Summary

- School academies' staff members that are being enrolled into the LGPS will find their pension pots affected as a result of their school being turned into an academy.
- The number of academies with staff in the LGPS had grown to over 6,200 by December 2016, an average increase of 1,000 per year since academies were introduced in 2010.
- People running academies are not pension experts and are struggling to get to grips with the LGPS. They have to take responsibility for procuring payroll providers and other admin services that were previously the responsibility of the LGPS.
- There is only one teachers' pension scheme, and every school in the country pays the same contribution rate. However, for academy support staff joining the LGPS, contribution rates vary.

Lessons learnt

Louise Farrand looks into the challenges created by the increasing numbers of school academies' staff joining the LGPS

The reign of the traditional state school could be over. They are fast being replaced by academies, after a long period of Conservative government. The Tories argue that giving schools more autonomy to decide their curriculums and management delivers better academic results.

Inevitably, the rapid increase in academies has resulted in growing pains, as responsibility for running them transfers from local authorities to academy governors.

One critical concern is that the support staff, who are being enrolled into the Local Government Pension Scheme (LGPS), will find their pension pots are hit as a result of their school being turned into an academy.

The number of academies with staff in the LGPS had grown to over 6,200 by December 2016, an average increase of 1,000 per year since academies were introduced in 2010, according to May 2017 research by PwC, *Options for Academies in the LGPS*.

The Local Government Pension Scheme Advisory Board commissioned the PwC research as part of its review of the issue. It is set to propose recommendations in concert with the Department for Education, the Government Actuary's Department and the Department for Communities and Local Government.

If all local authority schools were to become academies, PwC projects that the number of academies with staff in the LGPS would climb to almost 22,000. "This may only happen gradually, but the current issues with LGPS participation could escalate proportionately if no alternative approaches are introduced", the PwC report warns.

PwC identified three main stumbling blocks for academies as they move their staff into the LGPS: policy, governance and outsourcing; administration and operations; and contributions and financing.

An awkward transition

A big part of the problem is that, understandably, the people running academies are not pensions experts and are struggling to get to grips with the LGPS. As the Pensions and Lifetime Savings Association (PLSA) head of governance and investment, Joe Dabrowski, puts it: "The challenge is getting familiar with the scheme itself: it's large, complicated and the way it runs is different to anything else. There is a lot of catching up to do and a lot of understanding how it is run."

He adds: "In a very rapidly-expanding sector, what you see are very patchy skills, engagement, knowledge and skills. Everyone is running to catch up and some are running faster than others."

This lack of expertise can result in practical problems. When academies are established, their governance boards take on responsibility for procuring payroll providers and other administration services that were previously the responsibility of the LGPS.

Hymans Robertson partner and public sector fund actuary Barry McKay explains that in the past, an LGPS fund might have contained 100 schools, with the same payroll provider. Now, each school is procuring different providers, with a focus on cost efficiency. "In an extreme case, you might have 100 payroll providers providing different services [*to different academies]* and the data is then inconsistent. There are a whole host of issues like that."

These issues have not escaped The Pensions Regulator. The regulator is becoming far more interested in LGPS issues than it has been in the past, reports McKay. Data and administration standards are a preoccupation. "I think the regulator could help out pension funds in that regard, by putting some rules or guidance out or allowing funds to fine employers that don't provide quality data," he says.

Splitting the bill

Funding is another area of confusion for academies. One issue that is especially perplexing for a layperson is the fact that there is only one teachers' pension scheme, and every school in the country pays the same contribution rate. However, for academy support staff joining the LGPS, contribution rates vary.

McKay explains: "The problem we have around funding is that before a school became an academy, it was in a collective pool to share the risks with the local authority. They would pay a contribution rate in line with the contribution rate the local authority was paying. Every school would pay the same rate. When they convert and become an academy, we calculate the rate, which is specific to each school."

He summarises: "*[Academies]* can't get their head around why it is different to what they used to pay – and why it is different from the school down the road."

There are a few reasons for this. Part of the explanation is the fact that different schemes have different levels of funding, and contributions are calculated accordingly, explains Barnett Waddingham partner and head of public sector Graeme Muir. In the very long term, schemes will recover their funding positions, via contributions and investment returns, and become 100 per cent funded.

Muir likens the process to a cycling peloton. "It is like the Tour de France – the peloton is really stretched out. People at the front pay lots, people at the back who aren't cycling too hard don't pay very much. In the long term we would expect the peloton to close up because those at the front will be able to pedal slower and the ones at the back will have to pedal a bit harder. But the finishing line is still a long way off."

Academy pension contributions are also calculated based on the demographics of the school's workforce, explains McKay. Typically, a young workforce would pay lower contributions than an older one, because long-term investment returns and the accumulation of compound interest means those contributions are ultimately worth more money.

"Different *[LGPS]* funds take different views in terms of the riskiness of academies," adds McKay. "Some view them as quite risky – there are a few academies that have failed and so on. Other factors – for instance, different assumptions about future market conditions and levels of volatility – mean you can get slightly different rates."

An evolving landscape

Over time, as academies get up to speed with pensions and regulation evolves, experts believe these growing pains will ease. The LGPS Pension Scheme Advisory Board review is evaluating these very issues, explains Mercer's public sector actuarial and benefits team partner and head Paul Middleman.

No deadline for the review has been announced publicly, but experts anticipate recommendations in 2018. An update from the latest ministerial meeting to discuss the issues concluded: "Ministers were supportive of the board's conclusion that nothing would be gained without some degree of change. Ministers agreed that the immediate focus should be to explore the scope for resolving the identified issues within the LGPS, either by way of general guidance, statutory guidance or, where necessary, through changes to the scheme's regulatory framework."

Greater consistency would be a good outcome, says Muir. "The key thing is to have guidance or guidelines to encourage funds to start setting rules. Greater harmonisation of what academies pay into each fund has to be a sensible objective."

However, Muir does not expect this to happen overnight. "You can't just whack contribution rates up. There is an affordability issue. It takes time. It will evolve slowly while they try to get everyone up to the same speed."

One trend that could alleviate the burden is a growing trend for multi-academy trusts. These trusts run multiple academies via a centralised management system, and pool their staff pensions. Therefore, each academy in the trust would pay the same contribution rate.

Even information sharing in a less formal way would go a long way towards alleviating some of the issues academies are facing. "Either on an area basis or a national basis – possibly national would be a step too far – there are some common hooks in terms of academies sharing payroll providers, having an expert in pensions that can represent more than one academy so you get your knowledge base built up, build commonality and can act as a middle man between the academies and the pension funds. That can alleviate the fragmentation," says Middleman.

Ultimately, academies will need expert support to get up to speed with a complex and fast-evolving pensions environment.

The consequences of failing to act now could be dire. Dabrowski warns: "The risk is without that support, you will end up potentially with an unholy mess that will come out much later, with teachers' retirement livelihoods being run in a far from optimum fashion."

Written by Louise Farrand, a freelance journalist