

Briefing

Bulk transfers in the LGPS

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This note sets out some of the principles and issues associated with bulk transfers between Local Government Pension Scheme (LGPS) Funds. This note only covers transfers within the LGPS.

Transfers to non-LGPS arrangements can be more complicated and are covered by different regulations. Please get in touch with us directly if you want more information about non-LGPS transfers.

A bulk transfer involves a group of employees changing to a new employer in a different Fund or moving along with their existing employer to a new Fund. It is usually triggered by a contract being transferred, a service being restructured, or a merger or acquisition involving an LGPS employer.

From a transferring member's perspective there is little change to their pension arrangements; the member is effectively staying in the same pension scheme (the LGPS) and simply receives day for day membership in the new Fund. The new Fund receives a bulk transfer value which is a transfer of assets, usually cash, from the old Fund. The new Fund then accepts all liability for future payment of the members' transferred benefits.

If ten or more members move from one LGPS Fund to another LGPS Fund they are covered by Regulation 103 of the Local Government Pension Scheme Regulations 2013.

A fully funded transfer?

The terms for each bulk transfer are negotiated between the respective Fund actuaries, with each representing their own client's interests. The terms must be acceptable to both Funds and if the Funds and their actuaries cannot reach an agreement then a

third actuary is required to step in to determine a reasonable solution (though thankfully this is a very rare occurrence). The terms to be agreed include the financial and demographic assumptions used to calculate the value of the transferred benefits and any adjustments to the bulk transfer value to reflect the time elapsed between the transfer date and the payment date.

The Funds must also agree whether the bulk transfer value should "fully fund" the calculated value of the transferred benefits, or whether there will be a deficit or shortfall in the value of the assets paid over. Sometimes a deficit is intentionally transferred and this will depend on the reason for the transfer, what's already been agreed between the two Funds and their employers (if anything) and whether the employer in the new Fund is in some way responsible for the deficit in the old Fund. A typical scenario that might involve the transfer of a deficit would be where a number of councils participating in different LGPS Funds set up a standalone, shared-services company or a college merger.

Risks and issues

Any bulk transfer can, depending on its size and nature, affect the overall funding strategy of a Fund and subject it to additional unwanted risks.

For example, if a significantly large proportion of active membership transfers out of a Fund, this will increase the maturity profile of the Fund. This shift to a more mature profile could result in decisions that lead to the Fund seeking a reduced level of volatility in their investment strategy. In addition, the Fund may decide that the deficit should be cleared over a shorter period, putting a financial burden on the remaining participating employers.

A Fund with a reduced active membership may also be at risk of an unmanageable reduction in the level of cash contributions being paid into the Fund. The Fund may then have to realise assets earlier than expected or at a less than ideal time, in order to meet their cashflow needs.

Bulk transfer terms are negotiated between Fund actuaries, each of whom is acting in the best interests of their own client. It is common, therefore, for a "fully funded" transfer on one actuary's proposed assumptions to result in a deficit on the other actuary's assumptions and this can lead to prolonged negotiations. There is no correct answer and the actuaries will find a way to come to an agreement, balancing the needs and interests of the Funds. As a reference point the actuaries may also consider the individual transfer value amounts instead (i.e. the amount they would have received if not part of a bulk transfer exercise). For a bulk transfer of a small group of members, this may even be a sensible and pragmatic starting point to keep the cost of negotiations down to a proportionate level.

When a fully funded bulk transfer occurs the assets and liabilities of the old Fund will reduce accordingly so that the overall deficit in monetary terms remains the same. However, as a percentage of the employer's assets a fully funded bulk transfer generally results in a worsening of the funding position. For example, see the table below.

	Funding position prior to bulk transfer	Fully funded transfer	Funding position after bulk transfer
Assets	£3,000k	£500k	£2,500k
Liabilities	£4,000k	£500k	£3,500k
Deficit	£1,000k	£0	£1,000k
Funding level	75%	100%	71%

Even though there may be an initial worsening of the funding position, the Fund also removes the risk that any additional deficit will be revealed on those transferring liabilities in the future, should experience be worse than expected.


Brief guide to the process

A basic step by step guide to the process is set out below for information.

- Preliminary member data is passed to both actuaries.
- The actuaries discuss potential transfer terms with each other and with the Funds with the aim of agreeing the principles of the transfer, ideally before the transfer date.
- After the transfer date, final membership data of the members that actually transferred is agreed by the Funds and supplied to both actuaries. This is typically the longest stage of a bulk transfer.
- The ceding Fund's actuary calculates a provisional transfer amount based on this final data and agrees this amount with the receiving Fund's actuary.
- A final payment date is agreed between the Funds and the final transfer amount is agreed on that morning, with payment (usually in cash) made on the same day.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively get in touch via the following:

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