Your trusted LGPS experts

LGPS webinar for employers in Scottish LGPS funds

SPENCE

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What we'll be discussing today

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1. The LGPS landscape in Scotland
2. Funding improvements from 2020 to 2023/24
3. Measuring the liabilities: ongoing, FRS102, cessation and impact of guarantees
4. Contributions: primary, secondary and exit
5. When to exit?
6. Options:
   i. Continue participating
   ii. Exit with a cessation deficit
   iii. Exit with a cessation surplus
   iv. Partial cessations
7. Key take aways

The LGPS landscape in Scotland

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Fund	Assets 2020	Liabilities 2020	Surplus / (Deficit) 2020	Funding level 2020
Dumfries & Galloway	£0.8bn	£0.9bn	(£0.1bn)	92%
Falkirk	£2.3bn	£2.5bn	(£0.2bn)	94%
Fife	£2.5bn	£2.6bn	(£0.1bn)	97%
Highland	£1.9bn	£1.9bn	-	100%
Lothian	£7.5bn	£7.1bn	£0.4bn	106%
North East Scotland	£4.4bn	£4.3bn	£0.1bn	103%
Orkney	£0.4bn	£0.3bn	£0.1bn	118%
Scottish Borders	£0.7bn	£0.7bn	£0.1bn	110%
Shetland	£0.5bn	£0.5bn	-	92%
Strathclyde	£20.9bn	£19.7bn	£1.2bn	106%
Tayside	£3.7bn	£3.4bn	£0.3bn	109%

11 LGPS funds in Scotland.

Aggregate funding level of 104% at 2020 on prudent, ongoing basis.

Government Actuaries Department estimates aggregate funding level on a best estimate basis was 129% at 2020.

Further significant improvements in funding levels at 2023 valuations

Funding improvements

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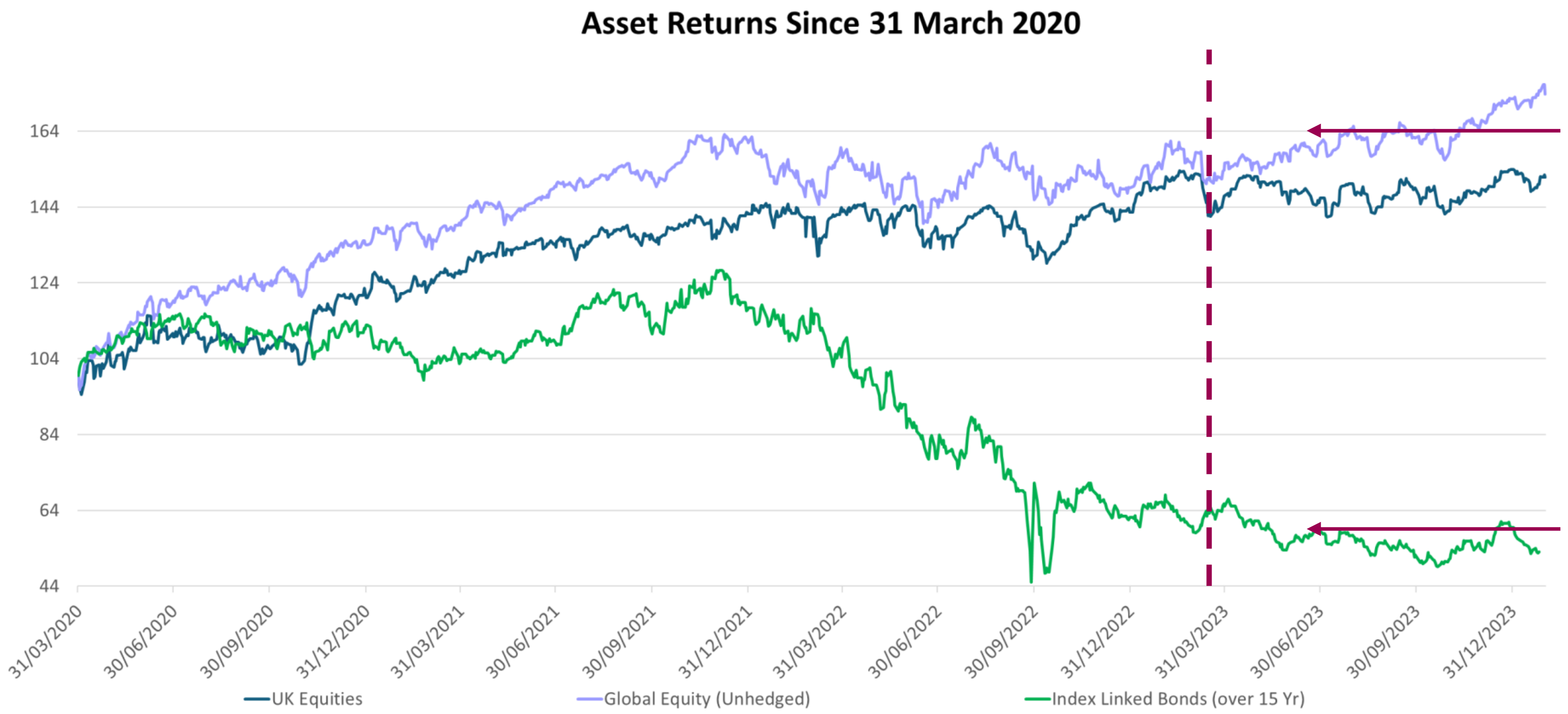

