

Paper D: Employer Exits Survey

Key points to note

The Scheme Advisory Board (SAB) conducted a survey to better understand the scale and drivers of employer exits from the Local Government Pension Scheme (LGPS) amid concerns that high funding levels and exit credit regulations may be influencing employer behaviour. The aim was to gather evidence on the volume of exits, the reasons behind them and how funds are applying the exit credit framework.

A total of 31 funds responded (36 per cent response rate), reporting 324 employer exits in the past year—mostly from admission bodies. Around a quarter resulted in exit credits, with payment values varying widely. While most funds saw stable exit levels, several medium and large funds reported increases, and almost one quarter were aware of employers offering incentives for staff to leave the scheme ahead of an exit.

Comments from funds highlighted three key themes: growing complexity and volume of exits, inconsistent approaches to exit credit and deficit determinations, and concerns about member protection where employers restructure or use subsidiaries to avoid LGPS participation. Respondents called for clearer guidance, more consistent national practice and stronger safeguards for affected members.

Recommendation

That the committee notes the employer exits survey report.

Employer Exit Survey Report

Introduction

The SAB has undertaken this survey to develop a clearer understanding of the scale and drivers of employer exits from the LGPS. Recent discussions, supported by anecdotal evidence from Board members and employer representatives, suggest that current high funding levels may be creating a financial incentive for some employers to leave the scheme. In addition, the introduction of exit credit regulations has created new considerations for administering authorities when managing

employer departures.

To inform these discussions with evidence rather than assumption, the Board commissioned a high-level survey to capture headline information on employer exits across the LGPS. The survey aimed to establish the volume of exits taking place, identify the main reasons behind those exits, and gather early insight into how administering authorities are interpreting and applying the regulations relating to exit credits.

This paper presents the findings of that survey, summarises the emerging themes, and highlights areas where further work or clarification may be beneficial to the Board's ongoing policy considerations.

Method

This survey was sent to all pension fund managers using the Pension Team's contact list. The survey was open for responses from 30th January to 2nd March 2026. A total of 31 pension funds responded to this survey – a response rate of 36 per cent.

Fund size*	Number of respondents
Large	16
Medium	10
Small	5

* Small fund – less than £2.5bn assets, medium fund - between £2.5bn--£5bn assets, large fund - above £5bn assets

Findings

Exits

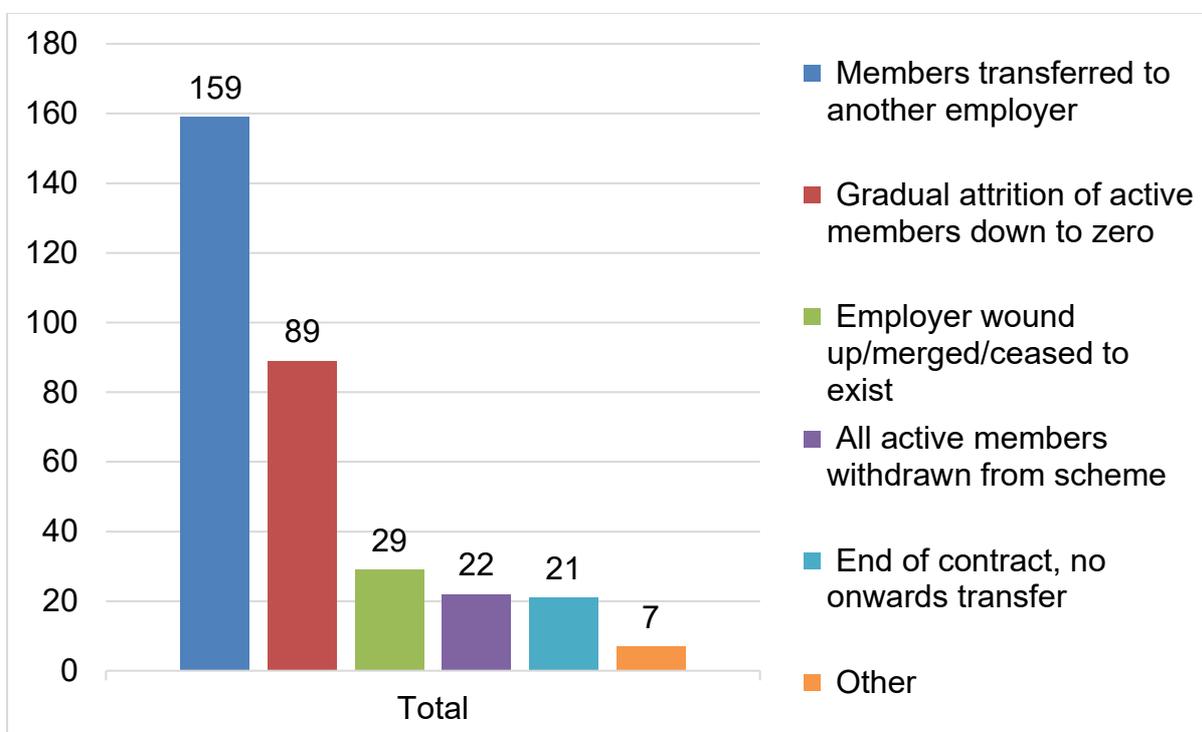
Across the 31 responding funds, a total of 324 employer exits were reported over the previous 12 months. The number of individual exits varied widely by fund, ranging from three to 46, with an average of 10 per fund. Larger funds reported noticeably higher volumes of exits with an average of 17 compared with four for medium and small funds.

