

Scottish Local Government Pension Scheme

Structure review of pension funds

Introduction

The Scottish Local Government Pension Scheme (SLGPS) Advisory Board is consulting employers and trade unions on whether outcomes for the SLGPS can be improved by altering the structure of the funds. The consultation asks stakeholders to compare the advantages and disadvantages of the current structure against three options that, by degrees, consolidate the functions of the scheme's 11 constituent funds by collaboration, pooling and merger.

Background

The SLGPS is Scotland's largest pension scheme with currently more than 406,000 members who are employees, former employees and pensioners. It has members in local government, education, the police, the voluntary sector, NDPBs and private contractors.

The scheme is currently delivered through 11 individual funds with assets totalling around £42bn and liabilities to members of £55bn. Each fund serves a different group of employer organisations, the largest fund is Strathclyde with £19.7bn in assets and 210,000 members; Orkney Islands is the smallest, with assets of £335m and 3,663 members.

The Scheme Advisory Board has commissioned research that highlights the challenges facing the scheme and developments in pension investment governance across the world. On the basis of this research it has developed four consultation options that have been approved by Scottish Ministers:

1. Retain the current structure with 11 funds.
2. Promote cooperation in investing and administration between the 11 funds.
3. Pool investments between the 11 funds.
4. Merge the 11 funds into one or more new funds.

The consultation paper sets out the arguments for and against each option looking at key criteria including; the cost of investing, governance, operating risks and infrastructure investment.

The case for scale

There is an international movement towards greater scale in pension management that makes the status quo very difficult to sustain. UNISON's own research reinforces the benefits of scale. While UNISON would normally champion the cause of localism, there are very few local factors in pension management that make local control the determining factor.

With greater scale in pensions come economies of scale, which reduce costs, increase efficiencies, and this ultimately secures the pension benefits of UNISON members.



POLICY BRIEFING

KEY POINTS:

- **The SLGPS is consulting over the structure of pension funds in Scotland.**
- **There are four options ranging from the status quo to collaboration, pooling and merger.**
- **The case for scale in pension funds is strong, but major change has its implementation challenges.**
- **Branches should consult members and a UNISON conference on 17 August will consider our response**



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In the current austerity driven the Local Government setting, savings can also reduce pressure on Local Government spending, freeing up resources for jobs, services and pay.

The scale argument has three key components.

1. Across 11 funds, there is duplication of administration and governance structures with smaller funds relying heavily on expensive external fund managers. Bigger funds avoid paying for the same advice several times over, and they enable the development of greater in-house expertise.

2. The cost of external service providers such as actuaries, auditors, and investment consultants is notoriously opaque. UNISON has highlighted this issue for several years and the cause has been taken up by the Financial Conduct Authority (FCA). A larger fund, with in-house expertise, would be better able to tackle this issue.

3. Smaller funds using external advice rely on intermediaries rather than direct investment. Larger funds can develop the capacity and capability to engage directly in infrastructure investment, which would benefit the funds, through lower costs and higher returns, and the Scottish economy. Pension funds are well placed to invest in infrastructure as they have a long-run investment horizon given the lifespan of their liabilities.

The case for scale seems compelling and there are clear advantages that scale can bring to pension fund investment. However, there are practical considerations and the reality of pooling of assets on the scale of the Scottish LGPS is not without significant challenges and costs.

Option analysis

Given the case for scale the status quo does not look like a viable option. Some scale could be achieved in Option 2 through collaboration. This has been tried by Lothian and Falkirk, but it offers only modest gains in scale while retaining complex governance arrangements.

Option 3 is essentially the English model of pooling assets. It provides scale, although the funds retain their responsibilities for administering the scheme. Governance is a problem with this model and UNISON colleagues in England and Wales have significant concerns. The Scottish Futures Trust is developing a much more modest infrastructure pooling approach for Scotland.

The most radical Option 4 would result in a full merger of funds. It would have the advantages of scale as set out above. However, governance would need to be centralised either on a joint board or NDPB model. There would also be significant implementation challenges.

It should be obvious that this is not a straightforward or easy decision. It is also complex with few hard numbers to support any option because other economic factors impact on any evaluation.

Action for Branches

Branches with members in the Scottish Local Government Pension Scheme should consult members over the issues raised in the consultation. All branches and their pension champions are invited to a conference on 17 August 2018 at UNISON House, Glasgow, which will consider a UNISON response to the consultation.

Further information

Consultation paper

<http://lgpsab.scot/consultation2018/>

UNISON Scotland pensions website

<https://www.pensionsscotland.org/>

Comparative analysis of scale in Dutch pension funds

https://www.dnb.nl/binaries/Working%20Paper%20No.%20547_tcm46-353014.pdf

The case for scale

<https://www.ipe.com/boutique-asset-managers-the-case-for-scale/44613.article>

The case against scale

<https://www.ipe.com/countries/uk/the-case-against-pension-fund-consolidation/www.ipe.com/countries/uk/the-case-against-pension-fund-consolidation/10022570.fullarticle>



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