

THE INSIGHT
SHARING
PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

GUIDE FOR EMPLOYERS PARTICIPATING IN THE LGPS
BEST PRACTICE



JUNE 2023

CONTENTS

1.	INTRODUCTION	3
2.	BENEFITS OF BEING AN LGPS EMPLOYER	7
3.	USEFUL INFORMATION	10
4.	MANAGING RELATIONSHIPS WITH THE ADMINISTERING AUTHORITY	11
5.	DATA, DATA, DATA	15
6.	WHAT IS AN ACTUARIAL VALUATION?	19
7.	ONGOING RISK MANAGEMENT	22
8.	THE INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)	25
9.	AUTOMATIC ENROLMENT	27
10.	FURTHER GUIDANCE	29



1. INTRODUCTION

IF YOU PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AS A SCHEDULED OR ADMISSION BODY, YOU ARE PROVIDING YOUR EMPLOYEES IN THE SCHEME WITH A GOOD PENSION THAT WILL PROVIDE A CERTAIN INCOME STREAM IN THEIR RETIREMENT.

Participation in the scheme comes with potentially significant financial commitments, administrative responsibilities and regulatory requirements including:

- ▶ Making regular contributions, making payment of employees' contributions and making additional contributions if your section of the scheme is in deficit
- ▶ Facilitating communications with scheme members
- ▶ Setting up administrative processes for making payments
- ▶ Providing accurate data to the scheme when requested.

This is a best practice guide to help you to understand and fulfil these obligations, and will help you to adopt:

- ▶ A sound HR strategy for your employees in the scheme
- ▶ A good governance process for managing your participation in the scheme
- ▶ Robust financial and risk management with respect to your contributions and liabilities within the scheme
- ▶ Good contract management if you have come to participate in the scheme as an admission body
- ▶ The ability to evidence this best practice to stakeholders.

WHAT IS THE LGPS?

The LGPS is a defined benefit (DB) pension scheme for employees working in, or within organisations working with, local government. It is made up of three schemes – the England and Wales scheme and devolved schemes in Scotland and Northern Ireland.

England and Wales

There are 85 administering authorities in England and Wales, with nearly 15,000 active employers.¹

1. England and Wales figures provided by E&W SAB

Scotland

There are 11 main funds in Scotland, which cover all 32 councils and around 500 other employers.²

Northern Ireland

The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) administers the Northern Ireland LGPS.³ The Department for Communities sponsors NILGOSC as a non-departmental public body.

There are around 171 employers contributing to the LGPS in Northern Ireland.⁴

Members of DB schemes are promised a guaranteed pension income in retirement. This means that the financial risk of the scheme's investment falls to you as an employer in the scheme, as the employer is responsible for ensuring that the scheme is sufficiently funded to pay out the scheme's benefits as they fall due. This contrasts with a defined contribution (DC) pension where the financial risk of the scheme's investment lies with the employee and benefits are not guaranteed but depend on contributions paid and investment returns.

It is worth noting that the LGPS has specific detailed rules and definitions in some areas that differ from other pension scheme arrangements that the employer may already have.

The LGPS is governed at national and local level by a number of different bodies.⁵ It is important for you as an employer in the scheme to appreciate in particular the relationship between – and responsibilities of – the administering authority, the Local Pensions Committee (where applicable) and the Local Pensions Board.



2. <https://www.scotlgpsmember.org/about-the-lgps/about-the-lgps/>. At time of publication, Scottish LGPS figures for 2022 were not available.
3. <https://nilgosc.org.uk/about-us/who-we-are/>
4. Northern Ireland 2022 figures sourced from NILGOSC Annual Report 2021/22
5. Academies, County Councils, London Boroughs, Post-92 Universities and Further Education Colleges participate in the Local Government Pension Scheme (LGPS) as 'Scheduled Bodies' as listed in Schedule 2 of the relevant LGPS regulations.
In England and Wales, if a local authority contract involves the transfer of staff to your organisation under a TUPE arrangement, you will come to participate in the Local Government Pension Scheme (LGPS) as an 'admission body', or will be required to provide a 'comparable' pension benefit. In Scotland, if you are employed by a non-local government organisation which participates in the LGPS (an admission body), you can only join if your employer nominates you for membership of the scheme. In Northern Ireland, the definition of an admission body is contained in Schedule 2 to the 2014 Regulations, which sets out the various categories of bodies that can join the LGPS (NI).
The Scheme Advisory Board for England and Wales sets out the responsibilities of these different bodies: <http://www.lgpsboard.org/>.
The Scottish and Northern Ireland schemes have equivalent bodies in place; more information about the Scottish body can be found here: <https://lgpsab.scot/>.



HOW IS THE LGPS FUNDED?

The LGPS is funded through the contributions from employers and employees participating in the scheme. These contributions are then invested to seek a return that can meet the promises made to members as and when they fall due.

If the value of the pension scheme's assets is not expected to be sufficient to meet the promises made to scheme members, then the scheme is considered to be in deficit and the scheme would likely seek additional contributions to cover the deficit. In contrast, if the pension scheme's assets are more than sufficient to meet the promises to scheme members, then the scheme is considered to be in surplus. If you, as an employer, exit the scheme, the cost of meeting the pension liabilities that have accrued during the time of your participation may have decreased or increased. The deficit or surplus attributed to admission bodies is calculated at the end of the contract and levied as exit costs or dealt with as set out in any admission agreement or contract. There may be a deficit or surplus on exit, which could be crystallised immediately or an agreement entered into to repay the deficit over a specified period of time.

The local administering authority acts as scheme manager and so is responsible for investing and managing LGPS assets in the local authority pension fund, collecting employer and employee contributions, paying pension benefits as they fall due, and dealing with various other aspects of administration and the scheme actuary, who has responsibility for setting employer contribution rates. The LGPS has faced challenges, such as the financial impact of Covid-19, but is in a robust financial position overall. Recent figures show that it has 7.1 million members, over 15,500 employers, and assets totalling over £425 billion.⁶

6. At time of publication, Scottish LGPS figures for 2022 were not available. England and Wales figures provided by E&W SAB. Northern Ireland 2022 sourced from NILGOSC Annual Report 2021/22.