Fund size	Number of employers exited from the fund in the last 12 months (average).
Large (assets over 5bn.)	17
Medium (assets between 2.5-5bn)	4
Small (assets under 2.5bn)	4

When broken down by employer type, the majority of exits came from admission bodies, particularly contractors (260 exits). Only 20 exits came from scheduled bodies and 14 from designated bodies.

Scheduled bodies	Admission bodies (e.g. contractors)	Admission bodies (e.g. community admission)	Designated bodies
20	260	33	14

Respondents were asked on what basis these employers exited, the results of which are shown in the graph below.



Those who answered 'other' said that employees transferred back in house, that

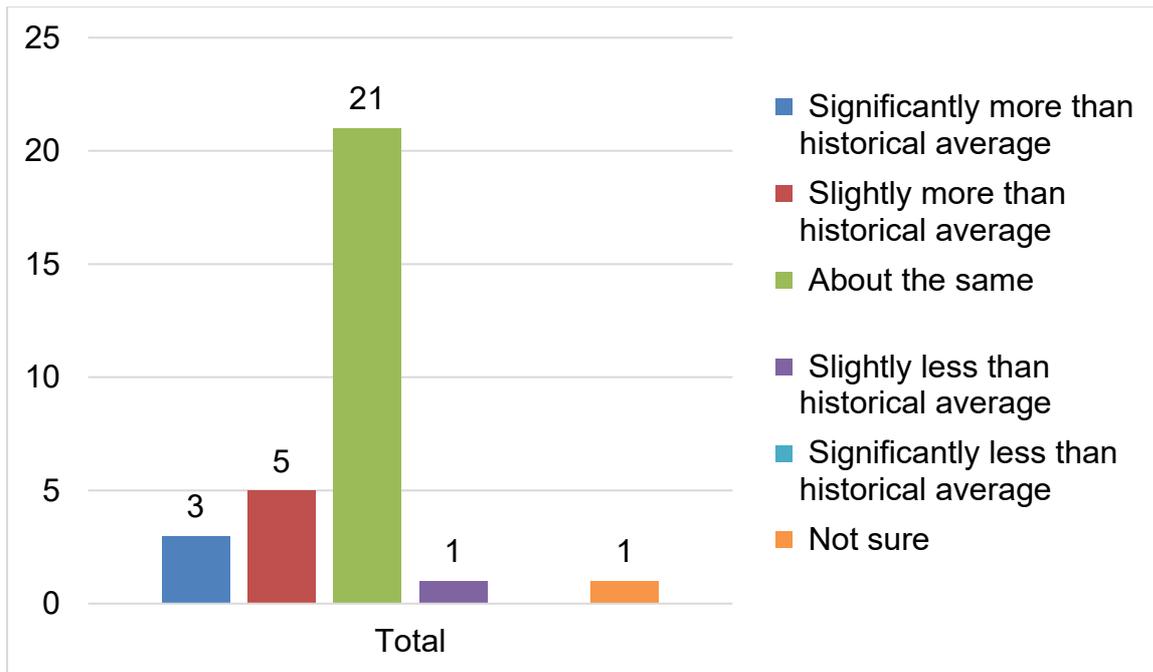
admission bodies put in place new service contracts with new admission agreements, staff moved to a subsidiary that was not covered by fair deal and that the employer chose to exit and move staff to an alternative scheme.

A total of 74 exits resulted in an exit credit and 15 in an exit deficit, although six funds were unable to provide complete data due to ongoing actuarial calculations. Larger funds reported the highest number of cases in both categories. Respondents noted that 24 of these payments were due to the guarantor, rather than the employer.

Fund Size	Number of exits resulting in exit payment credits	Number of exits resulting in exit payment deficit
L	45	10
M	18	4
S	11	1

Total exit payments ranged dramatically in value – from £1500 to over £22 million – highlighting the significant financial exposure that exits can create for both funds and employers. The use of risk-management tools provided for in the LGPS Regulations was relatively limited, with suspension notices issued in 19 cases, spreading agreements in nine, and deferred debt agreements in only two.

Around a quarter of respondents (eight funds) reported a noticeable increase in exits compared with their historical averages, all of which were large or medium funds. The majority (21 funds) observed no significant change, although several commented that employers were actively exploring potential exits or partial exits. Only one fund (a small-sized fund) reported that they have noticed fewer exits than their historical average.



