HYMANS ROBERTSON

London Borough of Havering Pension Fund

Admissions Policy

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For and on behalf of Hymans Robertson LLP

PUBLIC SECTOR

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1 Introduction

1.1 Purpose

This paper has been prepared at the request of London Borough of Havering as administering authority to the London Borough of Havering Pension Fund ("the Fund"), part of the Local Government Pension Scheme ("LGPS") in England & Wales. Appendix 1 to this paper forms a draft of a potential Fund policy:

1 relating to the acceptance, ongoing treatment and cessation of admission bodies, and

2 for agreeing and calculating transfer values or service credits in respect of the "bulk" transfer of active scheme members out of or into the Fund.

In order to take a considered, consistent approach to the admission of new employers into the Fund and the payment or receipt of bulk transfers, a comprehensive, clear, yet flexible, policy can be an ideal way to both encapsulate the Council's approach and lay out practical guidance to assist the Pensions Committee with its decision making and the officers with administering the process. Our experience has shown that it is all too common that some pension issues can easily get overlooked and can become a major source of staff dissatisfaction and perceived insecurity during what is often a stressful time.

This draft policy has been created in a manner that should be flexible enough to address the various possible scenarios where admission agreements would be contemplated, yet prescriptive enough to set out the criteria necessary to sufficiently minimise or mitigate risks.

1.2 Reliances and limitations

This paper has been prepared by Hymans Robertson LLP in our capacity as actuaries and consultants to the Fund. Our advice is intended for London Borough of Havering, as administering authority to the Fund, and this paper should not be disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing. We do consent to Appendix 1 of this report being reproduced as the Fund Policy for Admission Bodies and being made available to employers in the Fund and prospective employers, and their advisors, as long as those sections are reproduced in their entirety and any changes are agreed with us before production.

This paper has been prepared for the purposes of assisting the Fund in developing its policy on admission bodies of scheme members to or from the Fund. It does not affect any scheme member's benefit entitlement. This paper is not to be construed as advice to any employer. It sets out the background to the Fund's potential policy on admission bodies, but it should be noted that the approach in any specific case may depend on the individual circumstances. As such, the guidance in this paper is generic. We are not lawyers and nothing in this paper should be construed as providing legal advice. Specific actuarial and legal advice should be considered as part of any bulk transfer and in relation to any admission body.

1.3 Scope

There are many circumstances where employer issues need to be considered. This document focuses on principles relating to the participation of new employers, including:

1 entry to the Fund;

2 monitoring during continued active membership in the Fund; and

3 treatment of the body when it ceases to have active members or ceases to participate in the Fund.

We would be happy to expand this policy to cover any further circumstances you wish to be included.

1.4 Review of policy

We would recommend that this policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to admission agreements or employees transferring pension rights.

Steven Law FFA

For and on behalf of Hymans Robertson LLP

21 November 2017

Andrew McKerns

For and on behalf of Hymans Robertson LLP

Policy for Admission Bodies

1 Introduction

This is the policy of the Fund as regards the treatment of admission bodies in the Fund. The Fund is administered by London Borough of Havering.

It has been prepared by the Fund administrators, in collaboration with the Fund's actuary, Hymans Robertson LLP. This policy replaces all previous policies on admission bodies and bulk transfers and is effective from 1 April 2017.

This policy should be read in conjunction with the Fund's Funding Strategy Statement and relevant legislation, such as the Local Government Pension Scheme Regulations 2013.

In exceptional circumstances there may be departure from parts of this policy but only with prior agreement of the Pensions Committee.

1.1 Reviews of policy

This policy will be reviewed from time to time and at least following changes in the regulations pertaining to admission bodies or employees transferring pension rights.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Tara Philpott, Transactional Manager in the first instance at tara.philpott@onesource.co.uk or on Tel. 01708 432179.

2 Admission Bodies

2.1 Principles

2.1.1 Overriding principles

The purpose of an admission policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the Fund and to employers in the Fund is identified, minimised and managed accordingly.

The Fund's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer (Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

Finally, apart from in exceptional circumstances, the Fund's terms included within their admission agreements will be non-negotiable.

2.1.2 Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in a number of areas relating to admission agreements. The keys areas covered by the FSS are:-

- Purpose of the FSS;
- Aims and purpose of the Pension Fund;
- Responsibilities of the key parties;
- Solvency issues and target funding levels;
- Link to investment policy set out in the Investment Strategy Statement;
- Identification of risks and counter-measures; and
- Monitoring and review.

The information contained with the FSS applies equally to admission bodies. This admission body policy further clarifies the operation of the FSS within the Fund.