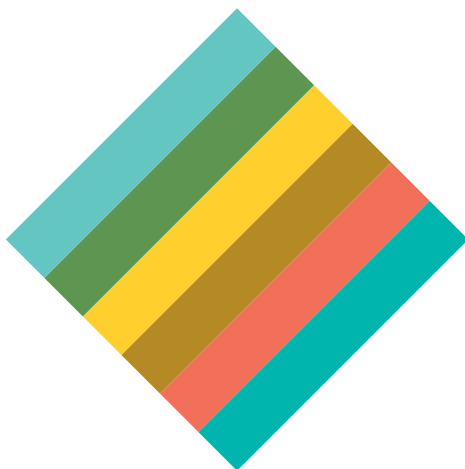
WHAT'S COVERED IN THIS GUIDANCE?

This guidance follows on from two introductory pieces of guidance for scheduled and admission bodies newly participating in the scheme:

- ▶ An Introduction To The LGPS For Scheduled Bodies⁷
- ▶ Navigating Entry Into The LGPS: For Local Government Contractors.⁸

This guidance sets out:

- ▶ Information available to help you understand what LGPS participation will require
- ▶ How to engage with fund administrators and other relevant stakeholders
- ▶ Core administrative processes that will be required
- ▶ What an actuarial valuation involves and how this will impact you as an employer
- ▶ How to report your participation in the LGPS
- ▶ How to set up ongoing risk monitoring and management processes
- ▶ The benefits of being an LGPS employer
- ▶ The Internal Dispute Resolution Procedure (IDRP)
- ▶ Information about automatic enrolment.



7. An Introduction to the LGPS for Scheduled Bodies (PLSA, 2016), <https://www.plsa.co.uk/Policy-and-Research/Document-library/An-introduction-to-the-LGPS-for-scheduled-bodies>

8. Navigating entry into the LGPS: For Local Government Contractors (PLSA, 2016), <https://www.plsa.co.uk/Policy-and-Research/Document-library/Navigating-entry-into-the-LGPS-for-local-government-contractors>



2. BENEFITS OF BEING AN LGPS EMPLOYER

THERE ARE A NUMBER OF BENEFITS OF BEING AN EMPLOYER IN THE LGPS, INCLUDING PROVIDING STAFF WITH ACCESS TO ONE OF THE UK'S LARGEST PENSION SCHEMES. THESE BENEFITS ARE OUTLINED IN THIS SECTION.

THE LGPS PROVIDES A SECURE PENSION SCHEME FOR YOUR EMPLOYEES

By being an LGPS employer, you are giving your employees access to one of the largest, most established pension schemes in the UK, providing members with a number of important benefits including:⁹

- ▶ A guaranteed, Consumer Price Index (CPI) indexed pension based on their salary in each year that they pay into the scheme
- ▶ Tax relief on the contributions they pay into the scheme
- ▶ Flexibility to retire and take their pension at any time between ages 55 and 75
- ▶ An option to exchange some of their annual pensions for a tax-free lump sum amount when they first take their LGPS pension
- ▶ The option to increase their pension by paying extra contributions or to reduce contributions in times of hardship
- ▶ Redundancy cover from over the age of 55
- ▶ A death in service lump sum of three times their pensionable pay (if under the age of 75)
- ▶ Protection for their family in the form of survivors' pensions for widows, widowers, eligible co-habiting partners, civil partners and dependent children
- ▶ An ill-health pension from any age (subject to the two-year vesting period).

More generally, being an LGPS employer means that your staff can benefit from a DB pension, which can help them to achieve a secure retirement by paying them a guaranteed retirement income for the rest of their lives.

9. Key features of the LGPS - <https://www.lgpsmember.org/your-pension/the-essentials/key-features/>

BENEFITS RESULTING FROM POOLING OF INVESTMENTS

Pooling of the LGPS funds in England and Wales continues to gain momentum. Investment pools – which were announced in 2015, with funds’ assets transferring into them in 2018 – aim to streamline the investment process for local government pension funds and are now building up sizable assets.

There are currently eight pools in operation,¹⁰ and authorities are encouraged to use the pools. Through investment pooling, savings are achieved through economies of scale and increased bargaining power; investment costs are reduced along with other costs for the investment used in the pool. Employers potentially benefit from the savings and reduced investment costs associated with investment pooling through lower contribution costs, since the contribution rates – calculated by the actuary every three years – that employers have to make into their LGPS fund take into account investment returns.

Investment pooling also enables administering authorities to improve their capacity and capability to invest LGPS assets in large scale infrastructure projects. LGPS funds currently invest in UK and global infrastructure through the eight LGPS asset pools.

LGPS IS LEADING THE WAY IN THE NET ZERO TRANSITION

Pension funds are under increasing pressure to demonstrate a commitment to net zero as regulators, politicians and campaigners respond to the climate emergency. The government already requires large corporate funds to act on the principles of the Task Force on Climate-Related Financial Disclosures (TCFD) and LGPS funds are likely to face similar requirements in the near future.¹¹



CASE STUDY:

Essex Pension Fund has recently made a £100m commitment to the Stafford Carbon Offset Opportunity Fund, which has been launched to help develop new commercial timberland plantations and restore natural forests on a global basis.

The investment builds on Essex Pension Fund’s global timberland portfolio and accelerates its transition to net zero.

Stafford Carbon Offset Opportunity Fund is expected to invest in around 200,000 hectares of sustainably managed timberland globally, including 150,000 hectares on which new commercially managed plantations will be established and natural forest planted.

It also plans to provide a source of sustainable, low-carbon timberland materials, and contribute a significantly negative carbon intensity metric to Essex Pension Fund’s investment portfolio.

10. At the time of publication in June 2023, there were eight investment pools in existence. Government is due to consult on whether these eight vehicles should be further consolidated.

11. At the time of publication in June 2023, DLUHC’s consultation response on TCFD applications to the LGPS has not yet been published.



