Fund Policy on Employer Risk

This document should be read in conjunction with the Fund's latest Funding Strategy Statement

Introduction

Employers have a duty to make payments of employee and employer contributions to the Pension Fund.

This income is invested in the Pension Fund and used to pay retired members pension benefits.

One identified Fund risk is employers being unable to make payment of their employer contributions. By managing employer risk, this increases the likelihood employers will make payment of all monies owed. It also puts the Fund in a better position to request additional security in the event an employer becomes bankrupt.

Valuation

Every three years at the triennial valuation each scheme employer is assessed, and employer contribution rates set for the next three years. The rates are made up of primary and secondary contributions, the primary rate is paying for new accruals. The secondary rate is paying for past service.

As part of the triennial valuation the Fund assesses the risk of the employers and this is incorporated into the assessment.

The Fund's approach to managing employer risk is detailed within this policy document.

The Fund will always try to avoid the situation where an employer cannot meet its Fund financial requirements. If an employer becomes bankrupt and there is no guarantor or security that the Fund can refer, the employer's deficit then becomes spread across the other Fund employers. Fund Officers will always try to avoid this scenario occurring.

Employer Groups

The Fund had six employer groups at the 2025 valuation. These are detailed in the Fund's Funding Strategy Statement (FSS)

- Stabilised Employers (tax raising bodies - Local Authorities, Police and Fire)
- Colleges and Academies

- Universities
- Resolution Bodies (sometimes referred to as Designating employers). These are bodies that must pass a “resolution” to allow their staff to join the LGPS – these are Town and Parish Councils.
- Transferee Admission Bodies. These are usually private contractors that are providing a contracted service following an outsourcing of work from one of the Fund’s employers. The transferring employer acts as guarantor.
- Community Admission Bodies. These tend to be employers that have joined the Fund historically without a guarantor.

Risk scoring

At valuations Officers will consider the employers that pose the highest risk to the Fund. These are likely to be the largest employers that do not have tax raising powers. These tend to be certain employers in the Education Sector.

The risks will be assessed in two steps:

1. Risks associated with the type of organisation
2. Risks relating to the specific organisation

For employers that fall into a group that Officers deem a greater risk to the Fund, the more specific risk review of the organisation will take place.

This recognises some risk are inherent to the employer type and others on how the employer behaves.

The types of items considered include:

1. Is the employer a tax raising body
2. Does the employer have an external guarantor (e.g. Academies and Colleges are under written by the DfE guarantee)
3. Does the employer have a guarantor (e.g. Transferee Admission Bodies have the transferring employer as the guarantor)
4. Does the employer have additional security in place in terms of a bond or Company guarantee
5. Review the employer’s previous years and forecast balance sheets
6. Review the employer’s previous years and forecast profit and lost
7. Review the employer’s capital business plan
8. Review other financial information available e.g. independent assessments of financial health, credit rating agency, Education and Skills Funding Agency
9. Review the employer’s external auditor report

10. Consider other information the employer is able to provide to assist Officers understand their risk

The above is not an exhaustive list and may change.

Officers will group employers into either a High, Medium or Lower risk scoring group.

The groups will then be assessed by the Actuary and Officers to establish their individual funding target, deficit recovery period and if greater security maybe needed.

Employers will be aware that it is in their interest to provide the information requested, as this will assist Officers and allow them to make a more informed judgement of an employer's risk. Without the information provided it's likely Officers will take a more prudent view and assess an employer as a greater risk.

Fund Officers will make the ultimate decision on the group an employer falls.

A third-party covenant expert may be used to assist with assessing risk. This is designed to provide independence from the Fund and employer, helping to establish a fair and transparent approach.

The Fund may use the third-party covenant result to reassess calculation of employer rates, e.g. the minimum likelihood of success.

Generally, the stronger the covenant the lower the minimum likelihood of success (within the boundaries set). The employer funding level may also be considered, and additional security may be sought.

Tailored Employer Investment Strategies

The Fund is aware of requests nationally from some employers to seek bespoke investment strategies specifically tailored for their needs. There are also employers who have requested partial terminations of their liabilities relating to their deferred and pensioner members, as they seek to lock in a favourably low value for those liabilities.

In general, the Fund is not in favour of these policies, but may consider partial terminations in exceptional circumstances. Tailoring strategies for individual employers would require a significant amount of time and cost for administering authorities whilst partial terminations of the nature described above increases the risk that extra costs could fall to other employers in the event that the value of those liabilities were to rise in the future.

Admission Agreements – Transferee Admission Body (TAB)

When a Fund employer outsources staff, the contractor that takes on the work must ensure they retain the pension arrangements for this staff. This is almost always via

a legal Admission Agreement between the Fund, the outsourcing employer and the contractor.