2.2 Guidance and the Regulatory Framework

2.2.1 The LGPS

The Local Government Pension Scheme Regulations 2013, ("LGPS Regulations") describe various types of bodies with which an administering authority may enter into an admission agreement. These are –

- a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);
- a body, to the funds of which a Scheme employer contributes;
- a body representative of any Scheme employers, or local authorities or officers of local authorities;
- a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
  - the transfer of the service or assets by means of a contract or other arrangement (i.e outsourcing),
  - a direction made under section 15 of the Local Government Act 1999,
  - directions made under section 497A of the Education Act 1996;
- a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

When an administering authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) – Whether or not to proceed with admission agreements;
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate the admission agreement; and
- Regulation 54(1) – If the Fund will set up separate pension funds in respect of admission agreements.

In December 2009, Communities and Local Government ("CLG") issued guidance explaining the LGPS regulatory provisions relating to admission bodies in England & Wales. Although the guidance was written in compliance with the former 2008 Regulations, a majority of the principles remain. This can be found at:- http://www.lgpsregs.org/timelineregs/Statutory%20Guidance%20and%20circulars/CLG_AdmittedBody_guidance_Dec09.pdf.

2.2.2 Fair Deal, ODPM Code of Practice and the direction

HM Treasury has issued guidance[1], commonly referred to as 'Fair Deal', which addresses the pension position for employees being compulsory transferred from the public sector to private sector delivering public sector services. The main requirements in Fair Deal are:-

- for transferring employees:

[1] (a) Annex A of Staff Transfers In The Public Sector - Statement Of Practice (January 2000) and (b) Fair Deal For Staff Pensions: Procurement Of Bulk Transfer Agreements and Related Issues - Guidance Note (June 2004)

  - protection of future service by provision of a broadly comparable pension scheme or becoming an admission body in the LGPS;
  - payment of a bulk transfer and protection of past service by provision of day for day service credits (or equivalent allowing for differences in the benefit structure of the new scheme); and
  - protection of other pension related terms and conditions of employment, such as enhancement of benefits on redundancy.
- for new employees:
  - provision of a good quality employer pension scheme. If this is through a defined contribution scheme there should be matching employer up to 6% of pay.
- the continuation of these protections in second and subsequent transfers of staff.
- these pension requirements to be notified at the earliest possible stage of the procurement exercise.

In addition, the Office of the Deputy Prime Minister's ("ODPM") Circular 03/2003 includes the Code Of Practice On Workforce Matters In Local Authority Service Contracts which must be adhered to where staff are transferred by a local authority to a contractor. This Circular clarifies that the Fair Deal provisions must be adhered to in these circumstances.

Finally, the Best Value Authorities Staff Transfers (Pensions) Direction 2007 came into force on 1 October 2007. The direction applies to all "Best Value Authorities" in England and Police Authorities in Wales (which therefore applies to all local authorities in England). The purpose of the Direction was to provide legal enforcement to some of the provisions covered by Fair Deal. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those he had as an employee of the authority; and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

As a result of Fair Deal, the ODPM Code of Practice and the Direction, LGPS funds are often asked to admit service providers to their fund. The December 2009 CLG Admission Body Guidance consequently sets out pension considerations that arise when employees transfer from a local authority and the contractor's preferred route of providing broadly comparable pension benefits.

On 7 October 2013 HM Treasury issued revised Fair Deal guidance. This reset the pension protection for staff compulsorily transferred from the public sector and applies directly to central government departments, agencies, NHS, maintained schools (except local authority maintained schools), and academies where staff are eligible to be a member of a public service pension scheme. However, beyond academies, the new guidance does not apply to best value authorities in England and Wales. It is expected that the Department for Communities and Local Government will issue the relevant guidance for local authorities and the LGPS.

2.3 Background and policies

It is essential for the administering authority to establish its fundamental approach to the risks involved in the admission of new employers to the fund.

The admission body is responsible for any surplus or deficit arising during the period of participation in the Fund so that if or when that participation ceases, it is 100% funded. However, ultimately, if the body was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond, indemnity or guarantor, the liability will fall to other employers in the Fund (either the awarding authority on the failure of a service provider, any guarantor employer or all other employers, depending on the circumstances and the type of body). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below and considered in more detail as part of this policy:

- Allocating assets on entry;
- Consideration of who can become admission bodies;
- Requirements for a bond/indemnity or guarantor;
- Potentially levying a higher contribution rate e.g. due to a change of circumstances at the admission body during the contract term that increases the risk of termination and/or under-funding;
- Having clear termination clauses;
- Putting in place a wide ranging and unambiguous admission agreement;
- Reviewing the bond regularly;
- Monitoring individual employer experience and status (e.g. salary experience and the continued ability of employees to join the Fund);
- Requiring the cost of all early retirements and topped up benefits to be paid as a lump sum;
- Monitoring other costs and levying a lump sum where necessary;
- Additional valuations in the final lead up to termination and adjusting contributions accordingly;
- Funding basis for cessation calculations; and
- Including a requirement to reimburse all actuarial, legal and other appropriate fees relating to the admission.

The following sections will consider these further in relation to the various stages of the admission body cycle.