LGPS IS INVESTING IN OUR COMMUNITIES

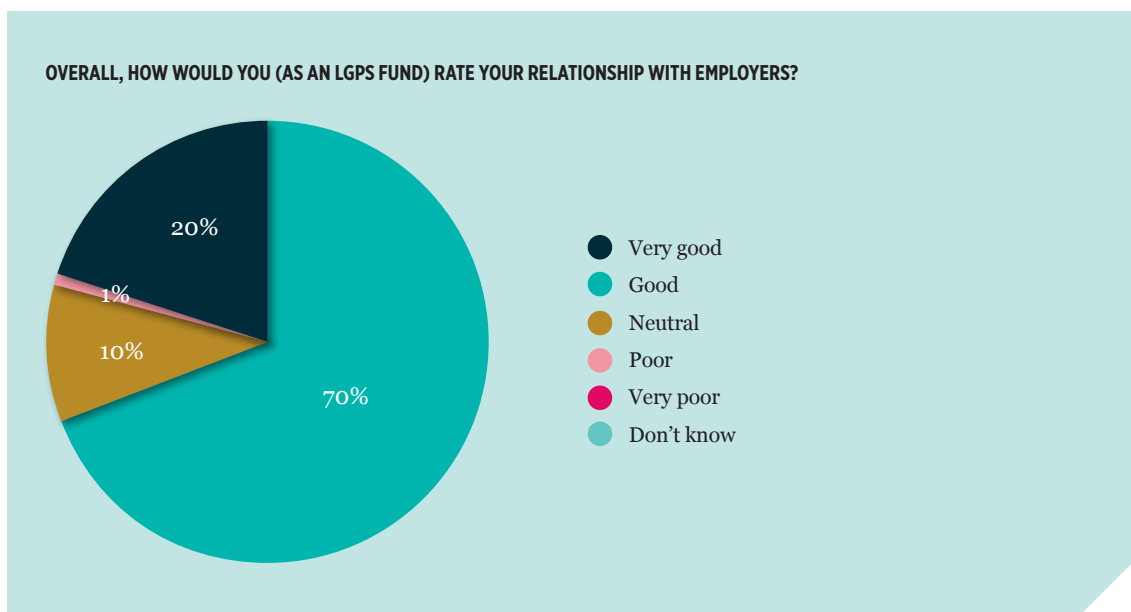
LGPS funds make substantial investments across the UK. Although LGPS funds invest in various asset classes, including equities, bonds and property, many LGPS funds seek to channel some of their investments towards local communities (such as affordable housing and renewable energy in their local communities) while still delivering steady financial returns on their investments. This channelling investment to the more socially generative side of the economy has multiplier effects upon social, economic and environmental value.

Recent research¹² shows that LGPS funds plan to increase local social investing. Based on the results of this research, nearly nine out of 10 (89%) of LGPS funds are planning to increase their allocation to local social investing in the next few years, with just over half (54%) of LGPS funds looking to invest within their council area.

POSITIVE RELATIONSHIP BETWEEN THE LGPS AND EMPLOYERS

The overall relationship between funds and employers appears to be very positive.

The results of recent research undertaken by the PLSA¹³ show that most LGPS funds (90% of funds surveyed) believe that their fund has a good or very good relationship with their employers.



The vast majority of respondents (96%) also believed that their fund understands their employers' needs, with six in ten believing they understood their needs extremely well (14%) or very well (46%).

This overall positive working relationship between funds and employers is another one of the main benefits of being an LGPS employer.

12. Research by Alpha Real Capital ("Alpha"), specialist manager of secure income real assets, June 2022.

13. The Local Government Pension Scheme: Today's challenges, tomorrow's opportunities, June 2022.

3. USEFUL INFORMATION

THERE ARE A NUMBER OF PIECES OF INFORMATION THAT YOU SHOULD SEEK FROM THE ADMINISTERING OR CONTRACTING AUTHORITY IF YOU HAVE NOT ALREADY ACQUIRED THEM THROUGH THE PROCESS OF ENTERING THE SCHEME.

These will help you to understand your roles and responsibilities in more detail.

- ▶ A pensions administration strategy if available; this is optional for the administering authority to produce
- ▶ A funding strategy statement and statement of investment principles. The administering authority is required to produce this
- ▶ A policy statement covering communications with employers and members. The administering authority is required to produce this
- ▶ A policy outlining how discretions under the scheme will be exercised. The administering authority is required to produce this
- ▶ A governance policy and compliance statement that sets out what administering authority functions are delegated and to whom. The administering authority is required to produce this
- ▶ The latest actuarial valuation of the fund you participate in
- ▶ The fund's annual report and accounts
- ▶ Your admission agreement
- ▶ Details of any contractual arrangements you have with the commissioning authority if applicable
- ▶ Information about the local pension board, including board members, terms of reference, and contact information. This should be published on the fund's website
- ▶ Any additional guidance or information that the administering authority provides for employers.

The LGPS Scheme Advisory Board¹⁴ website also includes useful information regarding the scheme in England and Wales, for example links to each fund's actuarial valuation and the Scottish Scheme Advisory board also has a website.¹⁵

The LGPS Scheme Advisory Board also prepares an annual report covering the LGPS and provides information on issues affecting the whole fund, such as asset pooling.

14. <http://www.lgpsboard.org/>

15. More information about the Scottish body can be found here: <https://pensions.gov.scot/local-government>.



4. ENGAGING WITH THE ADMINISTERING AUTHORITY

THE ROLES AND RESPONSIBILITIES OF AN ADMINISTERING AUTHORITY WILL AFFECT THEIR ENGAGEMENT WITH YOU AS AN EMPLOYER IN THE SCHEME, SO IT IS HELPFUL TO UNDERSTAND THE SCOPE OF THESE RESPONSIBILITIES AND HOW THEY MIGHT COME TO BEAR ON YOUR RELATIONSHIP WITH THEM. SIMILARLY, IT IS USEFUL TO UNDERSTAND WHAT OPPORTUNITIES THERE ARE FOR YOU TO ENGAGE WITH THE ADMINISTERING AUTHORITY TO COMMUNICATE YOUR OWN OBLIGATIONS AND EXPECTATIONS.

CORE DUTIES OF THE LGPS ADMINISTERING AUTHORITY

As statutory bodies, many of the duties of Administering Authorities are defined in regulation¹⁶ set out by the Department for Levelling Up, Housing and Communities; in addition, they are subject to regulatory oversight by The Pensions Regulator and must comply in particular with the Code of Practice (14)¹⁷ on the governance and administration of public service pension schemes. Code Practice 14 will be integrated into the General Code, due to be released in 2023.

The list below is by no means exhaustive, but it summarises some of the core responsibilities.

Employer engagement

- ▶ Admitting employers to the fund and signing admission agreements with them
- ▶ Collecting employee and employer contributions, including past service contributions and exit payments from employers in the fund
- ▶ Consulting with employers on their funding strategy statement.

16. <http://www.lgpsregs.org/>

17. Code of practice 14: The governance and administration of public service pension schemes, The Pensions Regulator: <https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice/>.

Member engagement

- ▶ Calculating and paying benefits to scheme members
- ▶ Communicating to scheme members about their benefits, including their annual benefit statement.

