mixed, but in many cases the view was that they were no better or worse than other employers – some are good, some are poor. Many authorities said that size of employer was a factor rather than sector, with larger employers generally being better than smaller ones. One authority commented that issues occur when employers outsource their payroll as they then believe responsibility passes to that provider. Others said in the smaller employers such as charities staff turnover is higher so the person responsible for dealing with pensions might be new to the role.

One authority felt Tier 3 employers generally had a better understanding of their responsibilities due to the requirement to account for their pension costs, which is "real" for them but not for other scheme employers.

With regard to the data received from employers, views were similar – there are good and bad employers and this is reflected in the Tier 3 sector. Again, larger employers are generally seen as better than smaller employers.

Employer understanding may also be down to fund support – several funds commented that they spend a lot of time training and visiting employers and this has had a beneficial impact.

There appear to be different views regarding administration responsibilities and funding responsibilities – there is more evidence that employers understand the cost of the scheme, but still doubt that they fully understand their administrative responsibilities (e.g. data).

Administering authorities – employer communication and engagement

Common experience is that generally tier 3 employers only engage at valuation time, or if they are trying to exit the scheme/understand the implications of an exit.

Very few funds had engagement from any employers when they consulted on investment and funding strategies, so lack of engagement is not specific to Tier 3 employers. Where Tier 3 employers do engage, this tends to be the HE/FE organisations and housing associations rather than charities.

Some authorities felt that there was more engagement in relation to FRS17 figures than there was with the valuation/contribution rates.

HE/FE organisations and housing associations tend to have more discussions amongst themselves and may raise queries with funds if they perceive they are being treated less favourably. However, this doesn't seem to happen with the charities.

It was felt that Tier 3 employers can cause funds more work if they want to investigate leaving the scheme and options such as side agreements. However, administration representatives didn't feel that Tier 3 employers caused them any more work than non-tier 3 employers.

Administering authorities – funding and covenant

Some authorities treat HE/FE sector employers in the same way as their local authority/authorities, with a similar deficit recovery period. In some funds there are both scheduled body and admitted body universities, and where this applies they are treated differently. Many operate a shorter deficit recovery period for these employers, where others operate a different investment strategy or a different discount rate. This was far more likely for a closed employer than an open employer.

Some funds are considering an interim funding target, in between the target for scheduled bodies and the target for orphan employers, and will move open Tier 3 employers onto this.

Some funds (usually the larger ones) go further and assess each employer's covenant separately and give them a bespoke deficit recovery period/funding strategy.

Administering authorities – perceived risk

Mixed responses were received here. Most administering authorities agreed that Tier 3 employers do pose a risk, simply by lacking any sort of guarantee.

Some authorities felt that this risk was significant and was high on their priority list. However, only the largest authorities are taking significant steps to proactively manage this beyond different deficit recovery periods.

Other authorities felt that while Tier 3 employers do pose a risk, most of these are smaller employers and the liabilities only make up a very small proportion of the fund, so was lower on their priority list. Some felt there was a reputational rather than financial risk (e.g. the fund is viewed as having forced an employer into bankruptcy or preventing a charity from operating in a way it wishes).

It was felt by many authorities that of the categories of Tier 3 employers, the colleges (FE sector) were the biggest risk. It was felt that universities and housing associations were more financially secure, and charities, while lacking financial security, are small enough that the risk to funds is minimal. However colleges are large and the current area review is causing concern that many colleges are not financially viable.

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