Pensions People: Susan Martin

Paddy Briggs speaks to Susan Martin about improving the pension prospects of local government employees through collaboration and the pooling of expertise

Susan Martin is the chief executive of the London Pensions Fund Authority (LPFA), a £4.8 billion fund with 80,000 members, making it one of the largest of the local government pensions schemes (LGPS). The LPFA is also active in providing third party pension services, such as administration, payroll, staff placement and communications for other local government pension schemes and as such administers pensions for around 260,000 people.

Managing change

Martin came to the world of pensions after a broad-based career in the public and private sector, which included time at the Royal College of General Practitioners, where she was responsible for corporate governance, and at the Imperial Cancer Research Fund, where she was a key player in the team that oversaw the merger with the Cancer Research Campaign to create Cancer Research UK. She mentions the then director general at Cancer Research, Sir Paul Nurse, as an inspirational figure who encouraged her to "find facts and use scientific methods, but also to trust her own judgment". In the private sector she worked in human resources for a multinational conglomerate, which provided valuable experience in dealing with people and understanding commercial priorities. In most of her past positions, including her role as director of the Queen Victoria Hospital NHS Foundation Trust in East Grinstead, Martin was intimately involved in the processes of managing change.

Joining the LPFA

Martin's involvement with the LPFA started as a part-time consultant in 2007. She became deputy CEO in 2011 and, following a selection process with outside candidates, she was confirmed as chief executive in December 2013. The selection was an interesting one as, although Martin's pensions expertise had been built up over her years of association with the LPFA, she was not a traditional pensions or finance person. When she was appointed, the LPFA emphasised that her focus would be to "deliver change" – and not only at the authority but also potentially in the wider world of local government pensions.

Public sector pensions

The world of public sector pensions is far from a homogenous whole, with different models applying almost on an arbitrary basis. The big divide is between the defined benefit pensions that are unfunded – such as those for civil servants, health workers, teachers, and police officers where pensions are paid directly from central government's current revenue – and the funded schemes such as the local government pension scheme, which includes the LPFA. In these schemes the funds' assets are theoretically built up over time to meet pension liabilities, as occurs with private sector DB schemes. However, Martin points out that the 89 local government pension schemes, as at 2012, had liabilities of £230 billion but assets of only £150 billion – in other words a deficit of some £80 billion.

From the perspective of the Treasury these schemes are preferable to the much larger unfunded pension arrangements, but there is still a huge potential future burden if pensions are to be paid to those entitled to them. Martin says that the current challenge is to persuade all of those managing LGPS schemes to understand the need to measure not just their assets but their liabilities as well. This imperative, obvious to those overseeing private sector DB schemes, is far from widely understood across the LGPS. As the idea of a funding ratio takes grip, local authorities will gradually realise that there is a need to manage efficiently all aspects of their pensions operation.

Working together

Martin once more recalls Sir Paul Nurse when she talks about managing the huge attitudinal change necessary to make LGPS more efficient. If the facts of a proper liability assessment are seen as being important then complacency about a funding deficit is no longer acceptable. "After all", she says, "why should the taxpayer put their hand in their pocket to fund such a deficit?" Martin is clear about how to achieve this. The most important thing is to work together. Economies of scale alone suggest that if the 89 funds can co-operate they are likely to perform far better than if they remain independent. This is already underway, with some working together on procurement and through 'collective investment' vehicles. But the real prizes will come, she believes, from a much more extensive collaboration. The preferred model is that of the 'super pool', which would involve a far greater sharing of expertise and cooperation.

The LPFA has shown that significant savings can be made when schemes cooperate in areas such as training and administration. This applies also to investments, where the scale of pooled resources would not only reduce costs and improve the quality of decision-making but also offer different strategic investment initiatives as well. Liability driven investment becomes much more feasible if the scale of the fund is large.

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Cross-party political support

Martin is keen to emphasise her call for greater collaboration, a call that she believes would be well-received by the three main political parties. The authority would like to establish an investment management structure for local authority funds outside their direct current remit but this is not currently permitted. Outside London the same potential exists. Indeed the £13 billion Greater Manchester Pension Fund is already an amalgamation of a number of smaller funds. The scale of this fund has created opportunities for efficiencies of working and different categories of investments such as infrastructure.

Good governance

The LPFA's own fund has cohesion to the pensioner membership, as most worked for the Greater London Council directly or indirectly. This allowed a sense of identity to be established. All active, deferred and pensioner members have a panel that meets four times a year, and there is a similar employers' panel (the fund covers some 300 different employing bodies). As with most public sector funds the LPFA does not have trustees, but has expert committees appointed by the Mayor of London. There is a mix between assets managed in-house and those looked after by external investment managers. Although at nearly £5 billion of assets under management this is a big scheme, Martin does not believe that it is anything like large enough to do everything in-house. She takes the view that the ideal size for a pension fund is £30 billion – a view that would perhaps come as a surprise to many large private sector funds.

A need for revolution

Martin says that in the UK we need a "revolution" in pensions and she has some original ideas about how that revolution could unfold in the public sector. Why, she says, should the sector have a multitude of separate contracts when a single pensions contract for public sector employees could encourage mobility and create economies of scale? As far as the unfunded part of the sector is concerned she is no less radical. Why not (for example) give the physical assets of the NHS to what could become a funded NHS Pension Fund? Why not set up a public sector Pensions Protection Fund? But above all why not work together across the public sector pensions world? Martin is making her own solid contribution to this worthy goal.

Written by Paddy Briggs, a former member-nominated trustee of the Shell Contributory Pension Fund