Great news for Charities in LGPS

An announcement at the end of August from the Ministry of Housing, Communities and Local Government could have thrown a much needed lifeline to hard pressed charities trapped in the local government pension schemes.

Numerous third sector organisations joined LGPS many years ago but as the cost of provision increased the vast majority continue to participate only for small numbers of existing staff. If they run out of staff in the scheme or look to exit the scheme then a cessation debt is calculated. This is carried out on a 'nil risk' basis which results in a much higher deficit than would be the case on an accounting basis or if continuing to fund the scheme as an on-going employer. This leaves many organisations trapped between unaffordable contributions or an unaffordable exit cost. Many organisations are unaware of the position only becoming aware when it is too late and unfortunately we've witnessed this result in insolvency for some.

In order to try to address the issues the Government is now planning to amend the LGPS Regulations in two key ways:

1. **Greater flexibility on exit payments**

   This would allow exiting employers to enter into agreements with LGPS to fund any cessation debt due over a period of time. This would allow uncertain pension liabilities to be turned in to a stream of fixed payments to be set over an affordable agreed term.

2. **The introduction of a Deferred Debt option**

   This would allow schemes to defer any exit payment and to permit the employer to carry on in the scheme on an on-going basis. The employer would retain all the same obligations to the scheme with future payments uncertain. However, immediate costs are likely to be lower and therefore much more affordable, allowing employers to better manage the risk of future benefits building up. Valuations would be carried out regularly and contributions adjusted if necessary.

These changes are due to be enacted from 23 September 2020 and will be hugely welcome for many charities.

Fortunately, a number of Funds had already seen the common sense in making pragmatic arrangements to deal with exits however, to date they have been in the minority with the vast majority choosing to await a formal change in Regulation. It is proposed that the new Regulations will provide Funds with a lot of discretion over how they are operated based upon their local experience. To ensure consistency and transparency funds need to consult with their professional advisers and to publish their approach in their Funding Strategy Statement.

Given the imminence of the changes, the level of control this is likely to provide Funds and the value in dealing with further accrual as quickly as possible I would like to think that they should be prepared to engage with charities to look at their future options straight away, especially given that any solution is likely to take a number of months to agree. Charities should therefore engage with their professional advisers and the Funds to consider what approach would best suit them.

Contact

If you would like advice, have any questions or wish to discuss this in more detail, please contact Simon Brown at simon.brown@taitwalker.co.uk.

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