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XPS Express for Employers

Bringing you the latest pensions news for employers

Cost to employers of leaving LGPS falls away

At a glance

Typically, an employer who wants to exit the Local Government Pension Scheme (LGPS) must ensure any funding deficit is met, normally assessed on a cautious or low-risk measure

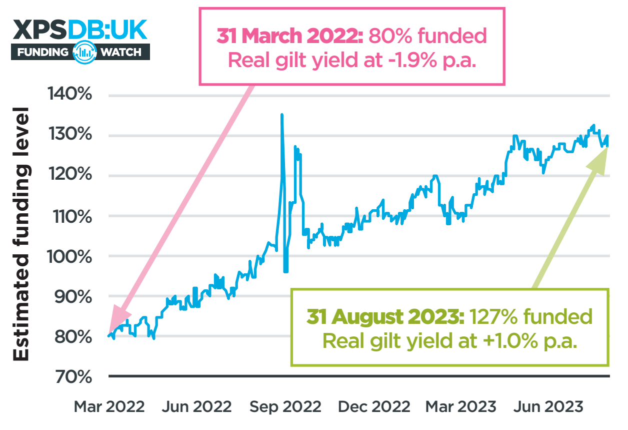
In the past, significant 'exit debt' payments have been a barrier to employers leaving the LGPS and making other strategic benefit changes

Soaring gilt yields could mean any exit debt is now affordable or may even be an 'exit credit'

This presents on an opportunity for LGPS employers to review their options to manage the costs and risks associated with LGPS participation

Significant increases in gilt yields transform LGPS exit funding levels

The chart below shows how the exit basis funding position for a typical LGPS employer has changed since 31 March 2022.



Source: XPS Analysis

Options for LGPS employers

Option	Overview
Exit and offer alternative pension provision	• Allows harmonisation of pension provision across workforce. • Reduces pension costs/risks. • Potential for a surplus refund on exit.
Discuss investment options	• Agreeing a lower risk strategy could help lock-in a surplus position.
Review participation terms	• Some employers may be legally required to continue providing LGPS benefits. • Where possible, negotiate changes to funding and risk-sharing to reduce costs/risks.

Actions employers can take

1. **Request an estimate of your LGPS obligations on the exit basis.**
2. **Review your employee contracts and LGPS participation terms.**
3. **Consider which options for future pension provision are most appropriate for your business, from a cost and risk perspective.**
4. **Engage with your LGPS fund over your preferred option.**

Steps needed to exit the LGPS

Step 1: Strategic review	• Assess the exit debt position and consider future pension provision options. • Review terms of participation and employee contracts.
Step 2: Discussions with LGPS	• Confirm intention to exit the LGPS and basis for calculation of exit credit/debt. • In case it is required, explore flexibilities around how any exit debt may be paid. • If exit is not feasible due to contractual commitments, discuss investment strategy options and other measures to reduce risk.
Step 3: Member consultation	• Consult with staff and trade unions over changes to future pension provision – 60-day consultation required (but in practice may be longer).
Step 4: Ceasing LGPS accrual	• Pension contributions to the LGPS cease. Contributions to alternative pension provision begin.
Step 5: Exit valuation	• LGPS Fund Actuary undertakes a final exit valuation at the date accrual ceased, to confirm size of any exit credit/debt.
Step 6: Final settlement	• If exit valuation shows an exit credit, the employer can make representations for this surplus to be refunded. The LGPS Administering Authority has discretion over any surplus refund. • If exit valuation shows a debt is payable, employer pays exit debt allowing for any flexibilities agreed with the Administering Authority.

Case study

XPS recently worked with an employer in the charity sector who wanted to provide the same level of pension benefits to all its employees. We helped them to exit the LGPS and achieve the following:

- **Harmonisation of pension provision across the workforce:** Employees who were previously active members of the LGPS joined the employer's DC arrangement.
- **Removal of DB pension risks:** By exiting the LGPS, the employer was no longer exposed to uncertain and potentially volatile DB pension costs.
- **Improvement of their DC offering and reduction in overall pension costs:** In the LGPS, employer contributions had increased to over 30% of salaries, far in excess of the costs envisaged when the employer first joined the LGPS. By exiting the LGPS, the employer was able to offer an improved DC arrangement to all its employees, while reducing pension costs overall.
- **Accessing a surplus refund on exit:** The LGPS fund agreed to pay some of the surplus back to the employer on exit. The employer re-invested this surplus in its ongoing operations.

Changes in market conditions mean that exiting the LGPS could be a lot **more affordable** than it has been for some time.

For further information, please get in touch with **Mark Witkin** or **Gareth Lewis** or speak to your usual XPS Pensions contact.

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