

A photograph of two women in an office setting. One woman is seated at a desk, pointing at a laptop screen. The other woman is standing behind her, looking at the screen. The scene is overlaid with a semi-transparent pink filter. The background shows office furniture, a desk with a phone, and a window with a small plant.

Your trusted LGPS experts

Webinar for employers in
Scottish LGPS funds

SPENCE

23 July 2024

Presenters

SPENCE

Alistair Russell-Smith

Head of Charity / Not-for-Profit Practice

alistair_russell-smith@spenceandpartners.co.uk
020 3837 2960



Michael Hayles

Partner

michael.hayles@burges-salmon.com
0117 939 2248



Sean Campbell

Charity / Not-for-Profit Consultant

Sean_Campbell@spenceandpartners.co.uk
0141 249 0959



Ed Curtis

Senior Associate

ed.curtis@burges-salmon.com
0117 307 6294



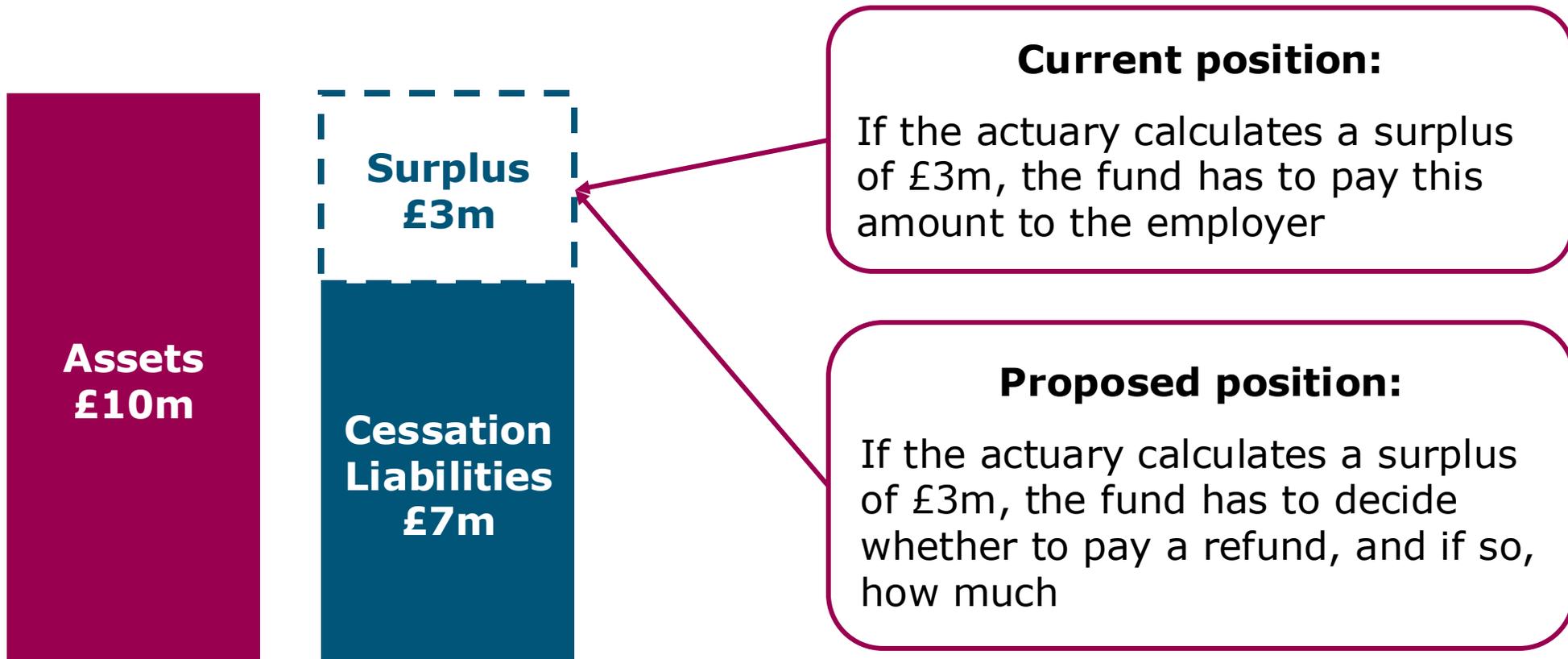
What we'll be discussing today

SPENCE

1. Comparison of position pre and post the proposed change in regulations
2. How might funds exercise their discretion?
3. Experiences in England & Wales
4. Case studies
5. Top tips for planning an exit

What's changed?

SPENCE



Considerations for the fund

SPENCE

4 items for funds to consider under the regulations when exercising their discretion:

1) Extent of a surplus

Is a large surplus more or less likely to be paid?

2) Level of employer contributions

Might cap an exit credit at contributions paid in by the employer?

