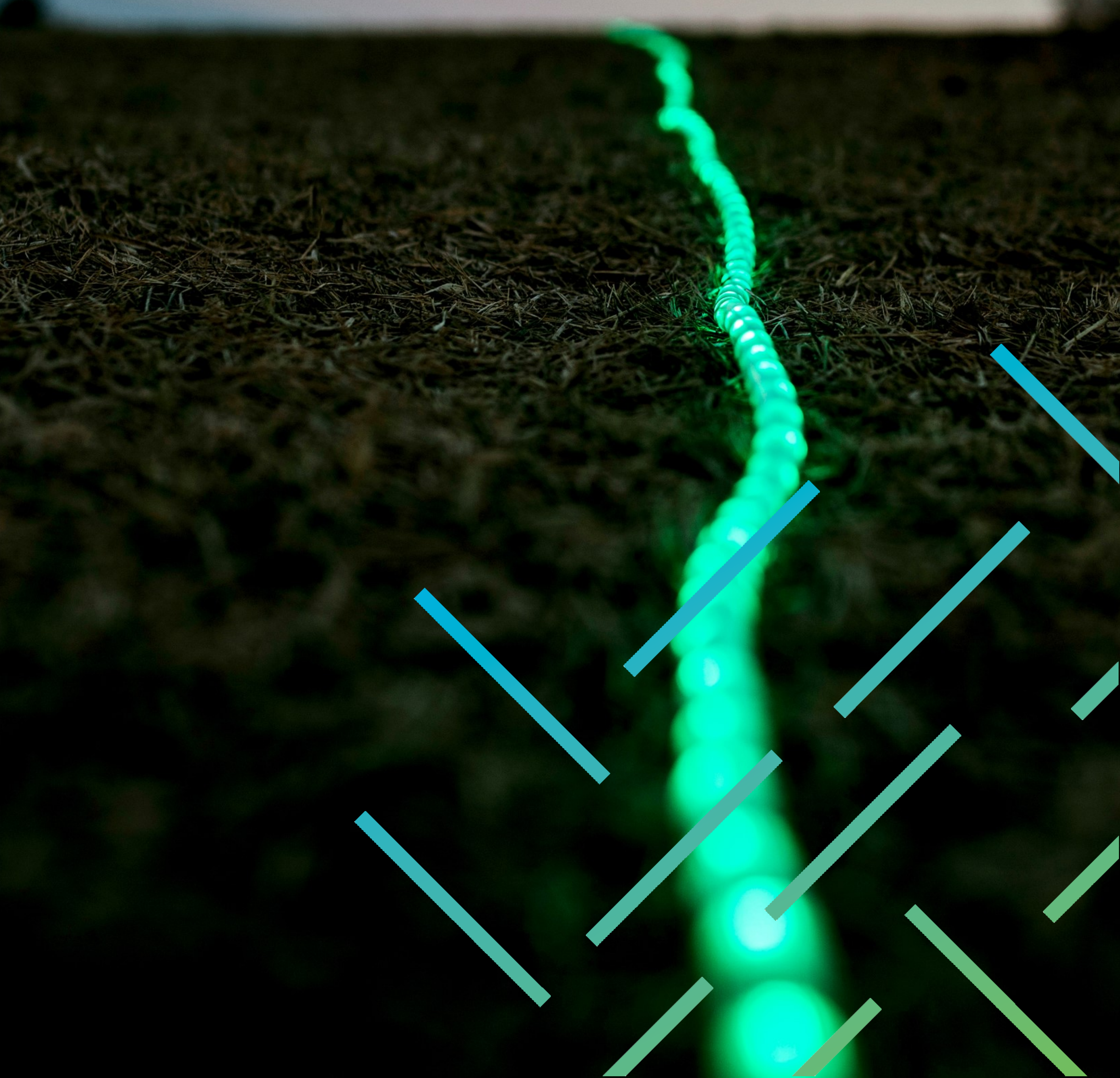
HYMANS ROBERTSON

A Brief Guide to the

Local Government Pension Scheme

May 2025



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LGPS basics

The Local Government Pension Scheme (LGPS) is a defined-benefit occupational pension scheme set up by government regulations.

This scheme is open to local government employees and public service employers like charities. Benefits, which are set nationally, are very secure, because they're written in statute.