2.3.1 Entry conditions and requirements of the Fund

Bodies that will be considered for entry

Background

London Borough of Havering (as administering authority) is responsible for deciding which applications to become admission bodies within the Fund should be declined or accepted (however, please see note below regarding **outsourced service providers**). Clearly an overriding requirement is that the body meets the entry requirements outlined within the LGPS Regulations. Beyond that the Council can:

- **for a body with links to a Scheme employer**, have complete flexibility in deciding whether or not to accept applications. It is therefore appropriate for the Council to determine what entry criteria exists for employers to become admission bodies within the Fund; and
- **for outsourced service providers**, in line with the regulations, **has** to admit a contractor if the contractor and the awarding authority agree to meet the requirements of the LGPS Regulations and the terms of the Fund's admission agreement.

The Fund's pension fund policy

The overlying principle is that the Fund will only enter into an admission agreement with a body that:

- provides services linked to one of the scheme employers in the Fund where such an arrangement is beneficial to the relevant scheme employer. The interests of the body must be closely aligned to the work of the scheme employer and meet the requirements in the LGPS regulations; or
- provides services on behalf of one of the scheme employers in one of the ways prescribed in the LGPS regulations.

The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees.

Bond/indemnity or guarantor requirements for entry

Background

It is important to understand and minimise the risk that a potential admission body might place on the Fund and the other employers in the Fund before it is agreed they can enter the Fund. Generally this risk relates to the costs of liabilities (i.e. underfunding) not yet paid for at the point of termination of the admission agreement. Termination can be for a number of reasons, including the natural end of a contract, a takeover, a body going into liquidation or the last active member ceasing membership. In such cases the admission body becomes an 'exiting employer' and is liable to pay an 'exit payment'.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation in order to ascertain the exit payment due relating to any deficit. Where the admission body is unable to meet the payment, it must be collected from:

- any insurer or person providing an indemnity or bond on behalf of that body; or
- alternatively (where agreed with the administering authority (and scheme employer where appropriate)) a guarantor, such as a sponsoring employer or central government department,

and where that is not possible:

- in the case of a service provider, from the awarding authority for that service provider; or
- in the case of any other admission body, from each other employing authority within the Fund.

The outstanding liability at the point of termination may largely exist already due to a variety of circumstances such as adverse investment experience. Any deficit could be increased further by additional liabilities resulting from the termination. The risks relating to the potential of a deficit arising at the point of termination include:

- equity underperformance;
- lower gilt yields than at the outset (i.e. the risk that the future return available from government bonds falls, leading to a higher value being placed on the liabilities and hence under funding on premature termination);
- the conservative nature of the financial and longevity assumptions which may be used in the cessation calculations;
- greater than expected salary increases over the term of the contract;
- unfavourable changes in membership profile;
- redundancy early retirements, on premature termination of the contract;
- the cost of ceasing participation in the Fund (e.g. termination costs covering the need for a cessation valuation and all of the necessary additional administration costs); and
- unpaid contributions.

The LGPS Regulations include some requirements to reduce these risks, including:

- the need for the admission body, to the satisfaction of the administering authority (and awarding scheme employer where appropriate), to carry out an assessment taking account of actuarial advice on the level of risk arising on premature termination on insolvency, winding up or liquidation and, where considered necessary taking into consideration the results of that assessment, require the admission body to put in place either:
  - a bond or indemnity to cover the level of risk identified; or
  - where a bond or indemnity is not considered desirable, a guarantor.

As the potential deficit relating to the above risks can fluctuate, often on a daily basis, there is no guarantee that any bond or indemnity payout (which is based on a fixed level of cover that is renewed periodically) will be sufficient to secure 100% funding of the departing employer's liabilities in the Fund. Similarly there is no guarantee any guarantor will payout in order to secure 100% funding of the exiting employer's liabilities in the Fund. Any remaining shortfall would fall on either the guarantor, awarding authority or on all other employers in the Fund, as appropriate under the LGPS Regulations and the admission agreement.

Policy

The Fund will require any potential admission body to provide:

- In formerly described Community Admission Body arrangements - a guarantor considered by the Fund to be strong, secure and financially durable (generally only a local authority or central government department) or a bond/indemnity the Fund considers to have equivalent strength.
- In formerly described Transferee Admission body arrangements - a preference for a bond or indemnity although this is not a mandatory requirement as the awarding authority is in effect a guarantor already under the terms of the LGPS Regulations. The awarding authority will be required to confirm the approach it wishes to take following an actuarial risk assessment.

In all circumstances where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis.

Risk sharing

Background

It is becoming commonplace for awarding authorities and contractors to enter into risk sharing arrangements as part of the provision of broadly comparable pension benefits. This can take many forms, for example:

- fixed employer contribution rates (often higher than the certified rate);
- ceilings and floors to the employer contribution rate;
- the awarding authority paying all or a proportion of any deficit on termination;
- 'pass through' agreements;
- certain elements of the employer contribution rate being the responsibility of the awarding authority (e.g. past service, investment returns, ill-health retirement);
- waiving the requirement to provide a bond or indemnity; and
- pooling the new admission body with the scheme employer.