3) Representations by the employer

If employer funded deficits whilst participating, reasonable to access surplus on exit?

4) Any other relevant factor

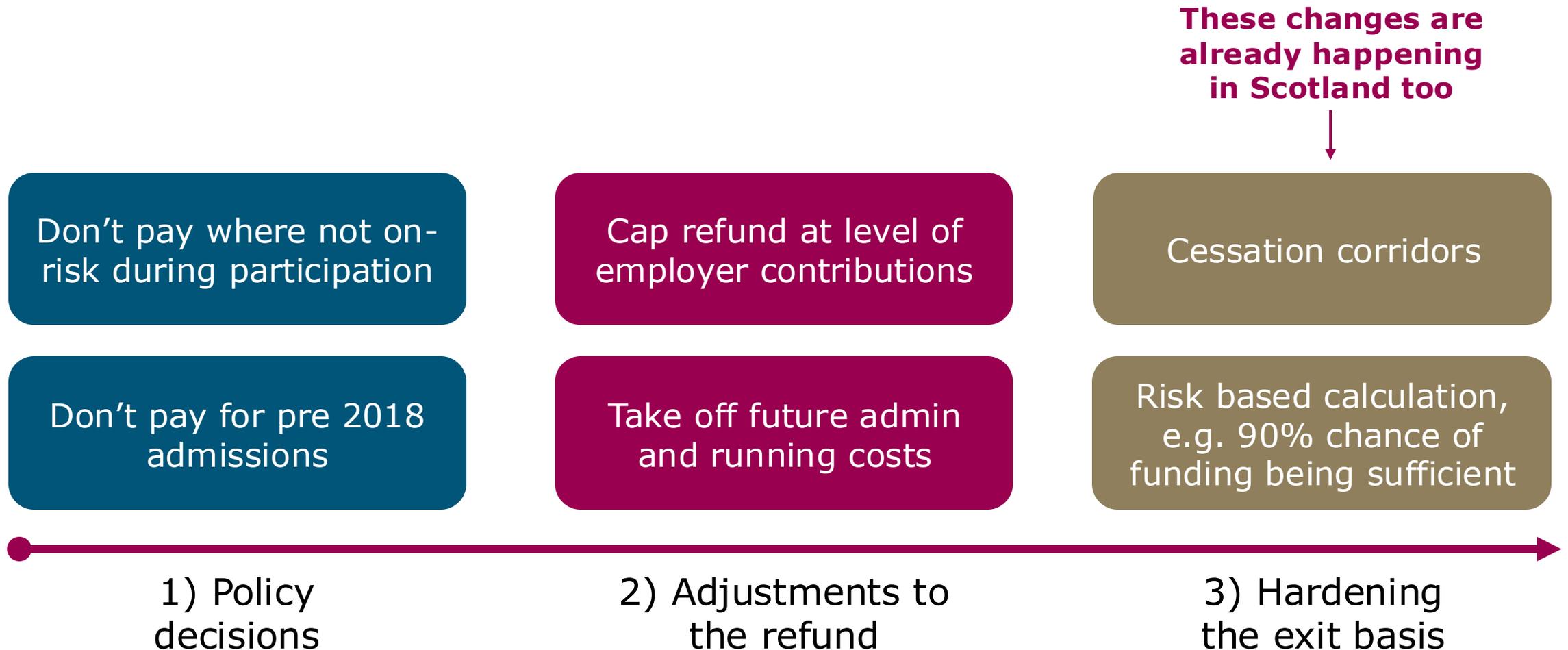
Very open ended?

How will this be applied?

Future running costs?