Assets broadly linked to equities – up 50%

This combination, plus other factors, has led to funding level improvements of 30-40% between 2020 and 2023

Liabilities broadly linked to gilts – down 35%

Gilt yields

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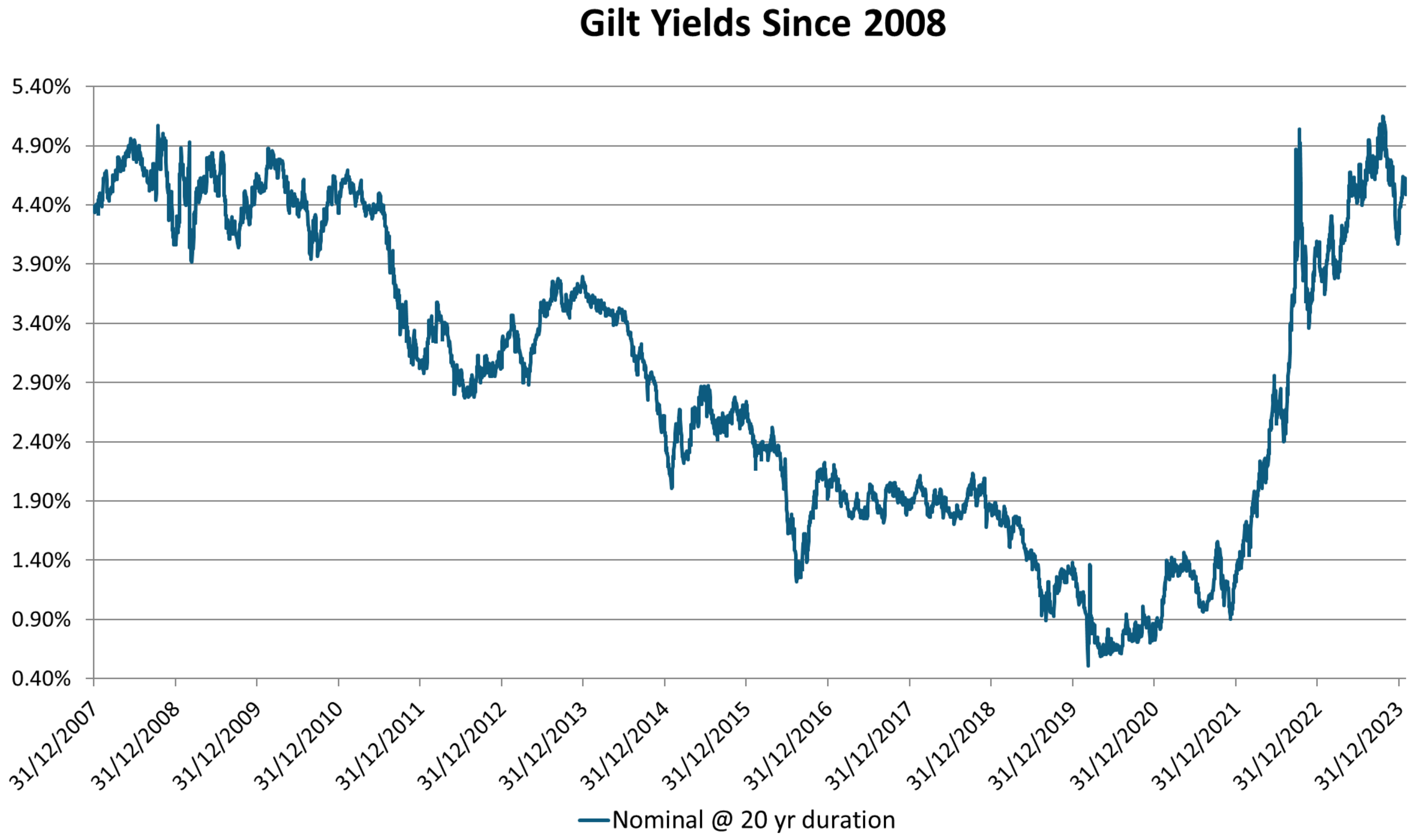

