HYMANS # ROBERTSON

Case study

Managing an LGPS exit

The challenge

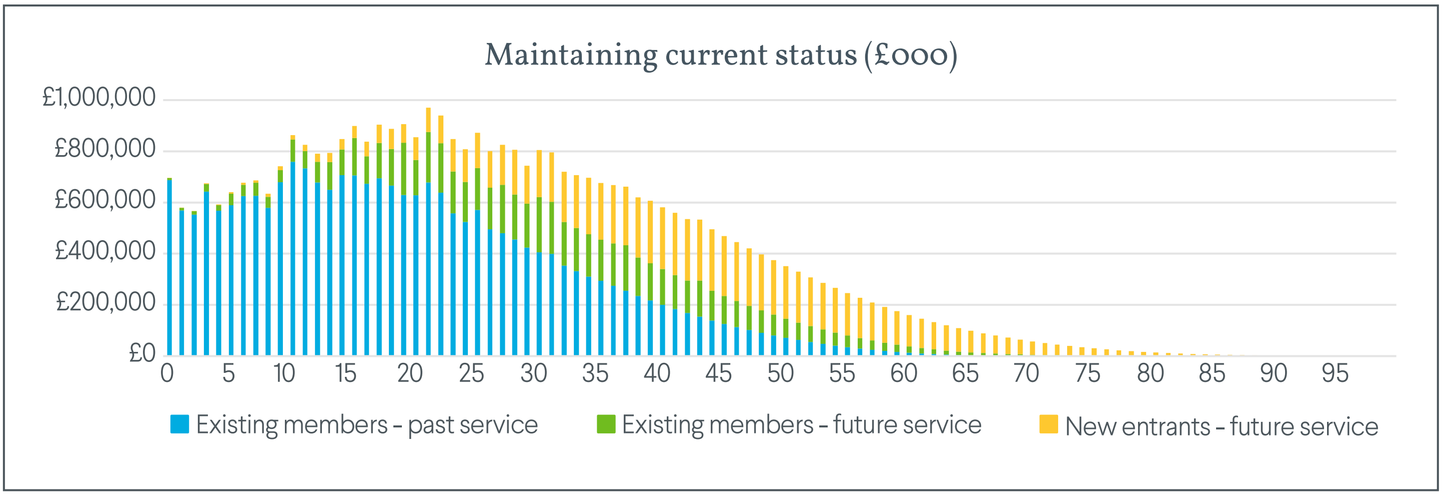
A large charity requested some advice on their LGPS options as the cost of contributions were becoming increasingly unaffordable for them. They were worried about the risk of increasing costs in the future.

Key drivers

- The Charity was aware that pension costs were a risk to the ongoing financial viability of their organisation
- They were keen to explore what pension options were available to them
- They were considering an overall review of their terms and conditions and pension provision was an important part of that

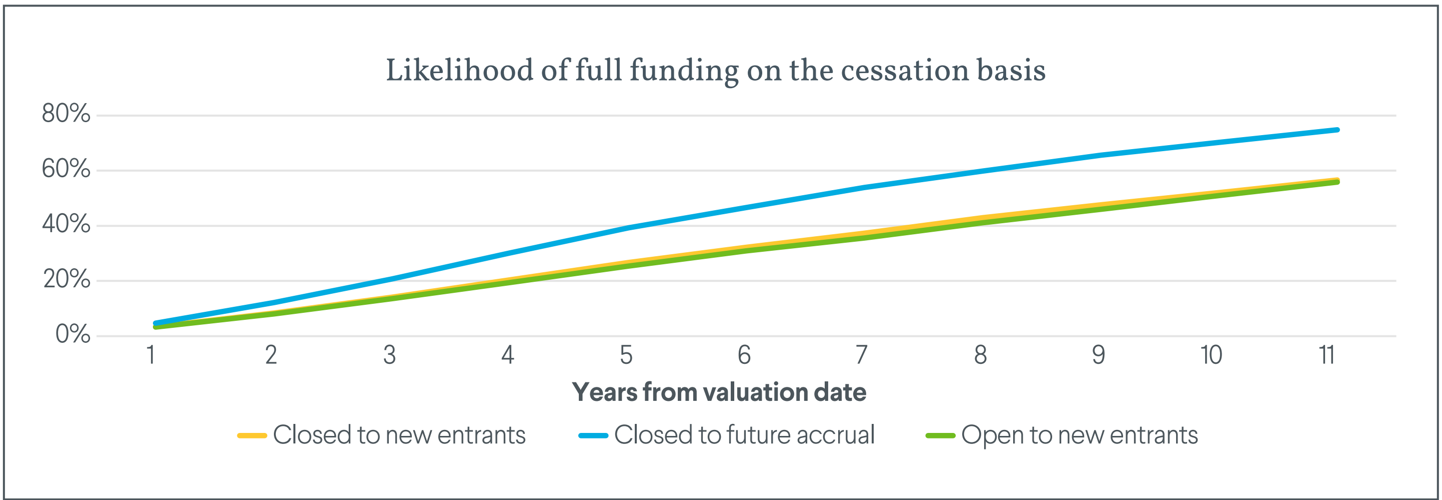
The decision required

We provided an initial options paper for the Charity, considering how their payroll and subsequent contributions may move in the future under different scenarios. We also considered how much the build up of future benefits may cost them for both existing members and future new joiners.



The Charity also faced a significant cessation shortfall if it left the LGPS. We considered how that may move in the future by considering thousands of future scenarios. This informed the charity that:

- At the current level of contributions, there was around a 50:50 chance of having repaid the cessation shortfall over the next 10 years
- By ceasing participation in the scheme, the likelihood of having repaid the cessation shortfall increased by 20%, meaning the chance of there being no cessation debt in 10 years' time was now better than two-thirds



Outcome and next steps

The Charity made the decision to leave the LGPS and needed to take steps to manage the repayment of their cessation shortfall.

Together with the charity we requested an agreement with the Fund whereby half of the primary contributions would be diverted towards repayment of the cessation shortfall, along with the previously agreed secondary contributions. This allowed the charity to manage their ongoing contributions to the Fund, while also having more control of pension costs in the future.

This coincided with the release of the September 2020 employer flexibility regulations, where the agreement being requested by the charity was formally recognised as a Deferred Debt Arrangement. While this was being considered by the Fund, the charity took advice from our Defined Contribution Consulting team on the set up of a new pension scheme arrangement.

How we have helped

We have supported the charity throughout this project by:

- Helping them to understand their initial options
- Communication with the Fund to set out a proposal for managing cessation options
- Review of the Fund's policies on managed exits, helping the charity to understand what it means to them
- Providing employee workshops to help them understand the pension changes
- Supporting with understanding the accounting disclosures and how the future changes will impact results
- Supporting the charity in the provision of wider benefits, such as death in service and ill-health benefits

A successful result

The charity has benefited through:

- Stopping further build-up of pension risk – now it is planning to eventually remove that risk altogether
- Greater control of its pension costs - and at an affordable level
- Being better able to continue its charitable functions - with greater job security for its employees

Get in touch

If you would like to understand the options or process involved in exiting the LGPS, or would like any

further assistance with your LGPS participation, please contact:

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