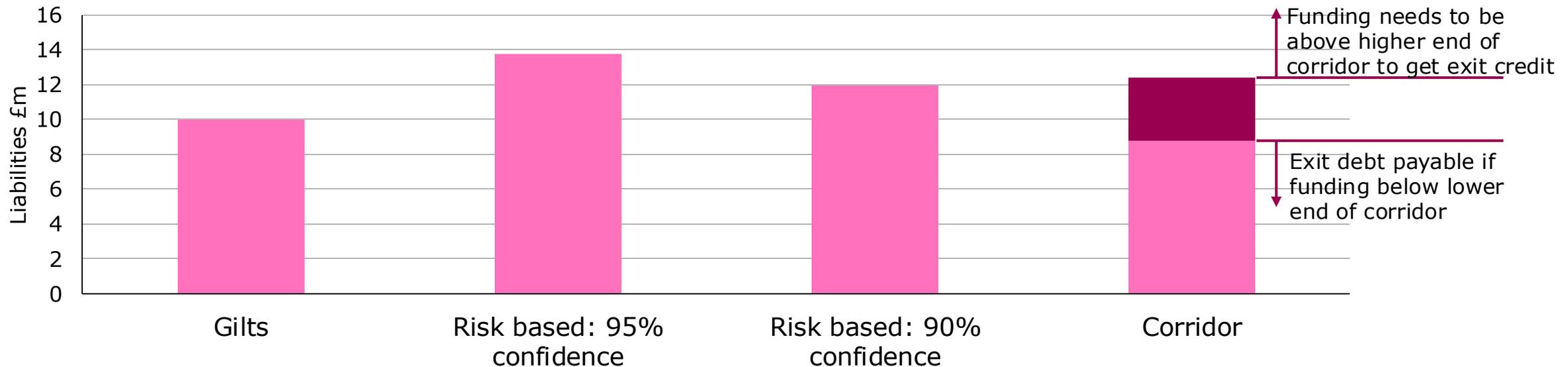
Experiences in England & Wales

SPENCE



Hardening of cessation bases

SPENCE



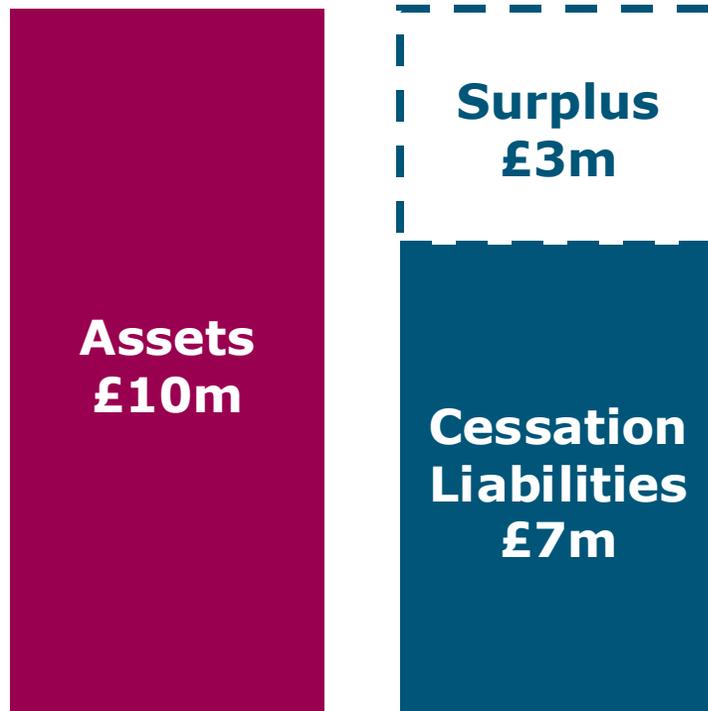
Historically, nearly all funds have used a "Gilts basis" for cessation. This uses a discount rate in line with gilt yields.

Some funds moving to a risk based approach, i.e. require assets such that there is an x% chance of having sufficient funds for next y years. Two key points:
1) Gives higher liabilities than gilts.
2) Results very sensitive to the confidence level: moving from 95% to 90% can take over 10% off the liabilities.

Some funds using a corridor approach. No exit debt or credit payable if funding within the corridor. Higher end of corridor above gilts.

Case study 1: outsourcer

SPENCE



Situation:

- Outsourcer with local authority contract
- Pass through on pension costs

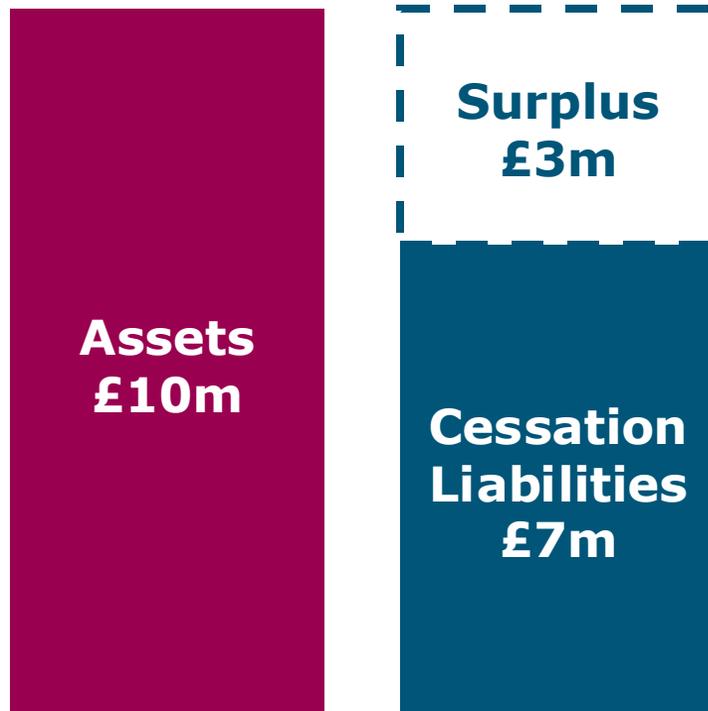
Is a refund likely?

