**The LGPS- Alive and Kicking**

**By Mike Ellsmore , Chair CIPFA Pensions Panel**

In the politically charged sixties, Bob Dylan sang about the ‘Times they are a changing ‘. It was a time of great creative energy and a growing youth counter- culture after the austerity of the establishment - driven fifties.

For many currently working in the Local Government Pension Scheme [LGPS], the song will resonate. Administering bodies are going through a period of rapid and challenging change. The move towards pooling is looming large on the horizon. Pressure is on to increase infrastructure investment. Funding deficits have to be managed and the affordability of the scheme maintained. Life in the fast lane has nothing on the LGPS.

The pressure on pension administrators has increased exponentially. They are the cinderellas of the LGPS, overshadowed by the more sexy world of investment management. Pension Committees will often relegate administration to the end of their agendas where time is inevitably limited. It is a testament to our administrators that in 2016 there were only 91 formal complaints and less than 15% were upheld by the Pensions Ombudsman.

The metrics for administrators have exploded. There are over 14,000 scheme employers, up a staggering 22% in the past year alone, over 5 million members and effectively 3 schemes for each administrator to manage. Calculations have to be made separately for service accrued before 2008, between 2008 and 2014, and then post-2014. Whilst the pre 2008 and 2014 are final salary schemes, they have different accrual rates at 1/80th and 1/60th. Post-2014, life got even tougher for our administrators with the advent of pensions based on career average earnings. It is stating the obvious that the only data required for a final salary scheme was the years of service and the final salary. Now with a scheme based on career average, each year’s salary has to be captured with accuracy. Try telling a hard pressed employer with 3 members in the scheme that this is a high priority. The end result is often poor quality data and the actuary having to make educated guesses at valuation time.

No article on the LGPS can avoid mentioning the move to 8 pools in England and Wales. This is nothing short of a seismic change which has required a high degree of commitment from those tasked with its implementation. Pension administrators throughout the land have got their heads down and got on with it whilst continuing to deliver the day job.

Pension committees will need to redefine themselves and carve out a new and hopefully more strategic role, concentrating on strategic asset allocation, while leaving the selection of fund managers to the Pools.

In moving to the new arrangements let us not forget our fund managers who have served us well over the years. Inevitably there will be a rationalisation of their number. It would be a shame if good long term relationships enjoyed by many funds are ended in the race to rationalise. The cost of transition is high and a move to rationalise too quickly will incur unnecessary costs.

CIPFA in conjunction with Aon Hewitt has issued guidance for administering bodies in developing their relationships with the Pools [Governance Principles for LGPS Administering Authorities with Investment Pooling Arrangements]. Although originally issued in the summer of 2016, it probably has more relevance now as the pooling pace heats up. It is particularly focussed on administering authorities and will be relaunched this summer.

What of the difficult and often controversial area of investment management costs? Much has been written about this seemingly black art. Let’s first deal with the relatively straightforward aspect of accounting costs. CIPFA has a key role here in issuing the guidance which underpins the way in which the LGPS accounts for its investment management costs. CIPFA’s guidance has to be consistent with International Accounting Standards, and this can lead to what may appear to be a narrow definition.

Compliance with CIPFA accounting guidance continues to grow with less than 10% of funds failing to embrace all or part of the guidance .This will facilitate more informed comparisons of both costs and performance. Total costs of the LGPS [including investment management, administration and governance] are extremely low at less than half of one per cent and compare well to other schemes and the benchmark of 0.75% set by DWP for workplace schemes.

The Scheme Advisory Board is working hard on drilling down further into what is often termed the hidden costs of fund management, collating information from all funds and issuing a transparency code which asset managers are invited to sign up to. Both CIPFA’s and the Scheme Advisory Board’s work will greatly increase the transparency of investment costs. The increased purchasing power of the Pools has already created a downward pressure on costs even before the Pools are fully established.

What about performance, affordability and funding levels? The LGPS is a high performing scheme. Over the last 5 years it has delivered 10.7% per annum, and over 10 years –during a period of great turbulence in financial markets- 7.0% [PIRC Local Authority Pension Performance Analytics].

These returns markedly outpace inflation and more importantly are ahead of actuarial assumptions.

Funding deficits have fallen for most funds though future service contributions are under pressure and this may well trigger review of the scheme’s benefit structure. Overall funding ratios have improved from 79% at the 2013 valuation to 85% at the 2016 valuation.

Finally a comment on governance. One of the core objectives of CIPFA is to promote good governance within the LGPS. The governance surrounding the scheme is stronger than ever. It is heavily regulated and now overseen by the Pensions Regulator. Other bodies and agencies undertake key roles particularly the Scheme Advisory Board, the DCLG, and CIPFA who set the Accounting Standards. Four actuaries of national standing undertake the difficult and complex task of valuing the schemes, and preserve a strong level of independence. Locally Pension Committees and administering bodies are scrutinised by Local Pension Boards.

Well for Bob Dylan times did change. He played his first ‘electric’ gig at Manchester Free Trade Hall some 50 years ago. What proved a major change of direction for Mr Zimmerman in the city where CIPFA was first established, could also prove a major change for the LGPS. Whilst Dylan is still going strong with his never ending tour, the LGPS continues to show remarkable resilience in the face of never ending change.