South Yorkshire Pension Fund
Employer flexibilities summary

In September 2020, new Local Government Pension Scheme Regulations were introduced which permit some greater flexibilities to employers in the LGPS in England & Wales:

1. Contribution rate reviews between triennial valuations
2. Spreading payment of a cessation debt
3. Deferred Debt Agreement ("DDA") alternative to immediate cessation

We discuss each of these in turn below:

1. Contribution rate reviews between triennial valuations

The Administering Authority (SYPA) may amend an employer's contribution rate between valuations where there has been "significant change" such as:

- in the opinion of an Administering Authority there are circumstances which make it likely that the employer will cease from the Fund sooner than anticipated;
- it appears that there has been a significant change in the ability of an employer to meet their Fund obligations (i.e. a material change in employer covenant);
- the membership of the employer has changed materially due to events such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

An employer may also formally request the Administering Authority to consider a review of its contributions, where the employer:

- sets out the reasoning for the review (which would be expected to fall into one of the above categories);
- provides backing evidence such as financial forecasts and budgets; or
- has undertaken to meet the costs of that review.

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a sole basis for a review of contributions outside a formal valuation.

It should be noted that any review may require increased contributions. The Administering Authority may need to consult other Fund employers e.g. where they act as guarantor, as part of a review.

2. Spreading payment of a cessation debt

Where there is a deficit on cessation, payment of this amount in full would normally be sought from the employer.

However, the Administering Authority may agree (at its discretion) for this payment to be spread over an agreed period instead, for instance where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer’s normal operations.

In these cases, the Administering Authority reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

The length of any spreading period will depend on the employer’s financial circumstances and on the strength of any security provided.

3. Deferred Debt Agreement (“DDA”) alternative to immediate cessation

As an alternative to immediate cessation, where a ceasing employer is continuing in business, the Administering Authority may enter into a written Deferred Debt Agreement with the employer. As part of the DDA, the employer will be required to:

- continue to make secondary contributions as determined by the Fund Actuary (in place of an immediate exit payment) until the termination of the DDA;
- provide security (such as a charge over assets, bond indemnity or guarantee) for the duration of the DDA;
- meet all costs of the DDA.

The Administering Authority would regularly monitor the contribution and security requirements. On the termination of a DDA, a cessation valuation would be completed in line with the Fund’s FSS at that time, and a cessation debt potentially payable by the employer.