

Impact of COVID-19

– what does it mean for employers in the LGPS?

August 2020

Recent market commentary on the COVID-19 pandemic has described changes in asset values and the resulting impact on pension funds. This summary explains what this may mean for you as an employer participating in the Local Government Pension Scheme (LGPS).

We'll consider the potential impact in a number of key areas:

Your asset share

The most immediate and apparent impact of COVID-19 has been on your share of your fund's assets. Through the first quarter of 2020, funds experienced falls in the value of their assets, directly impacting on the assets allocated to you to meet the benefits promised to your employees. However, over the last couple of months, there have been some signs of market recovery. It remains unclear how sustained this recovery will be due to the uncertainty around the wider economy.

LGPS Funds are typically invested in asset portfolios with risk, and so volatility of asset values is expected. The impact of this will depend on how long you expect to participate in the Fund. We consider the differences below.

Employers expecting to continue in the LGPS

For long-term employers with no plans to exit the LGPS, contributions are usually set to take a long-term view. The impact on contributions will be known at the next formal valuation (2022 in England and Wales) and the 2020 valuations are currently underway in Scotland.

Generally, funds aim to set contributions that are stable, particularly for long-term employers. We would not expect large changes in contributions to mirror the large swings in asset values experienced in the earlier months of this year. Similarly, if there was a large increase in asset values, contributions may not be reduced significantly.

Employers heading to exit (or with a short-term contract)

The impact on short-term employers may not be as straight-forward.

For those employers who are nearing exit, recent market events may have a significant impact on the funding required at exit. We would recommend seeking an update on your funding position to ensure your funding plan, i.e. the contributions you are paying, remain sufficient. You may also wish to clarify your fund's position on exit credits, particularly if you update your funding plan. Many funds are considering the circumstances under which they would repay a surplus, should one arise on termination of your Admission Agreement.

Impact on liabilities

So far, we have only considered the asset side of your balance sheet. We also need to consider the impact on liabilities.

It will be some time until the impact on life expectancy of COVID-19 is fully known. However, for those employers where any employees or ex-employees have sadly passed away, there may be a corresponding drop in your pension scheme liabilities. However, this can be offset by payment of a death grant and/or any pension payments to dependants. The impact on your pension scheme liabilities will be fully assessed at the next formal valuation.

Payment of contributions

Many employers may have experienced challenges in payment of employer contributions. If you have any concerns that this may arise in the future, we would advise speaking to your fund at the earliest opportunity. We are happy to assist with these discussions.

It is also important to remember that employee contributions remain payable to your LGPS Fund in respect of furloughed staff, and you should liaise with your fund on this also.

Future considerations

Some employers may be considering redundancy exercises to manage future costs. There can be pension implications, namely the costs associated with payment of early retirement pensions. Engaging with your fund early in the process will ensure you make informed decisions, by understanding all the pension impacts in respect of your staff.

Assumptions used for accounting exercises are largely within the control of employers. Typically, employers wish to influence the salary increase adopted for your accounting disclosures. Get in touch with your Fund or LGPSCentralAccountingTeam@hymans.co.uk should you wish to set your own accounting assumptions.

If you are considering your employer's LGPS participation in light of current circumstances, please get in touch at employersinLGPS@hymans.co.uk for support and guidance to help you understand and find the best option for you.