These arrangements do not change the true cost of pension benefits; they only change who is responsible for them. These arrangements can be challenging to put in place and to monitor, and are often subject to dispute from the parties involved.

Policy

In order to avoid the pension fund becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. However, the Fund will want sight of the wording of any risk sharing (this <u>must be</u> disclosed to the Fund from the awarding authority) arrangement to ensure that all affected parties understand the pension implications of that arrangement. Accordingly any such arrangements will not be detailed in the admission agreement. The admission body will be required to follow the principles of agreement as if no such risk sharing was in place and as if they were any other employer within the Fund; it will then be up to the awarding authority and the service provider to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly, the service provider will be required to pay the certified employer contribution rate to the Fund and any other contributions required (e.g. early retirement strain costs, regardless of risk sharing arrangement in place).

The only exceptions to this are:

- that the Fund will be willing to accept payment of any exit payment on termination from the awarding authority, rather than the exiting employer; and
- the potential for the bodies to agree to a pooling arrangement as outlined later in this policy.

Approval process for becoming an admission body

Background

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether a body should be allowed to enter into an admission agreement.

Policy

The officers of the Fund will be responsible for ensuring any potential admission bodies meet the criteria set out above, having regard to the appropriate legal and actuarial advice. The Fund's admission agreements will generally be standard and non-negotiable, drawn up on advice from the Fund actuary and legal advisor. These terms will include not only the provisions required by the LGPS regulations but also details on commencement, transfer, payment, bond/indemnity or guarantor requirements, termination clauses to protect the other beneficiaries and participants in the Fund.

All applications will be acceptable if the officers (including the S151 officer who would have received a report regarding the proposed admission) of the Fund are satisfied the criteria are met and the standard terms of the admission agreement are accepted (which will include adherence to standards outlined in the Fund's Administration Strategy). All applications meeting these criteria will be reported to the Pensions Committee for information only at the regular committee meetings.

For all new Admission Bodies the security must be to the satisfaction of the Fund as well as the letting employer and will be reassessed on an annual basis.

The Pension Fund Committee will only consider requests from Admission Bodies with links to a Scheme employer (or other similar bodies such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers guaranteeing their liabilities and also providing a suitable form of security as set out above.

Any applications departing materially from these criteria and/or the standard terms of the admission agreement will be reported to the Pensions Committee for agreement, and may be refused.

2.3.2 Financial Aspects on Entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. The assets that are notionally allocated for new service providers are usually set equal to 100% of the value of the past service liabilities of any transferring employees on the Fund's ongoing funding basis, updated for market conditions on entry. For others, there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. The Regulations allow provision for assets to be held in a separate admission body pension fund (rather than the main Fund), but it is not essential to do so.

Policy

The allocation of assets at the commencement of an admission agreement will be as follows (unless a pooling arrangement is entered into as described later in this policy):

- For new service providers (formerly described as Transferee Admission Bodies) – 100% of the value of the past service liabilities of any transferring employees;
- For others (formerly described as Community Admission Bodies) - to be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer.

In both cases, the assets will be calculated using the Fund's ongoing funding basis updated for market conditions at entry as set out in the Fund's Funding Strategy Statement.

This asset share will be tracked during the period of the admission agreement and adjusted at each formal triennial valuation to take account of the admission body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;
- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

The assets will remain within the main Fund (i.e. no separate admission body fund will be set up).

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed may reduce the risk of under-funding due to market movements, as the assets and liabilities would be expected to move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer is currently labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved and as a result, matched investment strategies have not been adopted.

Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each admission agreement, it will be necessary to determine what employer contribution rate will be payable by the admission body. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit;
- whether the admission agreement is open or closed;

- whether the admission agreement is fixed term or not, and the period of any fixed contract period;
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place; and
- the investment strategy (for example, higher contributions will be required at commencement if a lower risk investment strategy is adopted).

In addition the admission body will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority's or other bodies costs due to poor administration by the admission body.

The admission body may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the admission body. In the case of a service provider it may be agreed that these costs are paid for by the awarding authority (or shared).

The Fund will communicate the implications of a transfer to the awarding authority and may require the revision of the contribution rate payable by the awarding authority after the transfer occurs. The Fund reserves the right to require payment by the awarding authority of a lump sum contribution to cover any deficit in respect of transferees.

