
A GUIDE FOR EMPLOYERS PARTICIPATING IN THE LGPS

BEST PRACTICE



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1. INTRODUCTION

IF YOU PARTICIPATE IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AS A SCHEDULED¹ OR ADMISSION² 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 on behalf of employees and making additional contributions if the scheme is in deficit;
- ▶ facilitating communications with scheme members;
- ▶ setting up administrative processes for making payments; and
- ▶ 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; and
- ▶ 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.

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 schemes 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.

The LGPS is governed at national and local level by a number of different bodies³. 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.

¹ 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 LGPS regulations.

² 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.

³ 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 http://www.sppa.gov.uk/index.php?option=com_content&view=article&id=971&Itemid=1658.



HOW IS THE LGPS FUNDED?

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

If the value of the pension scheme's assets is not sufficient to meet the promises made to scheme members then the scheme is considered to be in deficit. If you, as an employer, exit the scheme, the cost of meeting the pension scheme liabilities that have accrued during the time of your participation may have decreased or increased. The deficit attributed to admission bodies is calculated at the end of the contract and levied as exit costs.

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 has responsibility for setting employer contribution rates. A number of factors, such as increasing longevity and low gilt yields, have contributed to funding challenges for the scheme.

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 Bodies⁴.
- ▶ Navigating Entry Into The LGPS: For Local Government Contractors⁵.

This guidance sets out:

- ▶ Information available to help you understand what LGPS participation will require.
- ▶ How to manage relationships with the scheme 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.

⁴ An Introduction To The LGPS For Scheduled Bodies (PLSA, 2016), <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0583-An-introduction-to-the-LGPS-for-scheduled-bodies.aspx>

⁵ Navigating Entry into the LGPS: For Local Government Contractors (PLSA, 2016), <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0584-Navigating-entry-into-the-LGPS-for-local-government-contractors.aspx>

2. USEFUL INFORMATION

THERE ARE A NUMBER OF PIECES OF INFORMATION THAT YOU SHOULD SEEK FROM THE ADMINISTERING OR CONTRACTING AUTHORITY IF YOU HAVEN'T 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's board, including board members, terms of reference, and contact information.
- ▶ Any additional guidance or information that the administering authority provides for employers.

The LGPS Scheme Advisory Board website⁶ also includes useful information regarding the scheme in England and Wales, for example links to each funds' actuarial valuation and the Scottish Scheme Advisory board also has a website⁷. It also prepares an annual report covering the whole of the LGPS and provides information on issues affecting the whole fund, such as asset pooling.

⁶ <http://www.lgpsboard.org/>

⁷ More information about the Scottish body can be found here http://www.sppa.gov.uk/index.php?option=com_content&view=article&id=971&Itemid=1658.

3. MANAGING RELATIONSHIPS 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 regulation⁸ set out by the Department for Communities and Local Government; in addition they are subject to regulatory oversight by the Pensions Regulator and must comply in particular with the Code of Practice (14)⁹ on the governance and administration of public service pension schemes.

The below is by no means an exhaustive list, but 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.

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.

⁸ <http://www.lgpsregs.org/>

⁹ Code of practice 14: The governance and administration of public service pension schemes, the Pensions Regulator, <http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

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;
- ▶ managing relationships with 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; and
- ▶ monitoring business and strategy decisions that might have LGPS implications.

These responsibilities may be best distributed amongst a number of people; however it is best practice for you to assess who in your organisation is best placed 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 man 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 a 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 organisations 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 – 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.

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 employers' 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; and
- ▶ attending and contributing to employer forums.

Local Pensions Boards

All administering authorities have a local pensions 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^{10,11}. It will be useful to identify employer representatives on the Local Pensions 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 Pensions 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.

¹⁰ <http://www.lgpsregs.org/>

¹¹ 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>.

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 Colleges¹², the Charity Finance Group¹³, the National Housing Federation¹⁴ and the Universities and Colleges Employer Association¹⁵) 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.