Governance

- ▶ Preparing, maintaining and publishing an investment strategy
- ▶ Preparing, maintaining and publishing a funding strategy statement
- ▶ Preparing, maintaining and publishing a governance and compliance statement
- ▶ Preparing, maintaining and publishing a communications policy
- ▶ Operating robust internal controls and risk management processes
- ▶ Publishing scheme information
- ▶ Reporting functions, including preparing an annual report and accounts and providing an annual scheme return to The Pensions Regulator.

Administration

- ▶ Maintaining accurate records about the scheme members and participating employers
- ▶ Completing triennial actuarial valuations.

RESPONSIBILITIES

You should have a clear structure and allocated responsibilities in place for:

- ▶ The operational management of administrative duties with respect to the scheme including payroll, data collection and member communications
- ▶ Paying additional voluntary contributions (AVC) to employees' AVC provider
- ▶ Engaging with fund administrators and other relevant stakeholders within the administering authority
- ▶ The ongoing risk management and monitoring of your participation in the LGPS, and feeding this into risk management for your organisation as a whole
- ▶ Financial and accounting disclosures and budgetary responsibilities
- ▶ Making decisions with respect to ongoing participation in the scheme
- ▶ Monitoring business and strategy decisions that might have LGPS implications
- ▶ Having agreed discretionary policies in accordance with the regulations.

These responsibilities may be best distributed among a number of people; however it is best practice for you to assess who in your organisation is most suited to have strategic oversight of your participation in the LGPS. This person ought to be someone with an appropriate degree of pensions literacy and is likely to come from your Finance or HR department. There should be more than one person in your organisation that is familiar with the entirety of your obligations, in order to avoid facing 'key person risk' and for succession planning purposes.



GOOD GOVERNANCE

You should set up a robust governance process for ongoing participation in the LGPS. This may form part of a general governance process for monitoring employee benefits or may link with your commercial team's process for contract management if you participate in the scheme as an admission body.

You should consider how critical information and key decisions about your participation in the LGPS is communicated to your board of governors or trustees; for example, it is considered best practice to have a standing agenda item for both the senior executive committee and board agendas.

Conflicts of interest

It is considered best practice for you to operate a conflicts of interest policy when it comes to making decisions about the scheme. This is about having sufficient checks and balances in place to ensure that personnel responsible for making decisions do so based on the organisation's objectives, rather than their own personal or other professional interests. This is particularly relevant for smaller organisations where the person responsible for making decisions may also be an active member in the scheme.

COMMUNICATIONS

You should agree a regular communication process between you and the administering authority. The administering authority may already have established communication channels, which will be set out in their pension's administration strategy. You may wish to (or be required to) nominate a day-to-day contact for dealing with your local administering authority; however, it is still important to ensure that all relevant staff who have responsibilities for the LGPS in your organisation are kept up-to-date with information from the administering authority and that any key decisions are made at a senior level.

Communicate early

It is best practice to communicate early with the administering authority any relevant challenges you are facing, especially if these challenges are affecting the overall affordability of your participation in the scheme.

The administering authority may be able to quickly resolve your problems, and are better able to assist you with more intractable problems when they are engaged in the process.

Communicating with your employees

Some administering authorities will ask you to distribute certain information to members (where LGPS funds do not distribute the information directly to members) – this might include a 'welcome' letter to new members of the scheme, information to members who are transferring their employment to you, or even annual benefit statements. Alternatively, it could be more general information such as reminders to members to sign up to online portals, notices about planned sessions (e.g. pre-retirement courses), information on the benefits of being in the scheme and so on.

You will also have a duty to communicate with employees on related topics such as automatic enrolment, changes to National Insurance or changes to their contribution band. While these may be connected to the pension scheme, it is the employer's responsibility to communicate these issues directly to their employees.

BUILDING RELATIONSHIPS

There are a number of avenues to build relationships with the administering authority and to make your views heard. These include:

- ▶ Building relationships with your Local Pension Board
- ▶ Forming contacts with other employers in the scheme
- ▶ Attending and contributing to employer forums.

Local Pension Boards

All administering authorities have a Local Pension Board, made up of an equal number of employer and employee representatives, whose role is to assist the administering authority in adhering to the scheme regulations.^{18,19} It will be useful to identify employer representatives on the Local Pension Board as well as the Chair of the Board so that you know who to raise issues with should they arise. Board membership is required to be published and may be publicly available, for example on the administering authority's website, or you can request it.

The Local Pension Board has a duty to assist the administering authority with a range of responsibilities, including with ensuring the effective and efficient governance and administration of the scheme.

Other employers in the scheme

It may also be helpful to establish relationships with other employers that participate in the same LGPS fund. You may wish in particular to establish a relationship with those other organisations that operate in the same sector as you do. This can be a helpful way of sharing best practice with one another and addressing questions quickly and informally.

There are a number of bodies that represent employers that participate in the LGPS (such as the Association of Colleges,²⁰ the Charity Finance Group,²¹ the National Housing Federation²² and the Universities and Colleges Employer Association)²³ and many provide specific guidance or run forums for their industry on the LGPS.

Employer forums

Most administering authorities hold employer forums as a means to communicate with employers participating in the scheme. The frequency of these meetings varies between administering authorities. Some will also have other opportunities for employers to have representation in the decision-making process, such as a formally appointed employer panel.

You should approach your administering authority to find out whether employer forums exist and how frequently they meet. These forums are a key opportunity for you to understand how the administering authority is currently operating, the rationale behind any recent developments and to articulate your current experience and any challenges you are facing. It is also a useful opportunity to engage with other employers that participate in the fund. Attendance at these meetings is an essential aspect of best practice when participating in the LGPS.

18. <https://www.lgpsregs.org/>

19. The Pensions Regulator has issued guidance on 'public service pension schemes' local boards: <http://www.thepensionsregulator.gov.uk/docs/quick-guide-public-service-pension-boards.pdf>.

20. <https://www.aoc.co.uk/>

21. <https://www.cfg.org.uk/>

22. <http://www.housing.org.uk/>

23. <http://www.ucea.ac.uk/>



5. DATA, DATA, DATA

YOU WILL BE RESPONSIBLE FOR SUPPLYING THE ADMINISTERING AUTHORITY WITH INFORMATION CONCERNING THE MEMBERSHIP AND FOR CERTAIN COMMUNICATIONS TO THE MEMBERS. MOST OF THE INFORMATION WILL CONCERN DATA REGARDING MEMBERS PARTICIPATING IN THE SCHEME. THE PAYROLL GUIDE TO THE 2014 SCHEME²⁴ PROVIDES MORE INFORMATION ON THE DATA THAT NEEDS TO BE PROVIDED FOR ADMINISTERING AUTHORITIES IN ENGLAND AND WALES. THERE IS AN EQUIVALENT GUIDE FOR SCOTTISH²⁵ AND NORTHERN IRELAND²⁶ ADMINISTERING AUTHORITIES.

