Housing briefing, August 2020
New flexibility to leave the LGPS

It has just been announced that the Government will amend LGPS regulations to allow employers more flexibility to end benefit accrual without paying a huge exit payment up front.

This briefing will cover this development in more detail, along with a look at the NHF's draft Code of Governance and how pensions fits in.

Finally, don't forget our webinar at 11am on 30 September 2020 – "SHPS Day".

A solution to the LGPS exit problem?

Back in the middle of 2019, in a time when words like 'pandemic', 'lockdown' and 'furlough' were not part of everyday lexicon, the Government consulted on several possible changes to LGPS regulations – as outlined in our briefing published in July 2019.

On 27 August 2020, the Government published its second partial response. The first partial response was to tweak rules on exit credits, but this latest response is the big one we've all been waiting for.

Housing associations have long been stuck in a 'Catch-22' situation – we'd like to stop benefit accrual in the LGPS but if we do, it triggers the upfront payment of many millions of pounds.

This often leads to one of two outcomes:

1. The employer continues to build up further liabilities which will likely have to be paid up on cessation terms at some point in the future.
2. The employer seeks a "funding agreement" with the administering authority with negotiated terms on future contribution requirements.

The following link is to an example funding agreement we helped to facilitate:

www.firstactuarial.co.uk/flipbooks/case-studies/watford-community-housing/mobile

So, the good news for associations; the Government has announced a commitment to amend regulations to provide LGPS administering authorities with the power to spread exit payments and to introduce 'Deferred Debt Arrangements' ("DDAs").

Spreading exit payments is self-explanatory. DDAs were introduced in 2018 for private sector multi-employer schemes (such as SHPS) and now we have a commitment for a similar approach in the public sector LGPS.

In short, an employer ceasing benefit accrual can become a "deferred employer" and will be able to meet funding obligations (i.e. secondary contributions only) after their last active member has left service.

These powers of greater flexibility will be held by the administering authorities so, as always, the devil will be in the detail of your administering authority's policy. Covenant strength will be key and it's likely that employers will have to demonstrate their ongoing financial strength to be able to enter into and continue a DDA.

But unfortunately, the response did not indicate the timescale for changing the LGPS regulations.

NHF's draft Code of Governance 2020

We read with interest the NHF's draft code of governance setting out standards for a well-governed organisation. There are four principles which underpin the code, and we thought it would be helpful to translate these principles into the operation of a well-governed pension strategy.

1. Mission and values

A successful pensions strategy is a balance between HR and finance objectives. Employers want a strategy that delivers the "3 Rs" (recruit, retain and retire) but also has the right balance of costs and risks between employees and the employer.

2. Strategy and delivery

Based on the agreed principles and objectives, a pension strategy should be planned, implemented and regularly monitored. Where employees have a choice of pension provision, it's important to flag these choices on a regular basis – not just at the point of joining the organisation, for example.

It's important to be clear which staff and committees are responsible for the oversight of the pensions strategy (assisted by expert external support).

3. Board effectiveness

Some Board members can find pensions a challenging topic whereas others enthusiastically engage in discussions. Much of the time, pensions are handled by either a subgroup of the Board or the appropriate committee.

One way to help keep Board members (and executive teams) up-to-speed on pensions issues is to have a training session – as highlighted in last month's pensions briefing.

4. Control and assurance

We are strong believers in taking control and being as proactive as possible when it comes to pensions. It is ideal to have a regular pensions item on the agenda at both Board and committee level to monitor and manage costs, risks and the latest issues.

Your pensions strategy will evolve because there are so many external factors that have an impact (financial markets, new legislation, mergers…etc).

Many of our clients have opted for our pension governance service: **f1rstwatch** to get regular assurance about pensions compliance and monitor their arrangements.

Reminder: First Actuarial's 'SHPS Day' webinar on 30 September 2020

In our webinar, First Actuarial will discuss the outlook for the 2020 SHPS valuation, the timetable for change and steps you can take to plan ahead.

To book your place, please visit:

https://bookings.firstactuarial.co.uk

How First Actuarial can help you

First Actuarial provides independent advice to more housing associations than any other firm.

If you would like to discuss pensions with us, then please contact your usual First Actuarial consultant or any of our nationwide housing specialists.

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