Pooling

Background

There may be circumstances where an admission agreement is created in relation to a small number of staff and the link between a scheme employer and that body is extremely strong. This may or may not be in an outsourcing situation. In these circumstances, the scheme employer may consider that they are willing to share some pension risks with the admission body as if the employees were part of their own workforce and that the administrative procedures around putting in place, monitoring and maintaining an admission body are material in comparison to the number of employees and/or liabilities involved. In these circumstances, the scheme employer and the admission body may both agree that a pooling arrangement is an appropriate alternative means of ongoing funding. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Policy

Where the number* of members under a proposed open or closed admission agreement is five or less, the scheme employer and Fund may allow that employer to be pooled with the scheme employer. The new admission body and the scheme employer would need to agree in writing to this arrangement and confirm that they understand the pros and cons compared with being a standalone admission body outside of the pool. Whilst the admission body is in the pool:

- its contribution rate will be the same as the pool except for any additional contributions required due to excessive pay awards to its own employees;
- its ill-health experience will be shared with that of the pool;
- it may be required to provide a bond or indemnity in respect of redundancy and any other risks identified by the scheme employer; and
- it will pay strain costs in respect of non-ill-health early retirements.

In the event of termination of the admission agreement or exit from the pool it will not be required to pay any exit payment (except for any additional liabilities resulting from excessive pay awards).

The admission body would be removed from the pool and be treated as a stand-alone admission body in the event that the number* of members increases above five.

*The Fund reserves the right to refuse this approach to any new admission body with past service liabilities at commencement that exceed £1m calculated on an ongoing funding basis.

2.3.3 Ongoing Monitoring of Admission Bodies

Background

It is important that monitoring of an admission body is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the admission body to notify changes in their circumstances;
- Regular assessment of the strength and value of any security put in place by the employer; and
- Checks to see whether an employer has failed to notify the Fund of relevant changes (e.g. closure to new entrants).

Policy

During the period of the admission agreement, the level of risk in relation to any bonds or indemnities in place will be reassessed on a regular basis and the relevant admission bodies will be required to renew their bond or indemnity appropriately. Contribution rates will be reviewed at formal valuations. In addition, the Fund reserves the right to review contribution rates for admission bodies annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Where an employer acts as a guarantor to an admission body or bodies, an assessment will be carried out every three years (at the mid-point between each triennial formal valuation) to establish the level of risk being borne by the employer in respect of its guarantees and to ensure that the strength of the guarantee continues to be to the satisfaction of the administering authority.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to it have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle). The Fund will also obtain a revision of contribution rates where it considers there are circumstances which make it likely that an employer will become an exiting employer.

2.3.4 Cessation terms and requirements

Termination requirements

Background

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Previous sections of this policy are drafted with a view to safeguarding against this. However, it is also important that the Fund has the flexibility to terminate an admission agreement at the appropriate point to protect the other employers in the Fund and to allow it to levy an exit payment (assuming there are appropriate grounds for doing so).

Policy

The Fund will take legal advice on the appropriate termination requirements to be included in admission agreements and these will be incorporated into all admission agreements. These will include the option for an admission agreement to be terminated by the Fund in any of, but not limited to, the following circumstances:

- Where the admission body is not paying monies in a timely manner;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where the admission body is not meeting its requirement to provide or review any bond/indemnity or guarantor;
- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

Future cessations

Background

When an admission agreement ceases, the employer's assets should equal its liabilities on an appropriate basis. The LGPS regulations have provisions that deal with admission bodies which have a time limited admission agreement or it is known that the admission body is going to leave the Fund at some date in the future. This could be in the lead up to a natural end of a contract or at the first indication that a body is going to cease to exist or where the contract will be terminated prematurely.

In these circumstances, the administering authority may seek to increase or reduce the admission body's contributions to the Fund in the period leading up to cessation to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding. It is not possible to refund a surplus to an exiting admission body.

Policy

A provisional cessation valuation will be carried out on premature termination of an admission body as soon as the Fund become aware of this likelihood unless the termination is likely to take place in the immediate future.

Ongoing annual provisional cessation valuations will be carried out in the run up to the natural end of an admission agreement at least for the final three years of the agreement. Additional provisional cessation valuations may be carried out on the advice of the Fund Actuary.

Where an admission agreement for an admission body that is not a service provider and has no scheme employer or central government guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy may increase regular contributions and reduce, but not entirely eliminate, the possibility of a final exit payment in relation to a deficit being required when a cessation valuation is carried out.

Basis of termination valuation

Background

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

The Fund's general principle on the cessation of an admission body is to assume a "clean break" on termination (i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the exit payment calculated on an appropriate basis).

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

a) Service providers - The length of the contract for a service provider will usually be pre-determined and may be specified in the admission agreement.

- Employers at the natural end of a contract – Once the contract is complete or the employer has completed the services it was contracted to carry out (and no plans for extending the contract is in place), the employer will leave the Fund. Under these circumstances, it is normal for the remaining active employees to transfer back to the Council or into a second (or later) generation contractor. In this scenario, the Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority. The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the ceasing employer.
- Employers that leave the scheme prior to the natural end of an admission agreement – Under these circumstances, it will need to be established whether the current active membership will transfer to another LGPS employer or contractor and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners (and also potentially the transferring active members).

