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Pensions and outsourcing – why is it key?

Outsourcing is common practice, but there are key considerations around the treatment of pensions which can be overlooked. This is particularly important when employees are being outsourced for the first time, transferred onward to a new contractor, or being moved back in house.

PFI expiry requires careful consideration given contracts were entered into many years ago and changes to pensions legislation can lead to unintended consequences. This is further compounded by the fact that LGPS funds currently find themselves in a surplus position, and the differing contracting parties may stake a claim on the surplus.

What are the key pensions considerations on outsourcing?

01 Pension transfer

As the active employees move to a new contract or back to the contracting authority, what are the terms of their onward pensions transfer? Which party meets any funding shortfall?

02 Ongoing costs

What is the obligation of the new contractor/provider relating to pension provision? Does New Fair Deal or the Best Value Direction apply?

03 Non-active liabilities

For those employees that retired or left during the term of the contract, how are their pension liabilities treated when the contract ends?

04 Exit debt/exit credit

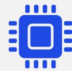
When the contract ends, an exit debt may be payable or an exit credit may be due. It is crucial to agree the treatment of any debt or credit in advance, to avoid any surprises or disputes when the contract ends.

What actions should authorities take?

1- 2 years to expiry | 1 year to expiry | PFI expiry | Post-PFI

Review expiry preparedness

Establish commercial position, understand pension funding position, and determine legal obligations for pensions on expiry.



Manage expiry process

Define future requirements, develop pension considerations, identify preferred options for future pension provision by replacement contractor, agree any risk sharing and treatment of contributions over the contract term.

Future state

Embed new delivery model and ensure pension transfers take place successfully and any exit debt/exit credit resolved.

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Case Study

- KPMG pensions provided consulting and actuarial advice on the pensions implications of a regional waste services contract being terminated and re-let.
- The contract was outsourced to a new provider and we advised on the application of the Best Value Direction to transferring employees and carefully navigated the subsidy rules.
- We agreed access to the LGPS by the new service provider and a bulk transfer into the LGPS of past service liabilities for transferring employees.
- We completed a bulk transfer without member consent, which took careful consideration and negotiation between the differing parties.
- This was a complex project with multiple stakeholders. It required actuarial expertise and in-depth knowledge of the LGPS to ensure our client agreed the best outcome possible for the c300 employees involved, with positive engagement with the unions throughout.

How can KPMG help?

We can support authorities in assessing their readiness for outsourcing / PFI Expiry by setting out:

- The authority's obligations relating to pension liabilities on expiry
- The outgoing contractor's obligations relating to pension liabilities
- The future pensions costs relating to a new contractor/provider
- Whether any risk sharing has been in place
- The latest funding position and the extent of any funding shortfall or surplus
- Which party can stake a claim for any exit credit

A comprehensive technical actuarial review of the PFI/contract and their LGPS Fund's governing policies can help authorities ensure they understand any obligations and identify any potential financial shortfalls/windfalls in advance.

Contact us

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