

Briefing note

Key Priorities for employers in the LGPS in 2021



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After a busy end to 2020 with lots of regulatory activity, now is a good time to think ahead. While there's now hopefully some light at the end of the pandemic tunnel, challenges will remain and, in particular, budgetary pressures may be felt by many employers who participate in the LGPS. Here's what you should be considering over the coming months.

Employer Flexibilities

Legislation introducing further funding flexibilities for funds and employers was implemented in England & Wales on 23 September 2020, and the Scheme Advisory Board guidance on this was recently published¹. Depending on when and how Funds adopt the new flexibilities, employers will have more options to manage their exit from the LGPS (including entering into arrangements which extend beyond the employer's last active member leaving the Fund) and reviewing employer contribution rates between valuations when employer circumstances change. These new arrangements will be particularly helpful for employers who are caught "between a rock and a hard place" – unable to afford continued LGPS participation, but unable to afford to leave. This will also be useful for employers who currently have a 2-tier workforce – LGPS for some, possibly DC for the remainder – and wish to offer level benefits.

Action: If you are considering an exit from the LGPS or would like to manage your future pension costs, then please get in touch to find out what these new options could look like for you. Your Fund will also be updating their Funding Strategy Statement to formalise their approach to these new flexibilities.

Funding Strategy

We are just over a year away from the next formal valuation of the LGPS in England and Wales. The monumental events we've witnessed since the last valuation have affected interest rates, investment returns (and volatility) and employer covenants. There may also be further developments over the next year or so which could affect each Fund's view of the funding requirements for their employers.

Funds may revise the risk categorisation of different employers, potentially leading to changes in primary and/or secondary contribution rates.

¹ [LGPS Scheme Advisory Board - Employer Flexibilities \(lgpsboard.org\)](https://www.lgpsboard.org/)

Action: Early engagement with your Fund will help ensure that you understand which risk category you're in and whether there's anything (e.g. more information, separate guarantees) that can be done to improve your situation and potentially minimise the cash contributions your Fund will require. We can support your engagement with the Fund if you have concerns over contribution rates following next year's valuation.

Employer and member engagement and understanding

The LGPS is a complicated scheme from both members' and employers' perspectives - made even more complicated now that the Government has announced the McCloud remedies. In addition, the cost-cap mechanism has been restarted which could potentially lead to further changes in members' benefits.

Do decision-makers fully understand the LGPS, the future risks and the options available to them? This is very important to keep in mind throughout the valuation process.

Action: Training for decision-makers in the employers will help them better understand the scheme, the risks they carry, and the options open to them – whether that be funding, cessation, discretionary policies or other employer decisions. Let us know if you'd like to understand the LGPS in more detail.