It is important to understand why the funds are making these data requests and why it is best practice to comply with them. Ultimately this is about ensuring:

- ▶ That the fund's members (your LGPS eligible employees) receive clear and accurate information about their future benefit entitlement via their annual benefit statement (there is a regulatory duty on administering authorities to provide these statements by the end of August each year)
- ▶ That the fund has sufficient information to pay those benefits on time when they fall due
- ▶ That the cost of providing those benefits, by way of your employer contributions, is accurate.

CONSEQUENCES OF NOT COMPLYING

Administering authorities have the power to recover their costs by levying fines where employers do not comply with certain data requests. The responsibility to comply with these requests still lies with you as the employer if you outsource any part of your LGPS-related administration to a third party.

PENSIONS DASHBOARDS

Pensions dashboards will combine an individual's pension information, including State Pension. This will enhance individuals' awareness and understanding, help reunite them with missing pension accounts, and change how they plan for retirement. By providing simpler access to pension information, pensions dashboards may reduce some of the barriers that have kept

24. <https://www.lgpslibrary.org/assets/gas/ew/Pv4.2c.pdf>

25. <http://www.lgpsregs.org/index.php/scotland/scot-hr-payroll-guides/lgps2015-payroll-guide>

26. https://niopa.qub.ac.uk/bitstream/NIOPA/6251/1/new_680262__payroll_guide_to_the_2015_version7_clean.pdf

consumers from seeking assistance. Pension schemes must comply to be on dashboards by the deadline of 31 October 2026.²⁷ Given the large number of employers within the LGPS, your administering authority will be reliant on you as an employer to ensure your data is accurate and up-to-date. As an employer you will need to have your data prepared ahead of the launch of the Pensions Dashboards Programme.

More information about the Pensions Dashboards Programme can be found at www.plsa.co.uk.

COLLECTING DATA

Data quality

It is best practice to have internal controls in place to ensure that the data you submit is accurate. Where you have outsourced this task to a third party, the responsibility still lies with you; therefore you need to have appropriate due diligence and monitoring in place to ensure this delegated responsibility is being met in full.

If you have recently become an Academy, it is important to ensure that you understand which data handling responsibilities are being transferred to you from the Local Authority and that there are no gaps. In particular, if you outsource your payroll you need to consider how your pensions administration duties with respect to the LGPS will be delegated.

Data timing

You will be required to send data to the administering authority on a number of occasions, as set out below.

Ongoing notifications

You will need to send information to the administering authority as and when the need arises, for example when a member leaves the scheme due to redundancy.

Many administering authorities will set timescales within which you are required to provide certain data and they will notify you of these. You should notify the administering authority on an ongoing basis of information concerning:

- ▶ New joiners – if you are using the LGPS scheme as your automatic enrolment scheme, there will be additional data required when you hire a new employee and every three years if some employees opt out²⁸
- ▶ Changes of name or marital status
- ▶ Leavers and redundancies
- ▶ Those on long term sickness, parental leave, or industrial action
- ▶ Change of hours (e.g. converting from full time to part time)
- ▶ Unpaid breaks in employment
- ▶ Switches between the standard benefits (between the ‘main scheme’ and the 50:50 scheme at re-enrolment date for example)
- ▶ Death in service.

27. <https://questions-statements.parliament.uk/written-statements/detail/2023-06-08/hcws836>

28. The LGPS regulations website contain more information concerning automatic enrolment for the LGPS: <http://www.lgpsregs.org/index.php/guides/hr-guide-to-the-2014-scheme?showall=&start=6>



Your administering authority should let you know the information they need in each of the previous cases if this is not set out in their pensions administration strategy.

Monthly information

You will typically send pensionable pay information regarding all relevant members in aggregate to the administering authority when you pay monthly contributions to the scheme. Your administering authority will provide a template or online portal for the information they require.

End of year report

The end of year report reconciles the payroll data on a per-member basis; though many administering authorities now do this on a monthly basis. The administering authority will typically request that a form (manual or electronic), or spreadsheet, be populated in respect of each member, including personal information such as dates of birth, addresses and telephone numbers, as well as dates of employment and pensionable pay. Each administering authority has its own preferences on the format.

Generally, the form will be sent to you in January each year, and the fund will tell you when it expects it back. The LGPS scheme year ends 31 March and the funds may require data to be returned after one or two months. It is critical that member data is accurate as the employees' pension is based directly on the data submitted. Without this return, accurate annual benefit statements will not be sent to your employees in the scheme.

Keep in mind that the information you provide to the scheme will be personal data and, in some cases (such as in case of illness or disability) sensitive personal data, and should be handled in accordance with data protection laws.

It is your responsibility to ensure that LGPS monthly or annual returns for your employees are submitted in accordance with the administering authority's deadlines. There has been a general move to monthly data submission rather than just an annual return, so it is even more important to ensure that all data is submitted accurately and on time.

Administering authorities have the power to levy a fine on employers for late returns so as to recover the additional costs incurred as a result of non-compliance. In addition, administering authorities will often reject data files that are sub-par, so it is important to ensure these returns are accurate to avoid spending additional resource on resolving data issues. In extreme cases, administering authorities could report serious non-compliance to The Pensions Regulator.

COMPANY REPORTING

UK Generally Accepted Accounting Practice (GAAP)²⁹ requires you to account for participation in defined benefit schemes in your end of year accounts and annual report. This includes recognition of the net defined benefit liability or asset to any schemes on the balance sheet, including the LGPS.

Most organisations will employ FRS 102, which replaced FRS 17 in January 2015; 'micro-entities' will employ FRS 105.

29. UK GAAP sets out the accounting practice used by companies in the UK and is derived from international standards (IAS 19). Some companies opt to use the International Standard and micro entities can opt to use a reduced framework. You should talk to your auditor about which accounting framework is applicable to you.

If you do not have a defined benefit scheme already, these accounting practices may be unfamiliar to you. The key difference between reporting on the provision of defined benefit and the provision of defined contribution schemes is that the liabilities associated with a defined benefit scheme will appear on your balance sheet.