The LGPS is a nationwide scheme made up of many standalone funds, which are usually administered by local authorities. Separate regulations for administration, governance and investments apply in England & Wales, Scotland and Northern Ireland. But the scheme is broadly similar in each country or province.

Key LGPS Facts: England and Wales

- Made up of 86 regional funds
- Around 6.7 million members
- Total fund assets: £392 billion
- Total expenditure on benefits of £13.7 billion pa

Source:
Local government pension scheme funds for England and Wales: 2023 to 2024 - GOV.UK

Key LGPS Facts: Scotland

- Made up of 11 regional funds
- Over 0.6 million members
- Total fund assets: £60 billion
- Total expenditure on benefits of £1.8 billion pa

Source:
Annual Report 2022/2023 | LGPSAB

Since 1 April 2014, the LGPS in England and Wales (2015 for Scotland and Northern Ireland) has been a Career Average Revalued Earnings (CARE) scheme. That means pensions accrue each year based on members' earnings over their career.

The scheme is also 'funded', which means it's built up from employee and employer contributions, investment income and growth to meet future benefit payments.

Most other public service schemes are unfunded (also referred to as "pay-as-you-go").'

Members' benefits are based on their average pay over their time in the scheme. Members' contributions to the scheme are based on their pay and contribution rates vary from 5.5-12.5%. The LGPS offers flexibility for members in terms of contribution options and retirement age, and benefits can include survivor or ill-health pensions depending on member cases. Employers also pay contributions into the fund, with rates re-calculated regularly and dependent on employer circumstances.

Who's who in the LGPS

Your own officers can provide you with details of the people involved in your fund, and your governance arrangements. But it's likely that you'll deal with or hear about most of the following groups or individuals.

The Administering Authority
Usually a local authority – it has the responsibility of managing all aspects of the fund.

Advisers
These may include auditors; lawyers; investment managers; actuaries; investment, governance, administration and benefit consultants; and custodians.

Ministry for Housing, Communities and Local Government (MHCLG)
The central government department responsible for strategic management and policymaking for the LGPS in England and Wales. The Scottish equivalent is the Scottish Public Pensions Agency, while the Northern Irish version is the Department of the Environment.

Officers
Employees of the administering authority, who carry out the fund's administration and management for the elected members.

Local Pension Board
Member and employer representatives, who assist the administering authority in the scheme's governance.

Unlike the pension committee, local pension boards have no direct delegated decision-making responsibilities.

The Pension Committee
Usually elected members from the council. Most committees have some delegated authority from the administering authority, but some are advisory only. Normally, the committee has overall responsibility for the fund, like trustees in private sector pension schemes.

Pools (England and Wales only)
Each LGPS fund in England and Wales is a member of an investment pool. These pools were created to reduce costs, improve investment oversight and provide access to alternative asset classes.

Scheme Advisory Board (SAB)
A national body that has a statutory function to advise the government on making changes to the scheme. The SAB also works with government and other stakeholders to encourage best practice, increase transparency and coordinate technical and standards issues. There are separate SABs for England & Wales, Scotland and Northern Ireland.

Scheme Employers
Local authorities, public service organisations and private contractors providing an outsourced service.

Scheme Manager
The body that runs a public sector pension scheme. Each administering authority is a scheme manager in the LGPS.

Scheme Members
Active, deferred or pensioner members of the LGPS.

The Pensions Regulator (TPR)
TPR has oversight of all UK occupational pension schemes and reviews the governance and administration of public service pension schemes. It has recently published its General Code of Practice. This applies to all UK pension schemes, including the LGPS.

Other groups you'll come across include:

- LGA (Local Government Association), who provide guidance on the technical aspects of the LGPS
- CIPFA (Chartered Institute of Public Finance and Accountancy), who support reporting and accountancy aspects

Local and national LGPS boards

All LGPS funds must have a local pension board to ensure that funds are governed in line with regulatory and best-practice requirements.

The local pension board assists the scheme manager (the administering authority) in complying with:

- The scheme regulations
- Other governance and administration legislation
- Any TPR requirements, such as compliance with the General Code of Practice
- Additional matters, if specified by scheme regulations

Boards must have an equal number of representatives from employers and scheme members. Other types of members – independent experts, for example – are allowed, but they won't have a vote.

The law requires local pension board members to have knowledge and understanding of relevant pensions laws, the LGPS and its documentation.

The pension committee's role usually involves decision-making, but members of pension boards should focus on the processes involved in running the fund.