Yields have returned to pre-Great Financial Crisis levels, and arguably now at more normalised long-term levels

Funding Level

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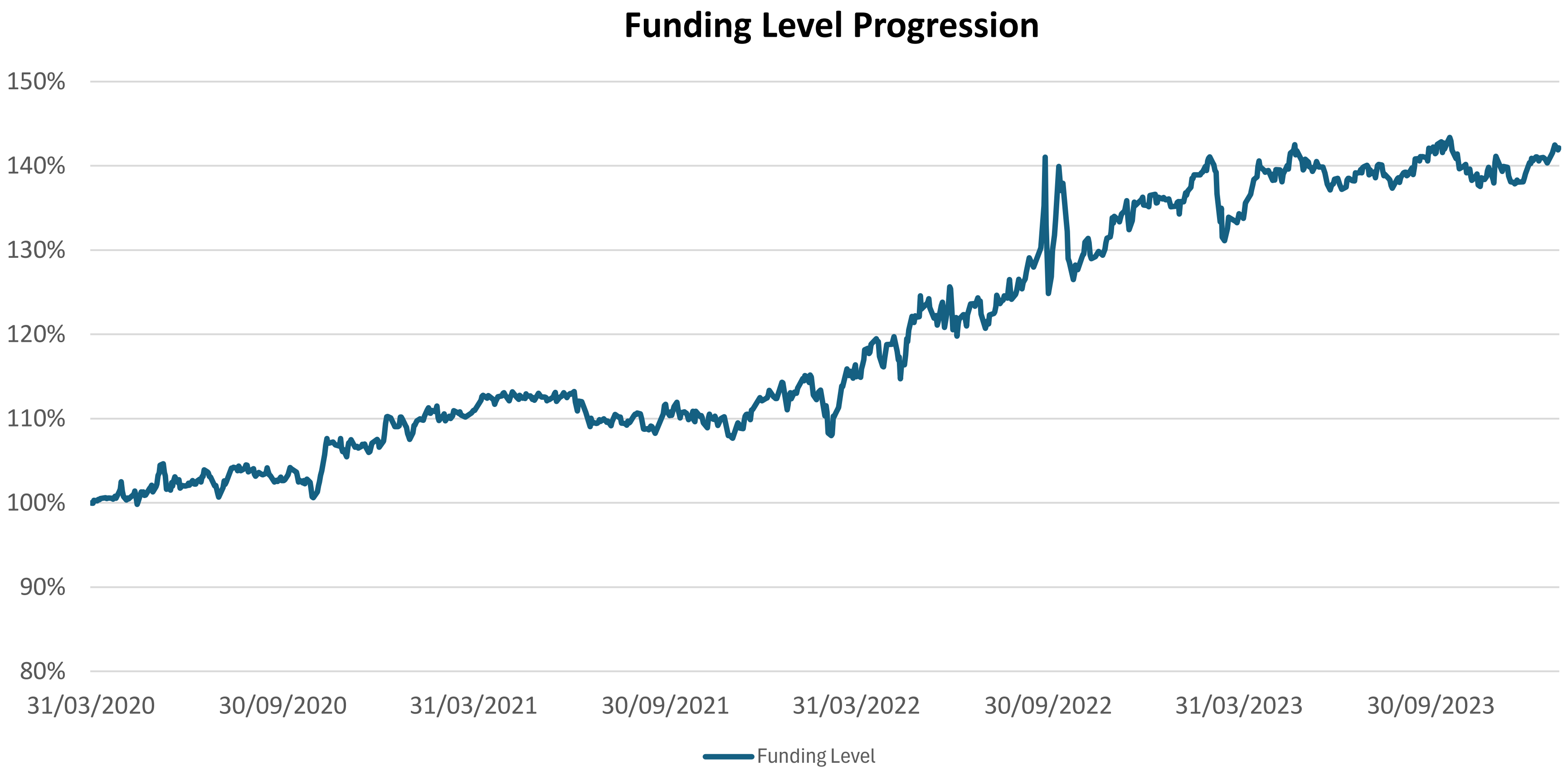

