



By email to all Greater Manchester
local authority schools.

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Dear Headteacher

Schools converting to academies

The Pensions Administration Working Group asked that I write to you to highlight some pension implications of schools becoming academies. I know that the compulsion for schools to become academies won't now be enacted, but as some schools will become academies anyway, what follows is still relevant.

Upon conversion, each academy will become an LGPS employer in its own right, rather than employing staff via the parent local authority (LA). This means each academy will be responsible for the full range of LGPS employer responsibilities, from admitting employees to the Scheme and the forwarding of employee and employer contributions, through to awarding benefits when people leave early, retire or die. Also dealing with any appeals under stage one of the Scheme's internal dispute resolution procedure. The LGPS is however complicated so the knowledge required to satisfy all the statutory requirements is considerable.

From the date of conversion, the academy will be fully responsible for the cost of meeting benefit promises to its employees. GMPF will establish a 'sub-fund' for the academy and contribution rates will be set to ensure this sub-fund has sufficient assets to cover the liabilities (ie. the pension benefits) accrued by members.

In setting employers' contribution rates the actuary will assess the liabilities associated with all categories of member and determine whether the employers' sub-fund is in deficit (which means that for each £1 of pension promised there is less than £1 in the employer sub-fund). If a deficit exists, the employer contribution rate will be set so as to ensure, as much as possible, that the employer pays sufficient contributions to make up the shortfall. The actuary will also take into consideration the security and longevity of employers when setting appropriate rates. For example, if the employer is an LA, then the actuary can allow a long deficit repayment period as the LA is both secure and long-lived. But if the employer in deficit is considered less secure and is of unknown lifespan, the Fund has the discretion to request that the actuary applies a shorter deficit repayment period over which to make up a shortfall. This means that an academy's employer contribution rate could be higher than that of an LA.

Also, if an LA is in deficit (as is the case with the majority of LAs), it is in deficit regarding employees, deferred beneficiaries and pensioners. It will be paying extra contributions to make up the shortfall. But as schools become academies, the number of employee LA workers reduces, as does the LA's



budget. Consequently the deficit becomes harder to fund. Given that each school converting to an academy will have previously employed members who left early with deferred benefits and members who have already retired, LAs are entitled to ask that when active members TUPE from the LA to a new academy, assets transferring to the new academy sub-fund are allocated so that deferred and pensioner members who remain the responsibility of the LA are deemed to be fully funded. This often results in the new academy's opening position in the Fund bearing a significant deficit.

To give an illustrative example, Manford MBC's sub-fund is 85% funded. In other words it has 85p for every £1 of pension to be paid. It is paying extra employer contributions out of its income to make up the shortfall. One of its schools is becoming an academy and so Manford asks that the assets in its sub-fund are allocated to deferreds and pensioners first, so that these are 100% funded, leaving the balance for actives. But what is left is only enough to cover 65% of employee related liabilities. And when employees transfer to the new academy, they take with them the 35% shortfall. This means that the academy is likely to pay higher employer contributions than had been the case when it was a school and part of the LA.

Regarding employer contribution rates, for the ten Greater Manchester LAs these range from 18.8% to 20.4% of employee pensionable pay. A school that recently converted to an academy is however being required to pay 32.9%.

As an independent employer an academy is also responsible for the extra cost that arises when a pension is paid early. As an example, the invoice we sent one of our employers following a Tier 1 incapacity retirement (ie. one where benefits are based on the assumption that the member had worked until his State pension age) was for over £600,000. This was at the extreme, but Tier 1 incapacity retirements can easily cost more than £100,000.

It is possible to insure for incapacity retirements, but of course this also has its cost.

I hope the above is helpful, and if you are a school already considering converting to an academy in the near future, I encourage you to engage with your parent LA and GMPF as soon as possible to discuss in more detail the potential pension implications of conversion.

Please copy this letter to your governors.

Yours sincerely

Pensions Helpline

Pensions Administration