For example, are policies and procedures up to date? Are TPR's requirements being met? And is the fund following recognised best practice?

In addition to local boards, separate national Scheme Advisory Boards exist for England & Wales, Scotland and Northern Ireland. These advise the government on making changes to the scheme and encourage best practice, increase transparency and coordinate technical and standards issues across the scheme. Like local boards, they're also made up of an equal number of representatives from employers and scheme members.

Knowledge and skills

TPR's General Code of Practice requires those charged with pension scheme governance to have access to the skills and knowledge for carrying out their role effectively.

Members of local pension boards also have a statutory requirement to have knowledge and understanding of the law relating to pensions and any other matters specified in the regulations.

Unlike local board members, there's currently no statutory requirement for decision-makers on a pension committee or panel to have a level of knowledge about pensions law or LGPS matters.

To comply with MiFID II (Markets in Financial Instruments Directive II) fund committees must provide evidence of their knowledge and understanding to be classed as a 'professional client'.

CIPFA's Pensions Knowledge & Skills Framework (KSF) outlines the necessary skills for those responsible for pension financial management and decision-making.

Regulations and guidance on the English and Welsh SAB Good Governance Review is being prepared by MHCLG. It recommends that members of pension committees should be required to obtain the knowledge and understanding necessary to carry out their role effectively.

This isn't the same as being a pensions subject-matter expert: it's about having the skills to ask questions, seek advice and weigh up options.

What are the pension committee's duties?

Agreeing the fund's objectives and investment beliefs

- Monitoring the fund's progress against its objectives
- Using the beliefs to form the fund's investment strategy

Deciding an appropriate investment strategy and structure for your fund

- Considering advice from your investment advisers and the fund's actuary
- Identifying and managing the fund's key risks
- Setting ESG-related policy matters, including climate change

In relation to the management of your fund's assets

- Liaising with your pool on investment options (England and Wales)
- Selecting new investment managers (Northern Ireland and Scotland)
- Overseeing and managing investment managers for any unpooled funds (England)
- Monitoring performance of decisions delegated to other parties (all)

Complying with legislation and guidance

- Ensuring compliance with all legislation that relates to the LGPS
- Tracking, monitoring and reviewing compliance on an ongoing basis
- Creating an improvement plan to address any shortcomings

Dealing with your fund actuary

- Ensuring that you have an appropriate funding strategy for setting contributions
- Agreeing contribution rates at the triennial valuation
- Monitoring progress of the funding strategy

Ensuring all relevant documentation is in order

- Reviewing and updating the mandatory documents (including the annual report, funding strategy statement and governance compliance statement)
- Reviewing administering authority policies
- Approving your pension fund accounts

Being responsible for risk management of the fund

- Maintaining an up-to-date risk register
- Establishing appropriate policies to deal with the admission and departure of employers into or from the fund
- Ensuring smooth and effective administration of the fund for members and employers
- Keeping an eye out for possible long-term risks eg how your longevity experience is changing over time

Pooling LGPS investments

- Every fund in England and Wales invests a proportion of its assets through an investment pool.
- Each administering authority (usually through the pension committee) sets its own objectives, beliefs and strategic asset allocation, as well as setting the fund's policy on ESG (environmental, social and governance) matters.
- The responsibility for choosing investment managers sits largely with the pool, depending on the type of pool structure.
- The pension committee must monitor its own fund's arrangements to ensure the pool is performing as required.
- At the time of writing, there are no requirements for pooling in Scotland.
  - The Government's 'Fit for the Future' consultation issued in November 2024 proposes changes to the functions of pools and the way they're set up. None of these changes will affect members' benefits under the scheme.

Key components of investment decision-making

The pension committee's main responsibilities include setting the fund's investment objectives, beliefs and strategy, as set out in the investment regulations.