Once the admission agreement is signed by all parties, this permits the contractor to become an employer within the Leicestershire Fund, thereby allowing the staff that transferred over to remain in the Leicestershire Fund.

The contractor is then classed as a Transferee Admission Body (TAB) in the Leicestershire Fund.

Once the agreement is signed by all parties the TAB must follow all the requirements of the Fund as detailed in the agreement, including payment of employee and employer contributions. The first payment must be made within 2 months of completion of the admission agreement, and then every month thereafter.

In 2019 the Fund implemented pass-through admissions, and these are the Fund's preferred admissions. In these cases, the risk is mitigated as any surplus or deficit moves back to the outsourcing employer at contract end. It also negates the need for a full bond.

The Fund is aware of Government's Access and Protection consultation (December 2025) on New Fair Deal that may bring changes to the way employers are brought into the scheme following outsourcing exercises. This area will be reviewed to account for any changes, should they be required.

Guarantors, Bonds or Other Security

Wherever possible Officers will require additional security from employers.

If an employer falls into financial difficulty the Fund is then able to call upon the additional security first. This acts as security to the Fund, thereby reducing any deficit being spread across other Fund employers.

Guarantors

If a Fund employer outsources work to an external contractor (a Transferee Admission Body) the outsourcing employer automatically acts as guarantor. Therefore, if the Transferee Admission Body is unable to meet its Fund financial commitments the Fund will request this from the outsourcing employer.

All outsourcing contracts of this nature are legally bound by the Fund's Admission Agreement.

Bonds

Under pass-through admissions, during the outsourcing of work to an external contractor Officers assess the "capital cost value". This is the amount of money the Transferee Admission Body would have to pay the Fund if all the staff aged 55 (age 57 from 2028 for non-protected members) or over, were made redundant and thereby entitled to immediate payment of pension benefits.

The contractor sets up a bond with a bond company of their choice for the sum of the capital cost value. Bond Companies usually do not allow a bond period for more than a three-year. If the contractor becomes bankrupt the Fund can call upon the bond for the value secured.

The Fund has a legally binding Bond document that this used in these cases.

Officers review the value of the capital cost at regular intervals. The period of review is usually determined by the contract length (or contract extensions), the ages of the staff employed at the contractor, and when staff reach age 55 (57 from 2028). However, Officers will review all bonds at least every three years as part of the valuation cycle.

If Officers determine that a change to the Bond value is required, they will liaise with the TAB directly at that time.

For pre-passthrough admissions (pre 2019), the Fund usually requires a full bond which is greater than the capital cost bond. This is because the risk associated with these cases can be higher.

Officers have purchased a system for tracking, recording and monitoring bond values and the dates these expire, cessation termination repayments and various other risk areas. The system will also include the risk score for each employer.

Other Securities

Whilst the Fund prefers bonds as the standard route for security, it will consider other forms of security that an employer can offer. These may include Parent Company Guarantees or security over assets e.g. property or land or setting aside money in an escrow account).

In this case a legally binding document will be provided by the Fund.

Community Admission Bodies (CABs)

The Fund has a small number of CABs. These tend to be the older historic admissions without guarantors.

The Pension Manager assesses the risk of these employers on a “case by case” basis and actively works with these employers to manage and reduce their risk wherever possible.

Employer Flexibilities – September 2020

On the 23 September 2020 Regulations regarding employer risk came into force. These Regulations are named - Local Government Pension Scheme (Amendment) (Number 2) Regulations.

These Regulations effectively fall into three areas, review of employer contributions, spreading exit payments and deferred debt agreements.

The Fund’s policy on how it deals with these are detailed in the Fund’s Funding Strategy Statement (FSS).

Ill Health Insurance

Many of the smaller Fund employers have the ill health insurance policy in place and the Fund requires all new Transferee Admission Bodies to do so.

Employers with ill health insurance pay 1% less employer contributions, as set out in the Fund’s triennial valuation report. Instead, the 1% is paid by the employer to Legal and General as an insurance against ill health retirement costs for the most severe of cases.

If a severe ill health case occurs, the employer can then offset the Fund's ill health cost against the insurance company.

One single ill health retirement can generate costs to an employer that can cause them serious financial hardship. Costs of over £500,000 for a single case have been recorded in the Leicestershire scheme.

Larger employers may choose not to pay the ill health insurance, instead paying the cost themselves or deferring the cost and having this incorporated into the calculation of future employer contribution rates at the next valuation.

Investment Portfolios per employer group

The Fund does not have specific investment portfolios for the different groups of Fund employers.

Pensions Manager – February 2026

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