For terminating contracts those liabilities that cannot be recovered via a bond/indemnity or guarantor would usually fall back to the awarding authority (who may well be the guarantor) and ideally this should be written into the admission agreement or supporting documents. Employers falling under this category will be considered on a case by case basis since there may be circumstances where the transfer agreement between the awarding authority and the contractor (to which the Fund is a party) dictate a different approach.

b) Those with links to a Scheme employer - Admission agreements for these are typically open-ended rather than time-limited. It is now a condition of admission that this type of employer will be "sponsored" by another scheme employer or another public body or provide an indemnity acceptable to the Fund. The sponsor (or guarantor) generally assumes responsibility for the assets and liabilities in the Fund which are attributable to the admission body in the event that they cannot be met. Where there is a guarantor within the Fund, as required by this admissions policy, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. Where the admission body has no guarantor (these will generally be historical cases), the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then (together with any future deficit arising in respect of the membership) it will be the responsibility of all the employers in the Fund. In some circumstances, (e.g. where employees are transferring to another LGPS employer which will usually be the guarantor) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, they are also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

There is, however, a provision that clarifies what should happen if it is not possible to recover the cessation payment (for example, due to the admission body going into liquidation and no assets being available). In the first instance the Fund will attempt to recover any outstanding payment from any bond or indemnity. If there is a guarantor, this would be a second port of call for the monies. Thereafter the Fund may claim those monies from:

- In the case of a service provider, the awarding authority; and
- In the case of other admission bodies, all other employers in the Fund who have active members.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the admission body that is making the payment. The admission body may be allowed to spread payment over an extended period where this is agreed by the Transactional Manager and the Section 151 Officer.

Where this is not the case, any outstanding payment, once any bond, indemnity or alternative guarantor has been exhausted, may be recovered as follows:

- For service providers, the outstanding payment will be paid via an increase to the awarding authority's ongoing contribution rate, calculated by spreading the outstanding payment over the awarding authority's pensionable payroll or requesting additional capital amounts (over a spreading period to be determined by the Fund). The Fund reserves the right to require payment by immediate lump sum;
- For other admission bodies, where the deficit is to be spread amongst all the employers in the Fund, the rates and adjustments certificate will be adjusted to allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised). Where a scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as outlined for a service provider (above).

The administering authority will in all cases seek to maximise the monies recoverable. In exceptional circumstances this may result in an admission body paying less than the full cessation deficit. Any such cases will be subject to approval by the Pensions Committee.

3 Year Rule

Background

Where an employer loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the employer intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original cessation event).

3 Scheduled and Designating Bodies

Scheduled bodies, such as district councils and academies, that are listed in Part 1 to Schedule 2 of the Local Government Pension Scheme Regulations 2013 have an automatic requirement, to be an employer in the Fund and to offer access to the scheme to all eligible employees.

Other scheduled bodies, such as town and parish councils, that are listed in Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 while having to provide access to the LGPS can nominate which individuals or classes of individual are eligible for access to the scheme.

Scheduled bodies are therefore not required to sign an admission agreement; albeit those listed in Part 2 of Schedule 2 must pass a resolution confirming which of its employees are designated as eligible to join the LGPS if they wish. All scheduled bodies must make the Fund aware of their creation and cooperate with the Fund in meeting their obligations in the Fund.

3.1 Academies

3.1.1 Entry conditions and requirements to the Fund

Background

Under the Academies Act 2010 former maintained schools can apply for academy status, allowing them to operate independently from Local Authority control, and assume responsibility for managing their own finances. Academies may exist as separate legal entities or be grouped together as multi-academy trusts (MATs). Free schools can also be set up outside of direct local authority control, acting in much the same way as academies. Whilst academies and free schools can set pay and conditions for staff, our understanding is that non-teaching staff must have access to the LGPS.

Academies are eligible to join the Fund under Regulation 3 (1)(a) of The Local Government Pension Scheme Regulations 2013 as a body listed in Schedule 2 Part 1 of those regulations.

Policy

All academies will be entitled to join the Fund. A school which has converted to an academy will be classified as an individual scheduled body within the Fund.

However, the academy must still make the Fund aware of their creation.

All notifications will be reported to the Pensions Committee for information only.

3.1.2 Financial aspects on entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body’s assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. For an academy, it is typical for a share of fund approach to be adopted.

Joint Communities & Local Government (CLG)/Department for Education (DfE) guidance on the treatment of academies in LGPS Funds was issued in December 2011, followed by further guidance in the form of FAQs in February 2012. The joint December 2012 guidance set out proposals for the possible “pooling” of academies with local authorities. While this guidance fell short of statutory guidance it did give funds a strong lead on how academies should be treated within the LGPS.

In April 2017 further joint guidance was issued by the Department for Communities and Local Government (DCLG)/Department for Education (DfE), which further covered areas such as Multi-academy trusts (MATs) and the LGPS, understanding LGPS deficits, outsourcing arrangements and the DfE Departmental guarantee to LGPS administering authorities in England.