Funding levels are expected to have steadily increased since 31 March 2020

Measuring the liabilities

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Ongoing	– Discount at expected return on assets – Drives cash contributions	Illustrative liability: £100m	Impact of Council guarantee: Ongoing basis more favourable
FRS102	– Discount at AA corporate bond yield – Drives pension asset / liability on balance sheet	Illustrative liability: £100m	
Cessation	– Discount at a low-risk return – Drives exit debts / credits	Illustrative liability: £130m	Impact of Council guarantee: - exit debt on an ongoing basis. - can access credit above cessation basis.

Contributions

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Primary	Secondary	Exit
Funds future pensionable service	Funds past service deficits	Deficit on cessation basis payable when last active leaves
c. 25% currently	Nil or negative currently	Often an exit credit currently

When to exit?

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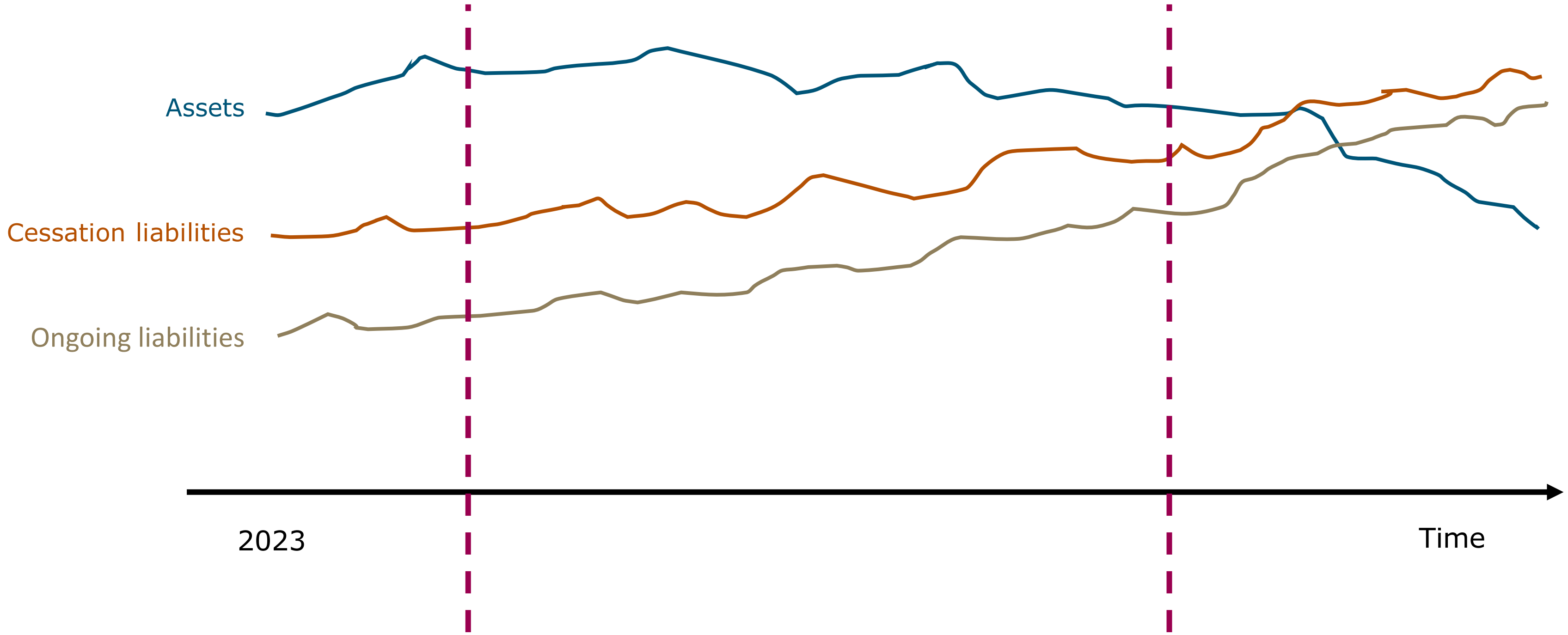

1) Funding positions are at their highest levels in decades – should be able to exit with a credit

2) If continue to participate, exit triggered when last active leaves. Funding position at that point uncertain. Risk the position is worse than now (as illustrated above).

Employers should review their participation terms, and consider initiating a controlled exit rather than waiting for the last employee to leave

Options

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1) Carry on

- Short-term saving on cash costs
