



ACADEMIES/FREE SCHOOLS AND THE LOCAL GOVERNMENT PENSION SCHEME 20112012



INTRODUCTION

The Local Government Pension Scheme on Merseyside

With 4.6 million members, the Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK.

The LGPS is a nationwide scheme and is a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the Scheme.

The Scheme is administered locally for participating employers through 99 regional pension funds. Merseyside Pension Fund administers the Scheme for over 130 relevant employers throughout the Merseyside region.

Academies and the LGPS

The LGPS (Miscellaneous) Regulations 2010 made an amendment to the LGPS (Administration) Regulations 2008 to allow an Academy established under the Academies Act 2010, to become a scheme employer.

The amendment facilitates that schools who satisfy the qualifying criteria as 'Free Schools' by entering in to Academy Arrangements specified under the Act in accordance with the terms prescribed under the Education Acts of 1996 and 2002, also automatically become scheme employers.

This guide details those pension responsibilities any newly established Academy or 'Free School' will acquire within the LGPS.

OBLIGATIONS AND RESPONSIBILITIES

If you are a school considering converting to an Academy under the Academies Act 2010, you need to be aware of the pension obligations which that will entail.

The Local Government Pension Scheme (Miscellaneous) Regulations 2010 requires that **all** non-teaching Academy staff under age 75 with contracts of employment of 3 months or more must be automatically enrolled into the Local Government Pension Scheme (LGPS).¹

Merseyside Pension Fund deals with the LGPS administration and investments on behalf of the five Merseyside District Councils and Local Authority Schools irrespective of funding streams, autonomy or governance arrangements.

The schools are treated for pension purposes, as part of the district councils and share the same generic contribution rate assessed for the Council. The rate incorporates a past service adjustment to fund the Council's deficit over the long term in accordance with the Fund's Funding Strategy Statement.

What are the direct implications of changing to Academy Status?

If the school chooses to convert to an Academy it will automatically become a separate Scheme Employer within Merseyside Pension Fund and will be treated in isolation of the Local Education Authority for pension purposes.

The Academy will require its own bespoke contribution rate and will have direct responsibility for administration, financial reporting and remittance of contributions and communication with the Fund.

¹ Those employed on a 'casual' basis must have entered into a mutual obligation casual contract for at least 3 months to be eligible to be automatically enrolled into the Scheme.

THE CONTRIBUTION RATE

Prior to the school converting to Academy Status it will be necessary to obtain from the Fund Actuary:

- An assessment of the school's pension liabilities in respect of its own scheme members and potential scheme members
- The rate at which the Academy will be required to pay employer contributions as an independent employer of the Fund.

In line with Department for Education (DfE) guidance it is the Fund's understanding that the past service deficit in respect of the staff transferred from the Council to the Academy would transfer as facilitated within the transfer agreement.

The guidance implies that academies will be awarded funding for deficit contributions in line with the local authority. You can find full information at the DfE website at:

<http://tinyurl.com/66jbrba>
<http://tinyurl.com/62z277g>

In order for the Actuary to calculate the liability transfer and contribution rate the school must provide the Fund with a list of the staff currently paying pension contributions. The data should include:

- National Insurance number
- Full name
- Date of birth
- Contracted weekly hours
- Current pensionable pay and
- Employee pension contribution rate

The details supplied will be checked against the pension administration system and any discrepancies will be raised with the school.

Once the data is verified as accurate, it will be submitted to the Fund's Actuary; they will take between 4-6 weeks to provide the financial costs of participation in the Scheme. The Actuary will charge the Fund for this activity, with this cost being recharged to the Academy in the first financial year of Scheme participation.

Is the employer's contribution rate likely to differ after conversion to Academy Status?

Once set up as a new employer the Academy will have its own employer contribution rate which will differ from the Council's rate. This rate will be reviewed every three years as part of the actuarial valuation of the Fund based on its membership profile.

It is likely that the employer contribution rate will be subject to increased volatility compared to the Council's, due to the much smaller staffing profiles and any changes to membership, payroll and incidence of retirement will impact on the Academy's pension obligations and costs.

ADMINISTRATIVE REQUIREMENTS

If an Academy continues to use the Payroll and HR services of their respective local authority, there will be little difference to the administrative processes already in place

However, as it is likely that an Academy will appoint an external provider for Payroll and HR services, there are many issues that need to be considered and are the responsibility of the scheme employer:

- Each scheme employer is required to pay to the Fund both their Employer and Employee contributions before the **19th** of the following month after the payroll have been processed. The payments must be accompanied by form **LGP41 Remittance Advice Slip** fully completed.
- The Academy will also be required to provide an annual return of contributions for reconciliation purposes, setting out the total amount of employee and employer contributions for each member and each pensionable post for the period **1 April to 31 March** each year.
- The correct employee and employer contribution rates must be deducted from each scheme member's pay. Please note that contributions are deducted before tax and that the LGPS is a contracted-out pension scheme (so contracted-out National Insurance Contributions apply).

What are the day to day paperwork requirements for pension administration purposes?

The Academy will be responsible for provision of;

- Details of new employees joining the scheme
- Contract variations e.g. hours changes, breaks in service
- Details of leavers and retirements including final pay calculations

EMPLOYER RESPONSIBILITIES

The Academy will be responsible for employer decisions including:

- Policy making in respect of employer discretions available within the LGPS
- Awards of benefits including ill health retirements and the use of an Independent Registered Medical Practitioner (IRMP)
- Dealing with disputes under the Internal Resolution Disputes Procedures (IDRP)
- Further details regarding the Fund's Pension Administration Strategy will be provided upon commencement as a Scheme Employer)

It is important to realise that an Academy would become a scheme employer of the Fund and **not** the appointed Payroll/HR provider.

An Academy will need to be very clear when appointing any external provider of these services as to where respective responsibilities lie.

Are there circumstances when the Academy will be required to pay additional monies to the Fund not taken account in the contribution rate?

Yes. In accordance with LGPS regulations, if a scheme member aged 55 or over is granted early retirement by their employer, is made redundant or is granted flexible retirement, the scheme member becomes entitled to the immediate release of their accrued pension benefits.

In many cases this means that benefits are paid out of the Fund in advance of the member's normal retirement date and therefore for a longer period than anticipated.

The employer is required to make a payment to the Fund (known as an early retirement strain cost) in order to compensate the pension fund for having to pay benefits for longer than expected. It is worth noting that an employer should always request estimates for employees being retired early.

No separate charge is made for ill health retirements. However these retirements can involve a large increase in employer liabilities which will be reflected in the employer contribution rate at the next valuation.

This briefing note refers to members of the Local Government Pension Scheme and therefore only covers non-teaching staff at schools. The Teachers Pension Scheme is administered separately and is not the responsibility of Merseyside Pension Fund

FUND CONTACTS

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ADMINISTERING AUTHORITY

