



## Further education (FE) bodies Local Government Pension Scheme (LGPS) guarantee

LGPS is a public sector defined benefit pension scheme. As a defined benefit pension scheme, members are assured a certain level of pension benefits when they retire, based on salary and years contributed, and are protected by law. LGPS is a funded scheme, with contributions made by employers, employees, and returns on investments made, which are used to finance pension benefit payments.

### DfE LGPS guarantee for FE bodies

In November 2024 a guarantee was put in place to provide assurance to LGPS pension fund managers that FE bodies should not be treated as 'high-risk' employers. The guarantee ensures that in the event of the closure of an FE body in the statutory sector, any outstanding LGPS liabilities will not revert to the fund. LGPS cessation liabilities become due when an employer has no active members contributing to the pension fund.

The Department for Education (DfE) FE Guarantee covers:

- FE corporations
- sixth form college corporations
- Designated Institutions who are bodies set up under the Further and Higher Education Act 1992 and are legally obliged to offer their non-teaching employees membership of the LGPS

### Closure of an FE body and payment to LGPS

The majority of current FE provider restructuring is undertaken via mergers whereby all the assets and liabilities (including LGPS) are transferred to the 'acquiring' college and the dissolving college is therefore solvent on dissolution. As all LGPS assets and liabilities (for active, deferred and pensioner members) transfer on merger, the guarantee will not apply.

Where an FE body closes within a group, the college group will absorb all pension assets and liabilities, and the guarantee will not apply.

Where an FE body closes, and where there is no transfer or merger, the pension fund manager will calculate the exit funding position, the amount required by the fund to cover all future pension payments due to members. The assets of the FE body must be used to pay-off any liabilities, with any shortfall paid for through the DfE FE LGPS guarantee.

## **Annual limit for the LGPS liabilities under the DfE guarantee**

The DfE FE Guarantee is unlimited and therefore all deficit payments that meet the guarantee policy will be funded. The department has agreed with HM Treasury that we can pay out up to £32 million in any given year before requiring additional HM Treasury approval.

The annual spend limit is based on the historic closure rate for FE bodies and is the agreed amount that DfE can fund before notifying HMT of any required additional spend.

## **Action for FE bodies and administering authorities**

FE bodies should engage with their LGPS administering authority pension fund to discuss how the DfE FE Guarantee will be applied and recognised in funding strategies.

We expect LGPS administering authorities (pensions funds) to treat FE bodies equitably with the academy and local authority sectors and be offered access to the lowest risk employer funding strategies when setting:

- employer contribution rates
- the deficit recovery period
- funding strategies

## **Future Changes**

Although there is no end date set for the guarantee, DfE's policy is to undertake reassessment of the guarantee periodically to determine whether the guarantee remains affordable. The review of the guarantee will assess whether FE bodies and pension funds are maximising the benefits from the guarantee, alongside the costs to Government.