There are no provisions under the Regulations or in any regulations or guidance relating to the establishment of academies, for staff previously employed in an education function, who are now deferred or pensioner members of the Fund, to be transferred to the academy (irrespective of whether or not they are identifiable as former education employees). It is therefore taken that responsibility for these members will remain with the relevant Local Education Authority.

Policy

The allocation of assets at the commencement of an academy will be as follows (unless a pooling arrangement is entered into as described later in this policy):

- The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt these liabilities will include all past service of those members but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions on the day prior to conversion.

The Fund's policies on academies will be subject to review in the light of any future changes to DCLG guidance on academies. Any changes will be notified to academies and will be reflected in the Fund's Funding Strategy Statement.

The assets will be calculated using the Fund's ongoing funding basis as set out in the Fund's Funding Strategy Statement.

This asset share will be tracked during the period of participation and adjusted at each formal triennial valuation to take account of the body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;
- Ill health retirements and early retirements (on redundancy/efficiency);

- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed would reduce the risk of under-funding due to market movements, as the assets and liabilities would move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer would currently be extremely labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved.

Policy

The investment strategy is set for the Fund as a whole, not for each employer’s notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each transfer, it will be necessary to determine what employer contribution rate will be payable by the academy. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit; and
- the deficit spread period.

The approach taken is to calculate an individual contribution rate based on the cost of pension accrual for an academy’s own membership plus an adjustment for any deficit transferred to the new academy.

The new academy’s initial contribution rate will be calculated using market conditions, the Council’s funding position and membership data all as at the day prior to conversion.

Employees of Scheduled Bodies are automatically eligible for membership of the LGPS and hence an academy cannot close the Scheme to new entrants.

In addition the academy will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority’s or other bodies costs due to poor administration by the academy.

The academy may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the academy.

The Fund may require the revision of the contribution rate payable by the former local education authority after the transfer of a maintained school to an academy occurs. The Fund reserves the right to require payment by the former local education authority of a lump sum contribution to cover any deficit in respect of transferees.

Pooling

Background

A joint letter of understanding has been issued by Communities and Local Government (CLG) and the Department for Education (DfE) which recommended pooling Academies with the local authority that formerly maintained the school for contribution rate purposes. There is, however, currently no legal requirement to pool Academies with other Scheme Employers for contribution rate purposes despite the joint CLG/DfE steer.

Policy

The Fund does not allow academies to pool with the council following conversion. A new academy's initial contribution rate will be calculated using market conditions, the Council's funding position and membership data all as at the day prior to conversion. Please note, where a school joins a multi-academy trust, they may be pooled with the other employers in the trust (that participate in the Fund) for contribution rate purposes. This is permitted at the discretion of the administering authority.

3.1.3 Ongoing monitoring of academies

Background

It is important that monitoring of an academy is carried out throughout the term of participation and to take appropriate remedial action to safeguard all employers within the Fund where necessary. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk of failure (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the body to notify changes in their circumstances;
- Regular assessment of the value of any security put in place by the employer; and
- Checks to see whether an academy has failed to notify the Fund of relevant changes.

Policy

The Fund reserves the right to review contribution rates for bodies annually or more frequently.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to a body have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle).

3.1.4 Cessation terms and requirements

Termination requirements

Background

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor.

The Department for Education (DfE) has provided a Departmental guarantee to all LGPS administering authorities in England that in the event of the closure of an academy trust (AT) or multi-academy trust (MAT) any outstanding LGPS liabilities that are not met by the trust's assets will be met by the DfE in full.

The following should be noted:

- If for any reason the academy should fail or the last active member ceases membership, the LGPS regulations require them to be liable for an 'exit payment';
- The administering authority is required to obtain an actuarial valuation of the liabilities to determine the exit payment due;
- If an academy becomes insolvent then the Fund will seek to recoup any funding liabilities from the trust's assets on closure – any remaining outstanding LGPS deficit would then be met by the DfE in full.

It should be noted, this guarantee does not extend to all types of academies (i.e. at the time of writing, we are not aware of this guarantee covering former 6th Forms).

Policy
Termination of an academy would be considered to take place, though not limited to, the following circumstances:

- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

In general, the Fund does not consider an academy joining a MAT as a cessation event where the MAT agrees to meet the liabilities of the academy's full membership. The administering authority requires written notice of this agreement prior to joining the MAT or a exit event will be triggered.

Future Cessations

Background
When an academy ceases, the employer's assets should equal its liabilities on an appropriate basis.

Policy
A provisional cessation valuation will be carried out on premature termination of an academy as soon as the Fund becomes aware of this likelihood unless the termination is likely to take place in the immediate future.

Basis of termination valuation

Background
As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

The Fund's general principle on the cessation of an academy is to assume a "clean break" on termination (i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis).