¹² <https://www.aoc.co.uk/>

¹³ <http://cfg.org.uk/?gclid=CLPFpofkrdACFYu4GwodVokELQ>

¹⁴ <http://www.housing.org.uk/>

¹⁵ <http://www.ucea.ac.uk/>

4. 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 SCHEME¹⁶ PROVIDES MORE INFORMATION ON THE DATA THAT NEEDS TO BE PROVIDED FOR ADMINISTERING AUTHORITIES IN ENGLAND AND WALES. THERE IS AN EQUIVALENT GUIDE¹⁷ FOR SCOTTISH 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 funds' 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; and
- ▶ 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.

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.

¹⁶ <http://www.lgpsregs.org/images/Versions/Payrollv3.9tracked.pdf>

¹⁷ <http://www.lgpsregs.org/index.php/scotland/scot-hr-payroll-guides/lgps2015-payroll-guide>

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 information concerning:

- ▶ new joiners - if you are using the LGPS scheme as your auto-enrolment scheme, there will be additional data required when you hire a new employee and every three years if some employees opt out¹⁸;
- ▶ 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);
- ▶ redundancies;
- ▶ unpaid breaks in employment;
- ▶ switches between the standard benefits (between the 'main scheme' and the 50:50 scheme at re-enrolment date for example); and
- ▶ death in service.

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

Monthly

You will send pensionable pay information regarding of all relevant members in aggregate to the scheme when you pay monthly contributions to the scheme.

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 scheme will request that a form (manual or electronic), or spreadsheet be populated in respect of each member, including personal information such as birth dates, addresses and telephone numbers, as well as dates of employment and pensionable pay. Each administering authority has its own preferences on the format here.

Generally, the form will be sent to you in January each year, and the fund will tell you when it expects it back. The 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 annual returns for your employees are submitted in accordance with the administering authority's deadlines. Administering authorities have the power

¹⁸ 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>

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 so as to avoid spending additional resource on resolving data issues.

COMPANY REPORTING

UK GAAP (Generally Accepted Accounting Practice)¹⁹ 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.

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 benefits 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 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.

The Trustees and Directors of participating employers' are 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.

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.

¹⁹ 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.

5. WHAT IS AN ACTUARIAL VALUATION?

EACH LGPS FUND HAS A STATUTORY REQUIREMENT TO HAVE AN ACTUARIAL VALUATION EVERY THREE YEARS²⁰. THIS REQUIRES THE FUND ACTUARY TO BE SUPPLIED WITH DATA 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. 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, and
- ▶ the amount of future contributions from the employer and employee.

During the valuation process the administering authority will update its funding strategy statement 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.

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.

²⁰ The most recent valuation took place at 31 March 2016.

Where you have joined the LGPS via an out-sourced contractual arrangement, you may have negotiated some form of “pass-through” agreement for example, where, if your contribution 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 process²¹. This is an assessment of your ability to pay deficit recovery contributions as they fall due. It is important to recognise that employer covenants are assessed in order to protect the benefits of members of the scheme. 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 scheme is 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 payments²².

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; and
- ▶ 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.

²¹ 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: <http://www.thepensionsregulator.gov.uk/guidance/guidance-assessing-monitoring-employer-covenant.aspx>.

²² See ‘Navigating Entry into the LGPS: For Local Government Contractors’ (PLSA, 2016) for more information on these arrangements

6. ONGOING RISK MANAGEMENT

A MAJOR RISK TO YOU AS AN EMPLOYER PARTICIPATING IN THE LGPS IS THAT THE CONTRIBUTIONS YOU PAY IN TO 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 authority²³.

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 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 in the future.

Monitoring business activity

When you undergo certain businesses 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 related liabilities 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 businesses restructuring activity that you plan to undertake.

²³ See 'Navigating Entry Into The LGPS: For Local Government Contractors' (PLSA, 2016) for more information on these arrangements: <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0584-Navigating-entry-into-the-LGPS-for-local-government-contractors.aspx>

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 goes above a certain level, then the commissioning authority has agreed to be responsible for paying the excess²⁴.

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.

²⁴ See 'Navigating Entry Into The LGPS: For Local Government Contractors' (PLSA, 2016) for more information on these arrangements: <http://www.plsa.co.uk/PolicyandResearch/DocumentLibrary/0584-Navigating-entry-into-the-LGPS-for-local-government-contractors.aspx>



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