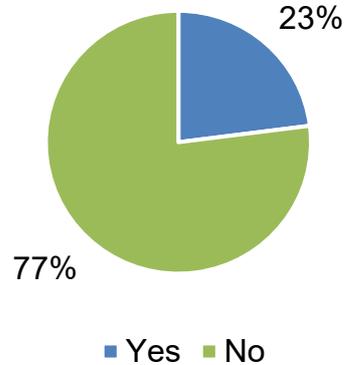
Policy

Almost all funds have published a policy on exit payments and exit credits, with only two exceptions – one small fund and one medium fund. In addition to this, most funds communicate any policy changes through their Funding Strategy Statement consultation process (87 per cent). 10 per cent of funds said they used a targeted approach focussing on relevant employers who are planning to exit, and 6 per cent (2 pension funds) said they used no consultation when making changes to their policy.

Policies are generally reviewed on a cyclical basis. 77 per cent of the pension funds who responded said they plan to review their termination policy and/or assumptions every valuation cycle, 13 per cent said they plan to do this annually, and 10 per cent said they have no planned fixed interval and instead this will be driven by change in demographic, economic or regulatory developments.

Almost one quarter of funds said that they were aware of employers within their fund offering incentives for active members to withdraw from the LGPS, suggesting a shift in behavioural responses to high funding levels or potential exit credits.

Are you aware of any employers in your fund offering incentives for active scheme members to withdraw from the LGPS?



Respondents were also asked whether the Ministry of Housing, Communities and Local Government (MHCLG) should explicitly allow administering authorities to take account of an employer’s reason for exit in Regulation 64 (2ZC) (d) of the 2013 Regulations. A majority (18 funds) supported this change, reflecting that the current wording “any other relevant factors” is too broad and leaves funds exposed to inconsistent interpretation or challenge. Six funds opposed the idea and seven reported that they were unsure.

Yes	No	Don't know
18	6	7

Finally, respondents were given a free text box to add comments about the survey and exits in general. This commentary has drawn out the below three key themes;

Employer exits are increasing significantly across the LGPS, driven largely by structural change, financial pressure and opportunities created by improving funding levels.

Several funds note that “the number of terminations... has increased hugely over the last five years,” citing school closures, academisation and outsourcing cycles as key contributors.

Financially stressed contractors are also exiting at higher rates, with one fund reporting that “we have had 4 contractors go into liquidation in the past 2 years.” In some cases, employers are withdrawing staff from the LGPS or restructuring to reduce costs, motivated in part by the possibility of receiving a surplus, as illustrated

by a fund noting that employers are “looking to close to certain new staff and have a partial cessation to cap the current surplus.”

A second strong theme concerns the complexity, inconsistency, and administrative burden associated with exit credit and deficit determinations. Funds frequently refer to a “postcode lottery” in approaches across administering authorities, where “in two identical situations one fund would pay out an exit credit and another fund would charge a deficit.”

Several respondents emphasise that exit credit investigations have become “a resource heavy area of work,” especially with high funding levels increasing the frequency of surplus exits. Many call for clearer national guidance, with one stating that clarification is needed because Regulation 64(2ZC)(d) – “any other relevant factors” – is “very broad.” Others request standardised templates or a consistent framework so that determinations are not dependent solely on local interpretation.

Finally, there is considerable concern about gaps in member protection and weaknesses in the regulatory framework, particularly where employers withdraw staff from the LGPS or restructure to avoid participation.

Respondents warn that some higher education institutions use subsidiaries “to exempt them from enrolling their administration staff in the LGPS,” and that on some occasions housing associations have shown little regard to undertakings to grant their staff continued LGPS access.

A recurring issue is the absence of mandatory consultation when members are removed from the scheme, with funds noting that “many LGPS members are not aware of the existence of IDRPs,” and arguing that the current rules make it too easy for employers to remove members “surreptitiously.” Several therefore call for stronger, mandatory protections, including applying Fair Deal universally and widening Regulation 72 to explicitly safeguard members during employer exits.

Conclusion and next steps

The findings of this survey present a clear picture of an employer landscape that is increasingly changing, with exits influenced by a combination of structural change, financial considerations and regulatory complexity. While most funds have an established process for managing exits, any variation in practice raises questions about consistency, fairness, and administrative burden across the LGPS.

The evidence also supports the contention that the current regulations are enabling

employer behaviour aimed at maximising surpluses or avoiding scheme obligations, as well as increasing the risks to member protection.

The results of this survey provide some key insights as a starting point, but there is a strong case for further exploration and potential policy development. Next steps could include:

- Putting in place regular data gathering so that it is possible to analyse exit trends over time
- Consultation with actuarial and legal experts on options for clarifying regulation 64, and engagement with government on any potential reforms.
- Exploring opportunities to support greater consistency in the application of the exit requirements, for example through model policies or guidance.
- Enhancing clarity around the regulatory framework to help ensure that employer exits are managed fairly, transparently, and in the best interests of both members and the long-term sustainability of the LGPS.