



Local Government Pension Scheme Guidance

What is the LGPS?

The LGPS is a funded nationwide public pension scheme which provides defined benefit retirement pensions. The LGPS is a career average defined benefit pension scheme, meaning that members receive a pension which accrues at a rate of 1/49th of their career salary average for each year worked.

Employees pay contributions into the Fund based on how much they earn and the rates they must pay are set by the government.

How much employers contribute to the Fund varies depending on a variety of economic and membership related factors. When a Parish Council joins the Fund, the actuary is asked to produce an actuarial valuation report which, amongst other important details, sets out an employer contribution rate and establishes the assets and liabilities of admission. For Parish Councils, the assets and liabilities are often nil at the outset as the liabilities are based on existing pension promises to the member. This will be true if the employee concerned is joining the LGPS for the first time. As the member starts to accumulate service, liabilities will arise for which the Scheme Employer will be responsible. Depending on economic and market factors, which do not always accord with actuarial assumptions, there is a prospect of a deficit or surplus emerging. If it is a deficit, this can be repaid over several years; where the Scheme Employer elects to leave the fund, the deficit becomes payable in full on exit. Employer contribution rates are reviewed every three years in a triennial valuation exercise.

The Fund's guiding principle is to try to ensure that the employee and employer contributions paid, plus investment returns, equal the pension built up at a members retirement date.

The Basis on which Parish Councils can join the LGPS

A Parish Council is entitled to nominate any of its employees to membership of the Local Government Pension Scheme ("the scheme") by virtue of paragraph 3 (3) (b) of the Local Government Pension Scheme Regulations 2013 ("the regulations"). This is as follows:

"A person is eligible to be an active member of the Scheme if employed by a body listed in Part 2 of Schedule 2 and is designated or belongs to a class of employees that is designated by the body, as being eligible for membership of the Scheme."

Part 2 of Schedule 2 cites, within its list of bodies, “a precepting authority within the meaning of Section 69 of the Local Government Finance Act 1992”. Under the Act a Parish Council is described as a ‘local precepting authority’.

Important Considerations for Parish Councils Joining the LGPS

Before joining the LGPS, Parish Councils should be aware of the Fund’s policy with regard to employers exiting the Fund. This is set out in the Funding Strategy Statement, which explains why the cost of leaving the Fund is higher than the cost of joining. The reason for this is that, during the period when the Scheme Employer has active members in the Fund, the liabilities which are accumulating are the employer’s responsibility. The contributions paid by the employer and employee are invested in assets which carry a degree of risk, but which have the effect of minimising the cost to the employer because they are expected to deliver higher returns. While remaining with the Fund the employer makes good the deficit if these returns are not achieved. However, if the employer exits the Fund, the accumulated liabilities are left with the Fund, which in the interests of the other employers in the Fund, are invested in assets with a lower expected return and a lower risk. The Fund then requires further contributions from the exiting employer so that the liabilities can be met over time by investing in these lower risk/ lower expected return investments. The purpose of this is to ensure that, as far as possible, other employers in the Fund do not have to contribute towards the liabilities of the exiting employer.

Additionally, when deciding whether to join the Fund, Parish Councils should be aware that if it appoints a member who has previous service within the Fund, or who transfers in service from another LGPS Fund, this service is normally combined with the new service which the individual will be accruing with the Parish Council. Although the liability attached to the previous service will generally be transferred to the Parish Council fully funded (on the basis that the Parish Council will remain with the Fund indefinitely), the increased liabilities raise the level of risk borne by the Council. If the Parish Council then decide to exit the Fund, its liabilities will be revalued to reflect the lower risk investment strategy applying on exit and, as a result, there is a possibility that a substantial deficit will fall due, particularly if the past service transferred is substantial.

Parish Councils are therefore advised not to nominate any of their staff for membership of the Fund unless this is expected to be a long-term arrangement. This means that the Parish Council should be committed to joining the Fund in relation to specific ongoing posts (e.g. all future Parish Clerks will be offered LGPS) and not limited in the form of a concession to one individual who wants to join the Fund. In the latter case, the Parish Council could find that there is a high cost arising from a relatively short period of membership, especially if the member transfers in service.

How to join the LGPS

The way in which a person is designated for Scheme membership is through the Parish Council passing a resolution. The regulations imply that the Parish Council can be selective with regard to who is nominated for Scheme membership. However, care should be taken to ensure that, in exercising that discretion, it does not breach the equality Act 2010.

If the Parish Council wishes to know the financial implications of designating its staff for Scheme membership, it should contact the Shropshire LGPS prior to passing a resolution.

When the resolution has been passed, the Parish Council should proceed as follows:

- i) Notify Shropshire LGPS of its decision,
- ii) Send a copy of the minutes approving the resolution,
- iii) Complete the calculation and finance spreadsheet requirements

Ill-Health and Death-In-Service Captives

The Fund has implemented an internal insurance arrangement in order to pool the risks associated with ill-health retirement costs. The 'ill-health Captive' has been designed for smaller employers that could be materially affected by the ill-health retirement of its members.

For those employers in the 'ill-health captive', an allowance for ill-health requirements has been included in the Employer Contribution rate.

A similar captive insurance arrangement has also been put in place for death in service benefits. Full details of this and 'ill-health captive' insurance arrangement can be found in the Funding Strategy Statement. The intention of these two arrangements is to ensure that qualifying employers are not materially impacted by either ill-health or death-in-service case.