- Exposed to future funding volatility

2) Exit debt

- Pay the debt (get guaranteed quote)
- Debt Spreading Arrangement (DSA)
- Deferred Debt Agreement (DDA)

3) Exit credit

- Access the cessation surplus
- Use (some) surplus to pre-fund future accrual?
- Watch out for cessation corridors

4) Partial cessation

- Interesting new option?
- Settle deferreds and pensioners and access exit credit
- Carry on participating for actives

Managing the change with staff

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1) Develop proposal

- Contractual position
- Existing DC for other staff
- Salary sacrifice
- Life cover, income protection

2 weeks

2) Staff comms

- Consultation needed?
- Clear business case for change
- Staff presentation
- Personalised illustrations

4-8 weeks

3) Any refinements?

- Access to IFA
- Enhanced DC
- Use exit credit to fund added years
- Draw LGPS pension

2 weeks

4) Implement

- Liaise with fund
- Liaise with DC provider
- Liaise with payroll

2 weeks

Plan on the whole process taking 3-4 months

Key take aways

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- LGPS funding levels are at highest levels for decades
- Opportunity to exit now with an exit credit, and remove risk of exit debt triggering when last active employee leaves
- Exit credit can be used to fund replacement pension offer for affected staff, giving a win-win
- Consider partial cessations if removing active staff from LGPS would be too problematic
- Plan on 3-4 month timescale to implement exit

Questions?

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