

DB & DERISKING

FirstGroup breaks new ground by merging funds within LGPS

By [Sophia Imeson](#) | November 28, 2017

Transport operator FirstGroup has become the first major private sector employer to consolidate its pension funds within the Local Government Pension Scheme, as experts agree that similar mergers could be on the horizon.

The process involves transferring £700m of assets to the Greater Manchester Pension Fund from the West Yorkshire Pension Fund and South Yorkshire Pensions Authority to form a £1bn fund.

A FirstGroup spokesperson said the transfer to one administering authority will improve the employer's ability to shape investment strategy and control risk.

It "will enable us to better manage our funding across these obligations. This will allow us to improve cost control while maintaining members' benefits", the spokesperson added.

"This is a very important trend in the [defined benefit] pensions arena," said former pensions minister Ros Altmann.

DB investing is becoming increasingly challenging, so "having a larger asset pool should allow increased investment opportunities and expertise, as well as lowering administration costs", she said.

"The UK DB pension sector can benefit from consolidating," Altmann added.

Claire Kober, chair of the Local Government Association's resources board, said the LGA is supportive of any effective consolidation within the scheme "which preserves access to membership of the scheme for employees, reduces funding risk to local taxpayers and provides a more efficient structure for scheme employers and LGPS pension funds".

FirstGroup's move could set a trend

There have been mergers of LGPS funds within the public sector in the past. One example is the consolidation of the Ministry of Justice LGPS funds, noted Chris Hurry, partner and scheme actuary at Hymans Robertson, the consultancy firm that led the project.

However, "this was the first time, as far as we're aware, that any private sector employer had gone down this route".

The process spanned a number of months, and required approval by the secretary of state.

Hurry said that it may not have been done in the past partly due to a lack of awareness that it is possible for private sector employers to consolidate their pension schemes within the LGPS.

Scale also plays a big part. "There's probably relatively few private sector organisations in the country that have got pension obligations within LGPS of [FirstGroup's] sort of scale," Hurry noted.

Now that a private sector employer has done it for the first time, "it becomes more efficient and easier for people who've got obligations in several local government pension scheme funds to be going where the trail has been blazed".

Pooling offers control over investments

Nick Buckland, senior investment consultant and LGPS adviser at JLT Employee Benefits, agreed a lack of awareness about scheme's ability to do this has stood in the way of private sectors consolidating their funds within the LGPS.

"I suspect it may well get a few private sector employers asking now, as to whether it's something that they can be doing as well, if they can see the benefit of doing it," he said.

Buckland added that generally, one of the biggest benefits would be simplicity. Another is greater control over investment strategy, as mentioned by FirstGroup.

Normally, an LGPS fund would produce an investment strategy that would meet the requirements of

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the fund on average. However, there will be some employers that are either really mature or immature, therefore having very different demands.

A number of the 89 LGPS funds "have unitised approaches whereby they allow the employer to have an investment approach that suits their particular needs", Buckland said.

Approach consolidation with care

Stephen Scholefield, pensions partner at law firm Pinsent Masons, noted that it is often the case that private sector employers participate in more than one LGPS fund. He added that consolidating their funds can help stabilise an employer's long-term funding obligations and make these easier to manage.

"However, this approach poses some interesting questions," Scholefield said. "Will different LGPS funds compete against each other to act as consolidators, or will they quietly prefer private sector participants to move their funds elsewhere? Given that the council taxpayer stands behind the LGPS, consolidating funds in this way should be approached with a degree of care."

The need for approval from the secretary of state for FirstGroup's consolidation within the LGPS indicates that it is a change that would have required specific regulations, noted Kate Payne, partner at Arc Pensions Law.

The LGPS differs from private sector pension arrangements in that an employer becomes an admitted body normally because it is providing outsourced services.

That is not to say that the receiving LGPS fund is "not going to be very mindful about what's coming their way and making sure that effectively the liabilities they're taking on are fully covered by the assets that are transferring", Payne explained.



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