

Avon Pension Fund

Local Government Pension Scheme

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Parish Councils guidance on joining Avon Pension Fund

What is the Local Government Pension Scheme (LGPS)?

Avon Pension Fund is part of the LGPS. The LGPS is a career average Defined Benefit Pension Scheme. This means that members receive a pension which accrues at a rate of 1/49th of the member's career average salary for each year worked (as an example, if a member works 10 years their pension will be 10/49 times their career average salary). This pension is paid for by the member and employer contributions and by investment returns.

The member contribution rate is set out in the Avon Pension Fund Website at <https://www.avonpensionfund.org.uk/>.

The employer contribution rate varies depending on a number of factors which are both economic and membership related. Employer contribution rates are reassessed at triennial actuarial valuations and may go up or down. If contributions and investment returns in prior periods were not sufficient to pay for the benefits earned by members a deficit arises which the employer must pay (spread over a number of years), if conversely contributions and investment returns in prior periods exceed the cost of the benefits earned a surplus arises which is used to reduce employer contributions going forwards.

The basis on which Parish Councils can Join the LGPS

Parish councils are 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. Essentially it means that the cost of leaving the Fund is higher than the cost of joining. The reason for this is that, during the period when the employer has active members in the Fund, liabilities are accumulating which 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 investment 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, and the investment strategy changes. The Fund then requires further contributions from the exiting employer so that the liabilities can be met over time by investing in low risk investments. The

purpose of this is to ensure that as far as possible that the other employers in the Fund do not have to pay for the liabilities of the exiting employer.

In addition, there is one feature of the way in which the LGPS operates of which parish councils should be aware. If it appoints somebody who has previous service with the Fund, or who transfers in service from another Fund, this 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, the increased liabilities transferring increases the risk to the parish council. The risk becomes fully apparent if the parish council decides to exit the Fund at some point. In this situation the additional contributions which the parish council will be required to pay on exiting the Fund will be much higher, particularly if the amount of past service which has been transferred in, spans many years.

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 to one individual who wants to join the Fund. In the latter case the parish council could find that there is a high cost attached to a relatively short period of membership especially if the member transfers in service and is in post for a relatively short period of time.

How to join the LGPS

The way in which a person is designated is by 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 33**, 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 involved.
- (iii) **Request access to the Employer’s Section of the Avon Pension Fund website (accessible by password).** This will provide the parish council with the information it needs in its capacity as an employer in the Scheme.
- (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.

As a small employer in the APF, the parish council will participate in the APF’s “Captive Fund” for ill-health retirements. This is effectively an insurance arrangement whereby, if any of the participating employers have an ill-health retirement (which are expensive and impose a significant financial burden on the employer), the cost is met from the Captive Fund. Details can be found in the Fund’s “Funding Strategy Statement”, which can be found on the Avon Pension Fund website.

If you have any queries can you please contact APF_EmployerAdmissions@bathnes.gov.uk