

PUBLIC SERVICE PENSIONS ACT 2013

EXPLANATORY NOTES

COMMENTARY ON SECTIONS AND SCHEDULES

Cost Control

Section 13: Employer contributions in funded schemes

87. **Section 13** provides for the setting of the rate of employer contributions in defined benefits schemes with a pension fund, most notably the funded Local Government Pension Scheme. The section requires an actuarial valuation of the pension fund to inform the setting of the employer contribution rate. The valuation of the pension fund is separate from and in addition to the valuation of the whole scheme under section 11. Section 13 provides for an independent review of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem.
88. **Subsection (1)** provides that the pension schemes to which the section applies are defined benefits schemes set up under the Act which have a pension fund. These will be the Local Government Pension Scheme in England and Wales, the Local Government Pension Scheme in Scotland and any other funded defined benefits schemes established under section 1 in the future.
89. **Subsection (2)** requires the scheme regulations of a funded scheme made under section 1 to set the employer contribution rates so that they meet two specified objectives. These objectives are to ensure that the rates of employer contributions are set at a level that is sufficient to ensure the solvency of the pension fund and the long-term cost-efficiency of the part of the scheme to which that fund relates. The valuation will take into account the current and anticipated liabilities of the scheme; the effect of these objectives is to ensure that those liabilities are provided for in a prudent manner.
90. The terms “long-term cost-efficiency” and “solvency” are not defined in the Act. Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time. Solvency means that the rate should be set at such a level as to ensure that the scheme’s liabilities can be met as they arise.
91. **Subsection (3)** provides that scheme regulations must require the pension fund to be subject to actuarial valuation. Provisions in the scheme regulations will require the scheme actuary to set the employer contribution rate for the employers who contribute to the pension fund. There are 89 pension funds in the Local Government Pension Scheme in England and Wales and 11 pension funds in the Local Government Pension Scheme in Scotland. Each pension fund will undertake a separate actuarial valuation and will set its own employer contribution rate or rates for the employers who participate in that fund.
92. **Subsections (4), (5), and (7)** require an appropriately qualified person to be appointed by the responsible authority to review the actuarial valuation and employer contributions

*These notes refer to the Public Service Pensions Act 2013
(c.25) which received Royal Assent on 25 April 2013*

rates and publish the findings of that review. The review will consider whether the valuation is in compliance with the scheme regulations, whether it is consistent with other valuations under the scheme, and whether the employer contributions rates were set as required by *subsection (2)*.

93. The purpose of the review is to provide an independent verification of the assessment of the scheme's assets and liabilities and to confirm whether appropriate employer contributions will be paid to meet those liabilities. The independent person's report must be published (*subsection (5)*).
94. *Subsection (6)(a)* provides that where the review identifies a problem with the valuation or the employer contribution rates the independent person may recommend how these can be corrected. Regardless of whether or not the review recommends actions, the scheme manager of the scheme is required by *subsection (6)(b)* to take steps to remedy any problem identified by the review. The scheme manager is also required to set out publicly what actions have been taken and why.
95. Where there has been an adverse review, *subsection (6)(c)* provides that the responsible authority may require the scheme manager to report on progress in taking remedial steps. The responsible authority may also direct the scheme manager to take such steps as he or she considers are needed to correct the problem. These powers are expected to be used as a last resort; for example, where the scheme manager is not (in the opinion of the responsible authority) taking appropriate remedial steps, or is delaying doing so.
96. For the local government pension schemes, the scheme manager will be the relevant local authority that is an administering authority for that scheme. In England and Wales, the responsible authority for the local government scheme is the Secretary of State; and for the local government scheme in Scotland it is the Scottish Ministers.