

Avon  
Pension  
Fund



Your pension, your future

# **Parish Councils guidance on joining Avon Pension Fund**

Avon Pension Fund

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## **What is the Local Government Pension Scheme (LGPS)?**

The LGPS is a funded nationwide public service 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 average salary 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. These are listed on the Avon Pension Fund website.

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 at 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 the prospect of a deficit or surplus emerging. If it is a deficit this can be repaid over a number of 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 member's 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 that Act a parish council is described as a "*local precepting authority*".

## Important Considerations for Parish Councils thinking of 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 in 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 Avon Pension Fund prior to passing a resolution.

When the resolution has been passed, the parish council should proceed as follows:

- (i) Notify the Avon Pension Fund (“APF”) of its decision. **A copy of the resolution should be sent to the APF.**
- (ii) **Complete Form LGPS 33D**, which is required to enable the APF’s actuary to calculate an employer’s contribution rate for the Parish Council. There will be a fee payable by the Parish Council for the actuarial costs, which is listed on the APF website.
- (iii) **Complete Form LGPS 34D**, which will provide the APF with the information required to set up the Parish Council on the system.
- (iv) **Attend a training course arranged by APF for new employers** so that the APF can be confident that the Parish Council is capable of discharging its duties and responsibilities as an employer properly and efficiently.

### **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 the smaller employers that could be materially affected by the ill health retirement of one or more of their members.

For those employers in the Ill-Health Captive, an allowance for ill health retirements 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 the 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 an ill-health or death in service case.

### **Who to Contact**

When you are ready to proceed or have any queries regarding joining the fund, please e-mail [APF\\_EmployerAdmissions@bathnes.gov.uk](mailto:APF_EmployerAdmissions@bathnes.gov.uk)

## **Disclaimer**

This guide is an overview of pension implications and procedures for LGPS Scheme Employers participating in Avon Pension Fund and is provided for background information purposes only; the guide does not constitute advice; the guide is not an authoritative statement of the law and does not confer any statutory or contractual rights. The Avon Pension Fund do not accept any liability for loss or damage, consequential or otherwise, in reliance on the guide. Nothing in the guide can override the provisions of the Local Government Pension Scheme Regulations, other legislation, or government guidance. The Guide was up to date at the time of publication and the Avon Pension Fund will review it periodically and update it as required.

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