This process of liability calculation for your own company reporting is distinct from the triennial actuarial valuation carried out by the fund that will determine your contributions to the scheme. You need to alert your administering authority to any specific reporting requirements you have that will require information from the fund early on. Typically, the actuary to your LGPS fund will be able to provide you with pension accounting disclosures in respect of your LGPS liabilities.

The Trustees and Directors of participating employers have ultimate responsibility for the assumptions used in calculating the balance sheet disclosures. Any participating organisation can utilise the default assumptions provided by the fund actuary or can provide the fund actuary with bespoke assumptions directly related to the individual circumstances of the organisation, subject to taking relevant professional advice. When providing bespoke assumptions, additional costs are likely to be incurred.

As well as preparing all of the relevant information for your accounts in order to present your LGPS related liabilities accurately, you will want to consider how your stakeholders will perceive these liabilities. Where your liabilities are large you will want to consider how to present your participation in the scheme and how this fits in with your overall strategy and any risk management techniques that you have implemented to manage liabilities. You should have a strong audit trail of your decision making with regards to LGPS participation so that you can communicate your approach clearly to stakeholders.



6. WHAT IS AN ACTUARIAL VALUATION?

EACH LGPS FUND HAS A STATUTORY REQUIREMENT TO HAVE AN ACTUARIAL VALUATION EVERY THREE YEARS.³⁰ THIS REQUIRES THE FUND ACTUARY TO BE SUPPLIED WITH DATA BY THE ADMINISTERING AUTHORITY ON ALL SCHEME MEMBERS. ENSURING THE ACCURACY OF YOUR YEAR-END DATA RETURN IS IMPORTANT; ERRORS COULD RESULT IN EMPLOYERS BEING ALLOCATED A HIGHER CONTRIBUTION RATE.

The actuary makes an assessment of the fund's assets and liabilities to determine if enough money is being paid into the fund to meet the liabilities which have accrued to date and will be accrued over the next three years. If not, employers' contribution rates may need to change. This assessment will depend on:

- ▶ Current projections regarding longevity, inflation, and likely salary increases
- ▶ The expected return from the fund's investments
- ▶ The amount of future contributions from the employer and employee.

During the valuation process the administering authority will update its Funding Strategy Statement (FSS) and employers will be consulted as a part of this process.

What is required of employers during the actuarial valuation?

To facilitate this valuation, the administering authority will typically request data to be provided earlier than is normal in the yearly reconciliation exercise. Where it is not able to gather information the scheme actuary will have to fill any gaps with assumptions. It is in your interest to engage fully in this process so that your liabilities to the scheme are calculated using accurate information about your employees and reflects the cost of participation in the scheme.

Calculation of employer contributions

As part of the valuation process the administering authority is required to engage with its participating employers to discuss any funding issues that arise in a review of its Funding Strategy Statement. It is important to participate actively in these discussions as any changes to assumptions can have a significant impact on your future contributions to the scheme.

30. LGPS had its latest triennial valuation as at 31 March 2022, with the full results for England and Wales published in May <https://www.lgpsboard.org/index.php/fund-valuations-2022>. Scotland and Northern Ireland full results are expected later in 2023.



If you participate in many different regional funds, you may notice differences in the process that different administering authorities adopt. It is worthwhile bearing in mind that the circumstances of each fund at the end of the valuation will be slightly different for many reasons:

- ▶ The funds that comprise the LGPS are of varying sizes, with different demographics
- ▶ Each fund has its own investment and funding strategy
- ▶ The funds employ different actuarial firms that may use a different methodology.

This is why the employer contribution required by one fund for an employee may differ from that required for the same benefit in another.

Your contribution rate will depend on your fund's estimate of how much the pension that your employees are earning is going to cost the fund.

The actuary will revisit the assumptions made and may decide that either too much or too little has been collected based on current estimates and economic conditions. If the actuary determines that too little has been collected, your payments going forward may include a 'deficit reduction' contribution in addition to the amounts needed to secure the benefits earned going forward. The time period over which these will need to be paid is known as a deficit recovery period.

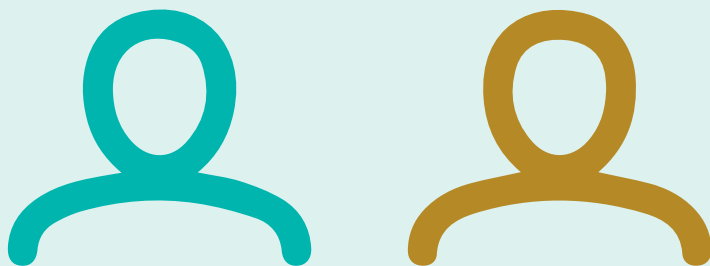
Each administering authority will have its own policy for setting rates for contracted employers, which should have been made clear to you during the tender/sign-on process. Where you have joined the LGPS via an outsourced contractual arrangement, you may have negotiated some form of 'pass-through' agreement for example, where if your employer contribution rate goes above a certain level, the commissioning authority you have the agreement with is responsible for paying the excess. You should notify the commissioning authority if this becomes relevant.

The administering authority may wish to be made aware of this arrangement, although in many cases, the employer will pay the full contribution rate and will then claim back the excess from the commissioning authority, not involving the administering authority.

Employer covenant

The administering authority may assess what is called your 'employer covenant' as a part of the valuation process.³¹ This is an assessment of your ability to pay contributions as they fall due. It is important to recognise that employer covenants are assessed in order to protect the benefits of

31. The Pensions Regulator provides helpful guidance for employers and trustees on the employer covenant, though it is worth bearing in mind that this is designed for private sector employers and not with employers participating in the LGPS in mind: <https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/funding-and-investment-detailed-guidance/assessing-and-monitoring-the-employer-covenant>.



members of the scheme and other fund employers. The outcome of your covenant assessment will primarily affect the deficit recovery period afforded to you; the weaker the covenant, the shorter the recovery period, and therefore the higher the deficit recovery contributions if your liabilities are in deficit.

You may be asked for further information about your financial position to inform this process and it is a legal requirement for you to respond to such requests. Confidentiality agreements can be entered into if this involves the disclosure of commercially sensitive information.