- Not on-risk during participation
- Surplus exceeds contributions



Case study 2: charity

SPENCE



Situation:

- Charity in standard employer pool
- Participated for 10+ years and paid significant secondary contributions historically

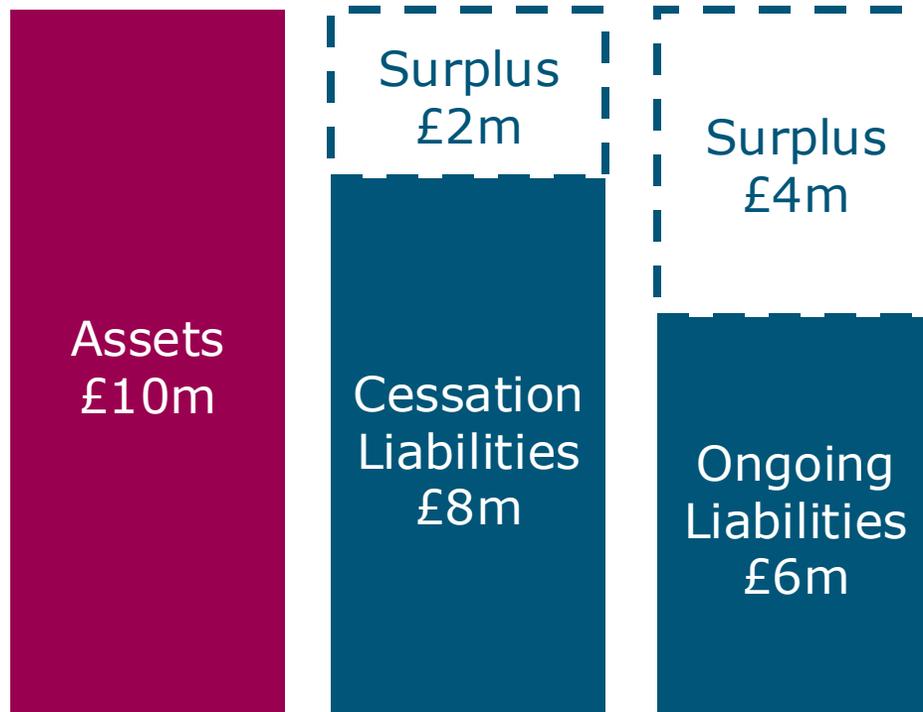
Is a refund likely?

- On-risk during participation



Case study 3: Council guarantee

SPENCE



Situation:

- Employer with Council guarantee
- Exit debt only payable if in deficit on an ongoing basis

Is a refund likely?

- Partly on-risk during participation
- Fund keeps £2m of £4m surplus?



1. Complete due diligence on exit ability, e.g. admission agreement, transfer agreement, contracts of employment
2. Get clarity from fund on exit credit policy in advance
3. Make representations to the fund if there is a strong case for payment of an exit credit (e.g. been on-risk during participation in the fund)
4. Consider an indicative cessation valuation that is guaranteed for 90 days
5. Profile affected employees, and consider any win-wins that might be there to ease the HR impact of an exit (e.g. funding an early retirement strain, buying additional deferred pension)
6. Understand implementation costs (advisers, funds)

About Spence

SPENCE



SINCE
2000



7
OFFICES



1000+MEMBER
SCHEMES
MANAGED



PASA
ACCREDITED



£9.9M
TURNOVER
2022/23



230+
STAFF



FROM **<£5M TO**
£700M CLIENT'S
SCHEMES BY ASSET
SIZE



PROVIDING FULL
SERVICES FOR
60+ SCHEMES



ADVISORY / SUPPORT
SERVICES **100+ TRUSTEE**
BOARDS AND SPONSORING
EMPLOYERS



AAF 01/20,
ISO 27001 AND
ISO 9001 CERTIFIED

SPENCE

Belfast

Linen Loft
27-37 Adelaide Street
Belfast BT2 8FE

T: +44 (0)28 9041 2000

Bristol

Spaces Castle Park
Programme Building
The Pithay, Bristol, BS1 2NB

T: +44 (0)117 959 5002

Glasgow

The Culzean Building
36 Renfield Street
Glasgow G2 1LU

T: +44 (0)141 331 1004

London

46 New Broad Street
London
EC2M 1JH

T: +44 (0)20 7495 5505

Manchester

St James Tower
7 Charlotte Street
Manchester M1 4DZ

T: +44 (0)161 641 6312

Birmingham

Edmund House
12-22 Newhall Street
Birmingham B3 3AS

T: +44 (0)121 389 2314

Leeds

Princes Exchange
Princes Square, Leeds
West Yorkshire LS1 4HY

T: +44 (0)113 426 4487

spenceandpartners.co.uk