Once the objectives and beliefs are established, attention turns to the fund's investment strategy. Funds will typically invest in:

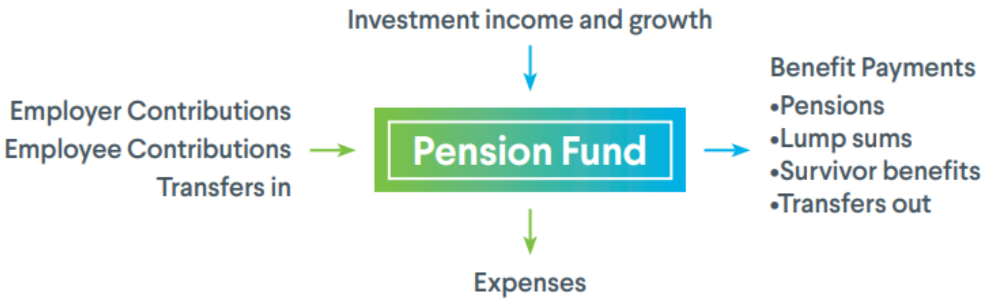
- Growth assets, such as equities, which generally provide an above-inflation return over the long term.
- Income assets like property, infrastructure and other alternatives that provide diversification. These also typically generate above-inflation returns, with a high proportion as income, which can help to fund benefits payments.
- Protection assets like government bonds and high-quality corporate bonds, which are usually held for funding stability and security.

A typical LGPS fund's asset allocation may look like this:

The actuary’s role

Your main objectives when running a pension fund are to ensure there are sufficient funds to pay for the benefits when they’re due, and that contributions are paid at an appropriate level.

The following diagram shows how money flows into and out of the fund.



Your fund actuary will perform regular actuarial valuations of the fund to:

- Comply with legislation (valuations every three years are mandatory)
- Monitor the ongoing health of the fund and manage funding risks (ie do you have enough money to pay the pensions?)
- Recommend appropriate contribution rates for employers
- Monitor the actual experience of the fund against the assumptions made

To carry out the valuation, assumptions must be made about future experience. The most important assumptions concern the expected investment return, inflation (to determine pension and salary increases) and longevity (life expectancy). These feed into financial modelling to help decisions about funding strategies. At valuation time, your actuary will provide analysis and advice in determining these assumptions and setting funding strategies.

The Funding Strategy Statement documents how the fund will pay for benefits and the approach the actuary will use when setting employer contribution rates.

Important definitions for valuation

Funding strategies

These target full funding for each employer over an appropriate time horizon by balancing future employer contributions with future investment returns. The financial strength and risk profile of employers are key factors.

Rates and Adjustments Certificate

A document required by the LGPS Regulations, which must be updated after each formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or group of employers) in the fund until the next valuation is completed.

Primary contribution rate

The employer contribution rate required to pay for new benefits earned by staff, expressed as a percentage of pensionable pay.

Secondary Contribution Rate

Any adjustment to the Primary Contribution Rate (such as additional contributions to fund accrued benefits or ensure long-term contribution stability), which can be expressed as a percentage of pensionable pay or as an annual lump-sum amount.

Current issues

The 'Fit for the Future' consultation was released in November 2024. The consultation proposed changes relating to both investments and governance arrangements for LGPS funds. Some of the key points included:

- More stringent requirements for investment pools, including becoming FCA-authorised companies.
- Delegation of implementing investment strategy – currently undertaken by each fund – to pools
- A greater focus on local investment opportunities
- Plans to implement the SAB's Good Governance recommendations

The 2025 valuations in England and Wales

Every three years, LGPS funds must undergo a formal valuation. This requires a review of the current funding strategies and employer contribution rates to check they remain appropriate, and an assessment by the fund actuary of the fund's liabilities (the total value of the benefits that members are entitled to as at 31 March 2025) relative to the fund's total assets as at 31 March 2025. The Scottish valuations are due to take place in 2026.

General Code of Practice

The Pensions Regulator released its General Code of Practice in March 2024, which applies to all UK occupational pension schemes, including the LGPS. There are many requirements in the Code that relate to LGPS funds.

Pensions Dashboard

All LGPS funds will be required to connect to the Pensions Dashboard ecosystem. This will allow users to view their pension benefits across multiple schemes, including the LGPS, from a single platform. LGPS funds need to be connected by October 2025, which requires a lot of preparatory work by administration teams.

Resources and training

Here at Hymans Robertson, we've created and made available a range of resources to help pension committees and boards achieve the right level of knowledge in the areas covered in this guide.

Resources include:

- 2025 LGPS valuations hub.
- Hymans Robertson insights, tailored for our public sector audiences and regularly updated by our LGPS team.
- And our online training tool LGPS Online Learning Academy (LOLA) covers all key areas needed to successfully manage the running of a fund.

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London | Birmingham | Glasgow | Edinburgh   T 020 7082 6000 | www.hymans.co.uk