If you are an admission body it is possible that there was a risk assessment at the outset of your contract, and you might have been asked to provide a bond or some other form of guarantee against future payments.³²

The administering authority might ask for information to inform the covenant assessment, including:

- ▶ Quarterly management accounts
- ▶ Material changes to your balance sheet
- ▶ Material changes to the industry you operate in that might affect your covenant
- ▶ Important regulatory or legislative changes
- ▶ Changes to your business strategy
- ▶ Changes to your credit rating should you have one
- ▶ Proposed business restructuring activity – such as mergers, acquisitions, expansions or retractions
- ▶ Changes to key personnel in your organisation.

You should consider how you can demonstrate the ongoing financial strength of your organisation as this may help you to manage any potential increases in your employer contribution rate.

32. See 'Navigating Entry into the LGPS: For Local Government Contractors' (PLSA, 2016) for more information on these arrangements

7. ONGOING RISK MANAGEMENT

A MAJOR RISK TO YOU AS AN EMPLOYER PARTICIPATING IN THE LGPS IS THAT THE CONTRIBUTIONS YOU PAY INTO THE SCHEME COULD INCREASE TO AN UNAFFORDABLE LEVEL.

Although many of the factors affecting contribution rates are beyond your control, there are ongoing risk management processes that you can put in place to ensure that any changes to your payments to the scheme do not come as a surprise, and where possible are planned for and mitigated in advance. Providing a form of security to the fund may also assist in this process as this can enable the fund to adjust deficit recovery periods.

Good governance

As a part of the good governance process that you have set up you will want to ensure there are mechanisms in place for monitoring your workforce, monitoring business restructuring activity, and monitoring the implementation of any risk control mechanisms that you may have agreed with the commissioning authority.³³

Monitoring your workforce

Some of your employment decisions will have pension ramifications that can be costly. For example, redundancy will entitle employees over age 55 (or over 50 in some circumstances) to an immediate payment of unreduced pensions, and the cost of paying a full benefit several years earlier than expected (called ‘strain costs’) will fall on you as the employer. This should be taken into account when planning redundancies of staff who are members of the LGPS.

It is also important to monitor your membership of the scheme so that you do not inadvertently trigger an exit debt; this will be triggered when you no longer employ any active members of the scheme. At this point, the administering authority may calculate an exit debt which could be payable immediately, based on more prudent assumptions than those on which the contribution rates were previously calculated.

If you anticipate that your active membership may fall below an agreed level or that the last active member may leave the scheme in the near future, you should contact the administering authority to commence early discussions on the funding of your liability. The administering authority can employ what’s known as a ‘period of grace’, whereby they delay the exit payment for a period of up to three years if they expect that the employer will have active members again

33. See ‘Navigating Entry Into The LGPS: For Local Government Contractors’ (PLSA, 2016) for more information on these arrangements: <https://www.plsa.co.uk/Policy-and-Research/Document-library/Navigating-entry-into-the-LGPS-for-local-government-contractors>



in the future. There would also be employer flexibility policies included within the funding strategy statement, such as deferred debt arrangements or debt spreading arrangements.

Monitoring business activity

When you undergo certain business restructuring activities – such as a merger, acquisition, change of legal status, or the setup of a subsidiary company – you will need to consider what implications this might have for your LGPS provision. Such activity, unless effectively managed, can trigger a cessation event, resulting in the requirement to pay an exit debt. Pension considerations often come up too late in business transaction discussions, and yet can prevent the progress of a transaction. Pension liabilities, including commitments to the LGPS should be raised early into any discussions about business transactions and it is important to inform the administering authority of any business restructuring activity that you plan to undertake.

Monitoring risk control mechanisms

Where you have joined the scheme because you have contracted with an LGPS employer to provide a service for them, you may have negotiated some form of risk sharing with the commissioning authority – typical examples of this includes a ‘pass-through’ arrangement whereby if your contributions go above a certain level, then the commissioning authority has agreed to be responsible for paying the excess.³⁴

You will want to monitor your contributions in relation to relevant thresholds set out in risk-sharing agreements you have made with the commissioning authority, so that you can notify them when this has been breached.

Familiarising yourself with members’ exit options

Employers should be familiar with the options available to members to exit the LGPS if they no longer wish to be a member, and these options should be included in the scheme’s Funding Strategy Statement (FSS).

Members have the right to opt out of the LGPS. What happens if they opt out depends on how long they have been a member of the LGPS.

Less than three months’ membership

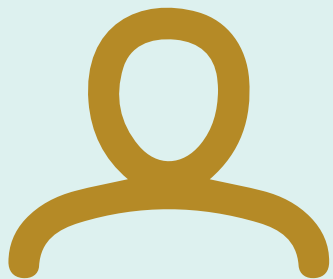
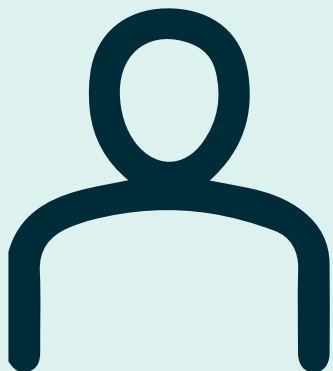
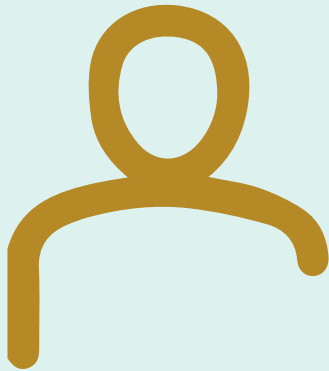
If members opt out of the LGPS before they complete three months’ membership, they will be treated as never having been a member. Employers will have to refund any contributions that they have paid.

Between three months and two years’ membership

If a person has been a member for three months or more, but they have not met the two year vesting period, they will have different options:

- ▶ They can take a refund of the contributions they have paid. Tax at 20% will be deducted from their contribution refund
- ▶ They can transfer their pension to another qualifying pension scheme. They may have a limited time in which they can elect to transfer
- ▶ If they were in the scheme before 1 April 2014, they can choose to have deferred benefits in the LGPS.

34. See ‘Navigating Entry Into The LGPS: For Local Government Contractors’ (PLSA, 2016) for more information on these arrangements: <https://www.plsa.co.uk/Policy-and-Research/Document-library/Navigating-entry-into-the-LGPS-for-local-government-contractors>



Opting out after more than two years' membership

If members opt out after meeting the two year vesting period, they will have deferred benefits in the LGPS. They will generally have the same options as anyone who leaves their job before retirement. But there are two main differences. If they opt out:

- ▶ They cannot take their deferred pension until they have left their job, unless they reach age 75
- ▶ If they re-join the LGPS, they will not be able to combine their two periods of LGPS membership together – i.e. they will have two separate sets of pension benefits in the LGPS.

