«AddressBlock»

Date

**New legislation to introduce employer flexibilities – working with the housing sector**

Dear [at each LGPS Fund – any and all of: your usual contact, pensions manager, Section 151 Officer, Chair of Pensions Board]

I am writing to you as [position e.g. Chief Executive] of [name of housing association], which represents an important part of the housing sector in England and in the [county or borough] region. With around [units] homes under our management, we work to provide homes for around [number of tenants] people in the local area and form an important part of the local economy and community.

We are aware of the new powers for administering authorities to:

* Review employer contributions.
* Spread exit payments.
* Bring in new Deferred Debt Agreements (DDA) and deferred employer status.

As your Fund implements any changes to your options for employers, I would like to impress upon you the importance of this for housing associations and the housing sector as a whole, and to ask you to confirm how your Fund intends to apply the new guidance in order to achieve the best result for both the Fund and employers.

As you will know, we have accrued liabilities within the Local Government Pension Scheme (LGPS) [and are still offering LGPS to current staff], therefore your Fund and how we work with you is important to us both in achieving our shared objective to secure member benefits over the long term.

Having flexibility around funding which suits the particular circumstances of [housing association name], whilst also providing the necessary security the Fund, is vital to our effective operation and our core purpose of providing housing in the [county or borough] region. This of course is true across the whole sector.

**The choice available to Funds**

The Government amended the LGPS Regulations 2013 in September 2020, introducing new powers as set out above. Each of these has implications for housing associations, but in particular the positive move to allow exit payments on ceasing new accrual to be spread over time.

We are aware of the Scheme Advisory Board (SAB) providing guidance for Funds in applying these new regulations. We understand that Funds will then review your “Funding Strategy Statement” in order to set out how you will apply this to individual employers in your Fund.

We believe there is a choice for a Fund to make in terms of how the specifics are applied, including how much investment risk is taken on behalf of the employer and on which basis the deferred debt will be measured.

**Why is this important for us and for the housing sector?**

To date, the high exit cost often applied on exit from an LGPS fund has acted as a barrier to closure for many housing associations, who have consequently been caught between carrying on accruing more liabilities whilst avoiding the high one-off exit payment, or ceasing new accrual but be required to pay the large one-off exit debt. This situation also represents an increased risk to the Fund if the employer continued to build up new liabilities.

We see the new legislation as hugely positive and it means that an employer can have deferred status, and a Fund can more easily offer an organisation wishing to close the LGPS to staff the option to continue to fund the past service liabilities over time. This opens up a viable option for a lot of housing associations who are looking to manage pension costs and risks, to harmonise benefits, or both.

From the perspective of the Fund, if an employer can limit the build up of new risk, we would think this should also increase the Fund’s security for payment of the debt already accrued to date.

The deferred arrangement option could continue to be onerous to housing associations if not applied, or if applied in a particular way. There would be a significant impact on national housing (a key government priority) from requiring more money to be directed into pension schemes sooner than required, rather than into the housing development and building.

**The housing sector’s strong covenant**

Whilst we and other housing associations have individual corporate structures, there are certain characteristics which run through the housing sector as a whole. We believe there are some key reasons why a housing association has a uniquely high covenant visibility and resilience to risk when viewed from the perspective of the Fund, which should give the Fund comfort in exploring deferred debt arrangements. In particular:

* Strong, independent organisations required by society and backed by government.
* Long term, inflation linked, secure income with demand stretching at least 50 years.
* Regulated by the [Regulator of Social Housing](https://www.gov.uk/government/organisations/regulator-of-social-housing), with many tools including stress testing of 30 year business plans.

Together these mean that a pension scheme sponsor can afford to take more risk within its investment and funding strategy, without materially increasing the risk of pension benefits not being paid in full.

**Next steps**

Thank you for reading this letter and your transparency in this process. I would appreciate a response which provides:

* Your confirmation of when you plan to consult with employers on the amendment to your Funding Strategy Statement (or confirmation if you have already consulted).
* Your confirmation of how the [name of Fund] Fund intends to apply the guidance in respect of changes made to the Local Government Pension Scheme Regulations 2013 in September 2020.
* Your view on how this supports the individual employer in agreeing a funding strategy consistent with its own circumstances, covenant and attitude to risk.

The LGPS is an important part of the housing sector’s benefit offering, and as an individual organisation and as a sector, we are committed to providing benefit security for our past employees as well as maintaining our business for current and future employees and our service users.

Yours sincerely

