

Case study

Options for leaving the LGPS

The challenge

We were approached by a large employer participating in the LGPS who were thinking about leaving the LGPS.

Key drivers:

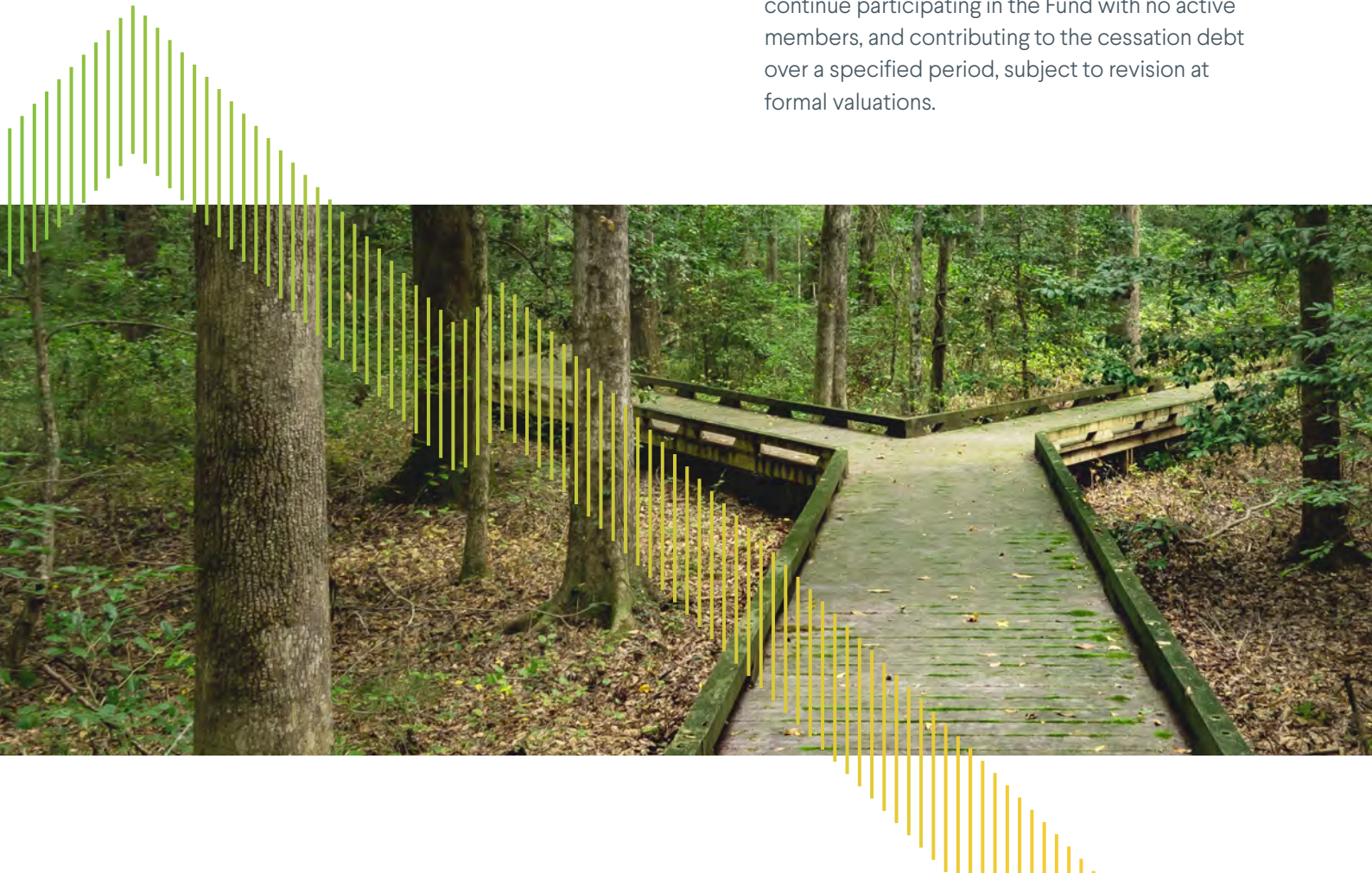
- They knew their cessation debt would likely be unaffordable to them
- New Local Government Pension Scheme regulations were formally introduced in September 2020 allowing contribution rate changes outside formal valuations and new flexibilities around paying cessation debts
- They wanted to explore options for how this could be paid off more flexibly (subject to agreement with their participating Fund).

The solution

We met with the Employer and discussed their current participation in the Fund, including how much they were currently contributing and what they could afford in future.

We then prepared our Closure Options Report for them which explored in detail:

- Their current position within the LGPS, including an up-to-date assessment of their cessation debt
- Options for paying their cessation debt more flexibly:
 1. Ceasing in the Fund and agreeing a Repayment Plan to spread the exit payment over an agreed number of years
 2. Entering a Deferred Debt Arrangement where the Employer is allowed to close to future accrual but continue participating in the Fund with no active members, and contributing to the cessation debt over a specified period, subject to revision at formal valuations.



Assessing the options

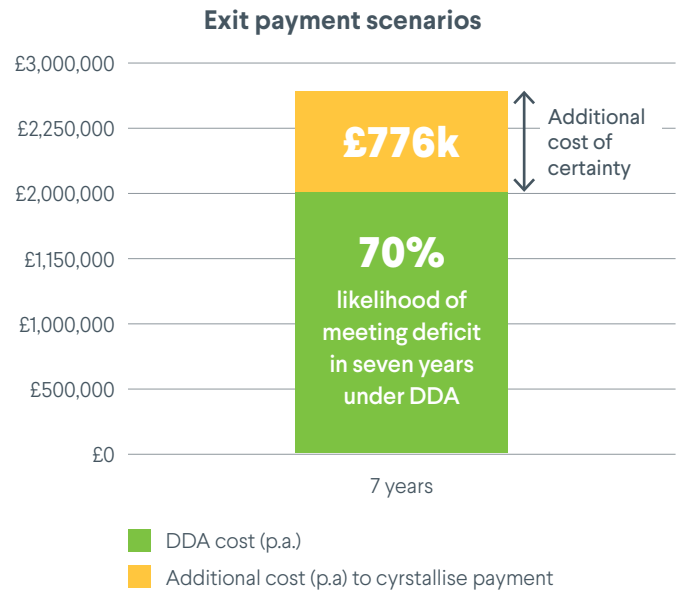
We provided several different scenarios to the Employer under the Repayment Plan and Deferred Debt Arrangement options.

We helped the Employer understand the differences between these two options and the associated benefits and risks.

For example, under one of the scenarios:

- the Employer could pay £2.76m per annum over the next seven years under the Repayment Plan option, and would have no further obligation to the Fund after reaching the end of this payment plan in seven years' time; or
- Pay £2.0m per annum under the Deferred Debt Arrangement (noting that the DDA option means that there is a chance that the contributions could be revised at each formal valuation depending on the position of the Employer and views of the Fund, therefore could go up or down depending on experience)

The additional £776k can be viewed as the cost of certainty and this helped the Employer weigh up the benefits and risk under each option.



A successful result

The report provided the information the Employer needed to be able to meet with the Fund and negotiate their preferred route to exiting the LGPS. Feedback from the client was very positive and they commented that the report was exactly what they needed to be able to formally begin the process of exploring their future participation options.

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:



Julie West FFA
Head of LGPS Employer Services
0141 566 7990
julie.west@hymans.co.uk

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk

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