

## Why manage and mitigate employer risk in your fund?

Current and future spending cuts have a huge impact on public sector bodies, charities and admission bodies. There have been instances in LGPS funds of multi-million pound pension liabilities not being met and falling on other fund employers or local authorities, and the risk of further insolvencies remains high.

**However, these risks can be managed, and if mitigated early, can reduce the possibility of substantial liabilities ultimately being unrecoverable.**

The cost of assessing and monitoring your fund employers are insignificant compared to the potential loss of monies to the fund. Active and collaborative engagement with employers can include:

- Obtaining government letters of assurance/parent company guarantees in relation to pension liabilities of fund employers.
- Implementing first charge arrangements.
- Identifying those employers which pose a significant risk to your fund and then carrying out periodic assessments.

## LPP – an expert team on hand to help

LPP is one of the leading employer risk management service provider in the LGPS sector. We have established leading covenant models enabling us to effectively manage employer risk for clients. Our covenant models respond and adapt to changes in LGPS legislation or any sector-specific regulatory changes. We work with all relevant Government departments and advisors to reduce risk; for example, with the Department for Education we have investigated and reported on the financial viability of several Further Education college mergers.

We currently provide covenant assessment and broader employer risk services to seven LGPS funds. Between them these funds represent public-sector pension monies of around £21.3 billion (based on published data at 31.3.18), involving more than 1,750 (open and closed) employers.

## Focused on the broader risk picture

We operate unique monitoring systems, keeping us informed of key sector risks, including financial notices of concern from Regulatory bodies, monitoring alerts etc.

Moreover, we keep fully abreast of broader legislative changes, such as the new insolvency regimes within Social Housing and Further Education and understanding the impact these will have on security already pledged to your fund.

## Our services

Our services can be tailored to your fund's key risk management objectives. Services we can provide include:

- Undertaking sector-specific covenant checks to identify key covenant risks at an early stage. We work closely with you and your employers to ensure compliance with TPR Code of Practice 14, applicable to all public sector pension funds. Sectors we have a unique assessment methodology for include:
  - Social housing associations
  - Charities
  - FE colleges
  - Academies
  - Universities
- Implementing security and guarantees where key risks are identified to avoid re-classification of covenant category. This includes first charges on property, investments and other assets, such as art, and escrow accounts. *For example, since the 2013 triennial valuation we have secured over £492 million in additional security against pension deficits for one of our clients.*
- Reviewing your legal documentation and admission agreements to ensure they remain up to date so pension obligations can be enforced where appropriate.
- Advising your local pensions board and pensions committee on significant employer risks and recommending mitigation strategies to reduce these. Our reporting typically incorporates a quarterly risk map on participating employers, together with an overall performance review against key SLA objectives.
- Incorporating covenant decisions into asset and liability management (ALM) systems to enable better financial planning and cashflow projections for funds.
- Automating relevant financial data to enable detailed analysis of 'at risk' employers.
- Working with your scheme actuary to allow the fund to set differential discount rates to reduce the risk of liabilities falling on other fund employers or Council Tax payers. This enables employers with a lower covenant rating to repay monies at a faster rate, based on TPR guidelines.
- Undertaking full risk assessment of new employers being admitted into your fund.
- Managing employer exits from your fund via legal payment plans, thus allowing employers to exit without the crystallisation of liabilities. This prevents further liabilities accruing for bodies, such as charities, which will be unable to meet their cessation liabilities.
- In insolvency scenarios, providing guidance to ensure the best return for your fund and ensuring creditors voting rights are fully exercised.

Where legal support is required, we can work with your fund's chosen law firm or introduce a firm we regularly work with.

## About Local Pensions Partnership Ltd

LPP is a well-established pension scheme administrator in the public sector, servicing the pensions of around 580,000 members across nine Local Government pension schemes (LGPS), involving multiple employers, seven Fire schemes and one Police Scheme.

We help our clients and their members prepare financially for the years ahead, with our end-to-end pension services partnership covering Pension Administration, Asset and Liability Risk Management (ALM) and Investment Management and Advisory services. With sector-leading governance, a not-for-profit philosophy and client service at the core of our offer, our clients benefit from our active long-term stewardship of both assets, and risk and liabilities.

## Contact

We would welcome the opportunity to discuss your employer risk management requirements and explain our services in greater detail. For further information please contact:

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