Re-joining the LGPS

If a member opts out, their employer is required to re-enrol them in the LGPS approximately every three years on a set re-enrolment date (if they are an eligible jobholder).

Members can opt back in if they are still eligible to join the scheme and they are under age 75. They will generally be able to opt in by telling their employer in writing. It would be a good idea for employers to have a form that members can complete in order to opt in to the LGPS.



8. THE INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

Section 50 of the Pensions Act 1995 requires occupational pension schemes, such as the LGPS, to arrange for the resolution of disagreements between the trustees or managers of the scheme, and one or more persons with an interest in the scheme. The Local Government Pension Scheme (Internal Dispute Resolution Procedure) Regulations 1997 enshrined this process into the scheme's regulations.

The Internal Dispute Resolution Process (IDRP) is a formal procedure which is in place to resolve disagreements about decisions taken regarding LGPS matters. It forms part of an overall process for resolving disputes, and can be broadly summarised as follows:

Step 1:

A decision is taken which affects benefits (a 'first instance decision').

Under the LGPS regulations, both the employer and the administering authority have different decisions to make that could affect member or dependents' pension benefits. These are called 'First Instance Decisions'.

Step 2:

An informal approach is made to resolve a disagreement about that decision.

Where an applicant wishes to appeal, this would be done in writing, usually with a copy of the decision they wish to appeal against if possible.

Step 3:

The instigation of the formal IDRP process begins (the ‘internal appeal’).

The purpose of this stage of the process is to carry out a formal review of the initial decision by the authority or body which took the decision.

Each employing authority must appoint a person to consider appeal cases of the IDRP (their adjudicator). Neither The Pensions Act 1995, nor the LGPS regulations state who the adjudicator should be. However, in practice, as the person will need to understand the details of the dispute, it is likely to be someone with relevant expertise, although this does not have to be an employee or elected member of the authority.

Within two months of receiving the appeal, written notice of the adjudicator’s decision must be sent to:

- ▶ The applicant (and/or his/her personal representative)
- ▶ The scheme employer
- ▶ The Administering Authority.

Step 4:

Application to The Pensions Ombudsman for a determination (the ‘external appeal’).

Where a member remains dissatisfied after the IDRP has been exhausted, they can seek independent review of their appeal. The Pensions Ombudsman (TPO) can review appeal decisions beyond the IDRP.

Employers should familiarise themselves with the IDRP process, including the role of TPO, and have internal procedures in place as per the requirements in the Local Government Pension Scheme Regulations 2013. The relevant sections include:

- ▶ Regulation 72 – First instance decisions
- ▶ Regulation 73 – Notification of first instance decisions
- ▶ Regulation 74 – Application for adjudication of disagreements
- ▶ Regulation 75 – Decisions of the adjudicator
- ▶ Regulation 76 – Reference of adjudications to Administering Authority.



9. AUTOMATIC ENROLMENT

What is automatic enrolment?

Automatic enrolment is the process through which employees who meet specific criteria are automatically enrolled in a workplace pension scheme. Historically, it was up to employees to determine whether to participate in their employer's pension plan. Since 2012 the law requires every employer with at least one employee to become a member of the workplace pension scheme and make contributions. This is known as 'automatic enrolment' or sometimes referred to as 'AE'.

Under the regulations that govern the LGPS, most new employees are contractually enrolled into the relevant pension scheme. As the LGPS is a qualifying scheme for automatic enrolment, employees that are contractually enrolled will be unaffected by automatic enrolment unless they elect to opt out of the LGPS.

Safeguards

The workplace pensions reform includes duties and safeguards that all employers must adhere to. The safeguards are intended to protect individuals, meaning there are certain things the employer must not do, both before a person starts working for them and once that person is a member of a pension scheme with that employer.

Full details of the safeguards can be viewed in TPR's detailed guidance.³⁵ A summary is provided below:

- ▶ An employer must not, as part of the recruitment process, make any suggestion that success in applying for a job may be conditional on opting out of the pension scheme
- ▶ An employer cannot seek to induce a member of the LGPS to opt out of the scheme
- ▶ An employer cannot treat a worker unfairly or dismiss a worker on account of the worker trying to enforce their automatic enrolment rights.

35. TPR Detailed guidance no.8 "Safeguarding individuals: The safeguards for workers", <https://www.thepensionsregulator.gov.uk/en/document-library/automatic-enrolment-detailed-guidance/8-safeguarding-individuals>

England and Wales

- ▶ The LGPS HR guide outlines the requirements for Human Resource (HR) departments of employees in England and Wales who offer the LGPS.
- ▶ The website for England and Wales' LGPS pension funds and employers has provided sample letters for you as an employer to use as part of your ongoing interaction with your staff in this area. Additional information can be found at www.lgpsregs.org.

Scotland

- ▶ The LGPS 2015 HR Guide outlines the HR section requirements for the LGPS (Scotland) 2015, beginning April 1, 2015.
- ▶ Sample letters for automatic enrolment have been posted on the LGPS employer and pension fund website in Scotland. You will find more guidance at www.scotlgpsregs.org.

Northern Ireland

- ▶ The Employers' Guide to the 2015 Scheme outlines the HR requirements for the Northern Ireland LGPS 2015 scheme.
- ▶ The Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) has created template letters for employers to use when contacting employees regarding Automatic Enrolment and Automatic Re-Enrolment. Further details can be found at www.nilgosc.org.uk.





10. FURTHER GUIDANCE

ENGLAND AND WALES

- ▶ A number of resources can be found at www.lgpsregs.org/employer-resources/guidesetc.php to guide employers in the England and Wales LGPS.

SCOTLAND

- ▶ www.scotlgpsregs.org/employer-resources/guidesetc.php is where you can find guides, sample documents for LGPS employers and pension funds in Scotland.

NORTHERN IRELAND

- ▶ A range of guides to help you understand the Northern Ireland LGPS can be found at www.nilgosc.org.uk/resource-category/guides-employers/.







**Pensions and Lifetime
Savings Association**

T: 020 7601 1700
E: plsa@plsa.co.uk

www.plsa.co.uk

The Pensions and Lifetime
Savings Association 2023 ©
All rights reserved.

June 2023

This guide is for information only and is not
advice about investment and must not be
relied upon to make any financial decisions.