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Policy paper

# DfE local government pension scheme guarantee for academy trusts

Updated 14 October 2022

**Applies to England**

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# Local government pension scheme (LGPS)

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.

An academy proprietor (the company which runs the academy, known as the academy trust) automatically becomes a scheme employer under the [LGPS Regulations 2013](#). This means that all non-teaching staff employed by the academy trust are entitled to membership of the LGPS, and academy trusts must provide access to all eligible employees throughout their employment with the academy trust.

## DfE LGPS guarantee for academy trusts

In July 2013 a departmental guarantee was put in place to provide an assurance to LGPS pension fund managers that academies should not be treated as 'high-risk' employers. The guarantee ensures that in the event of the closure of an academy trust, 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.

Where an academy trust closes, the pension fund manager will calculate the cessation payment, the amount required by the fund to cover all future pension payments due to members. The assets of the academy trust must be used to pay-off any liabilities, with any shortfall paid for through the DfE LGPS guarantee.

## Closure of an academy trust and payment to LGPS

Most academies will not close, as the need for education provision will remain, instead they will transfer to another trust.

A closure due to falling pupil numbers, resulting in the crystallisation of the liability, would be unlikely to happen immediately and would be managed over a period of years. Furthermore, the power to close an academy trust in these circumstances rests solely with the Secretary of State for Education.

The decision to close an academy trust is taken as a last resort and is reached after concluding a detailed process (as explained in [closure of an academy by mutual agreement](#)). We collaborate with academy trusts to review and consider all available options with the outcomes for pupils at the centre of any decision before it is made. We will engage with strong multi-academy trusts (MATs) who have capacity to welcome academies to their family of schools, avoiding any disruption to the continuity of education.

When an academy closes within a multi-academy trust (MAT), the MAT (as a continuing employer) will absorb the pension liabilities and the guarantee will not apply.

We expect administering authorities to recognise the direct government backing provided by the guarantee and continue to treat academies equitably with local-authority maintained schools when setting employer contribution rates and deficit recovery periods.

## LGPS employer contribution rates

Some academies experienced higher LGPS employer contribution rates to those set when they were a local-authority maintained school. The main reason for this is because academies are not funded through the local authority which previously gave assurance to the administering authority that LGPS costs would be met in the long term. In providing the DfE LGPS guarantee for academy trusts we are seeking parity for academies with the maintained school sector regarding the risks that they present to the pension fund in the event of the closure of an academy trust, and to encourage equitability of treatment.

We expect LGPS administering authorities (pensions funds) to treat academies equitably with local-authority maintained schools and ensure there is no significant divergence in employer contribution rates, when:

- local authority maintained schools convert to academy status

- setting employer contribution rates at LGPS triennial valuations
- setting the deficit recovery period

Read more about [LGPS annual and triennial valuations](#).

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

The department provides the DfE guarantee for LGPS liabilities in the event of an academy trust closure. There is no end date for the guarantee, but we will assess it at regular intervals to determine it remains affordable and to review the set annual ceiling limit.

From April 2021, the set annual limit is £20 million per annum.

Previous estimated annual ceiling limits no longer apply. These were:

Financial year (commencing)	Ceiling limit (£)
2013	6.5 million
2014	8.5 million
2015	10.5 million
2016	11.5 million
2017	12 million
2018	13 million
2019	13.5 million
2020	14 million

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