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

Academies - the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then the Fund would seek the remaining payment from DfE. Where any remaining payment is not recoverable from DfE for any reason, it will be the responsibility of all the employers in the Fund. In some circumstances (e.g. where employees are transferring to another LGPS employer such as the local authority) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, he or she is also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the academy that is making the payment.

3 Year Rule

Background

If an academy loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the academy intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

In terms of academies, this would likely be an extremely rare event.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original exit date).

3.2 Designating employers

Designating employers, subject to meeting the requirements of the LGPS regulations, can allow some or all of their staff to be eligible for membership of the LGPS

Background

Under Part 2 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 a body listed in this Part is able to designate which employees, or class of employees, are eligible for membership of the LGPS.

Policy

All designating employers will be entitled to join the Fund on passing an appropriate resolution confirming which workers or category of workers are eligible for membership of the LGPS. All designating employers that pass a resolution will be classified as an individual scheduled body within the Fund.

However, the designating employer must still make the Fund aware of their creation.

All notifications will be reported to the Pensions Committee for information only.

3.2.1 Financial Aspects on Entry

Allocation of assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. Certain designating employers may be created following the transfer of staff from an existing scheme employer and there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. There is provision for assets to be held in a separate admission body pension fund (rather than the main Fund) but it is not essential to do so.

Policy

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the targeted deficit recovery period. There may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. There is provision for assets to be held in a separate admission body pension fund (rather than the main Fund) but it is not essential to do so.

The allocation of assets at the commencement of a designating body will be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer(s).

The assets will be calculated using the Fund's ongoing funding basis as set out in the Fund's Funding Strategy Statement.

This asset share will be tracked during the period of participation and adjusted at each formal triennial valuation to take account of the designating body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment ;

- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Changes in benefit structure; and
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund.

Matched investment strategy

Background

Providing the flexibility for an employer to ensure a matched investment strategy is followed may reduce the risk of under-funding due to market movements, as the assets and liabilities would be expected to move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer is currently labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved.

Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Contribution rates and other costs

Background

At the beginning of each designating employer commencing participation in the Fund it will be necessary to determine what employer contribution rate will be payable by them. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service deficit;
- whether the resolution passed restricts eligibility or allows all employees of the employer access to the LGPS; and
- the deficit spread period.

The approach taken is to calculate an individual contribution rate based on the cost of pension accrual for an employer's own membership plus an adjustment for any deficit transferred to them.

In addition the designating employer will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authority's or other bodies costs due to poor administration by the academy.

The employer may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund may require any actuarial, legal, administration and other justifiable cost to be paid by the designating employer.

Pooling

Background

There may be circumstances where a designating employer is created from an existing scheme employer and the links between both employers remain strong, at least at the outset of the arrangement. In these circumstances, the scheme employer may consider that they are willing to share some pension risks with the designating employer as if the employees were part of their own workforce. In these circumstances, the scheme employer and the designating body may both agree that a pooling arrangement is appropriate. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Policy

Where the number* of members under a proposed designating employer is five or less, the scheme employer and the Fund may allow that employer to be pooled with the scheme employer. The new designating body and the scheme employer would need to agree in writing to this arrangement and confirm that they understand the pros and cons compared with being a standalone body outside of the pool. Whilst the designating body is in the pool:

- its contribution rate will be the same as the pool except for any additional contributions required due to excessive pay awards to its own employees;
- its ill-health experience will be shared with that of the pool; and
- it will pay strain costs in respect of non-ill-health early retirements.

In the event of exit from the pool it will not be required to pay any cessation shortfall (except for any additional liabilities resulting from excessive pay awards).

The designating body would be removed from the pool and be treated as a stand-alone scheme employer in the event that the number* of members increases above five.

*The Fund reserves the right to refuse this approach to any new body with past service liabilities at commencement that exceed £1m calculated on an ongoing funding basis.

3.2.2 Ongoing Monitoring of Designating Bodies

Background

It is important that monitoring of a designating body is carried out throughout the term of its participation of the Fund and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the designating body to notify changes in their circumstances; and

- Checks to see whether an employer has failed to notify the Fund of relevant changes.

Policy

The Fund reserves the right to review contribution rates for bodies annually or more frequently.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to a body have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle).

3.2.3 Cessation terms and requirements

Termination requirements

Background

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor.

Policy

The Fund may take legal advice where a cessation event has occurred on the appropriate termination requirements. Termination of a designating body would be considered to take place, though not limited to, the following circumstances:

- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

Future cessations

Background

When a designating body ceases, the employer’s assets should equal its liabilities on an appropriate basis.

Policy

A provisional cessation valuation will be carried out on premature termination of a designating body as soon as the Fund become aware of this likelihood unless the termination is likely to take place in the immediate future.

Basis of termination valuation

Background

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out or cessation basis.

Policy

The Fund’s general principle on the cessation of a designating body is to assume a “clean break” on termination (i.e. the departing employer’s liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis).

The Fund’s policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

Designating bodies - the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements. If for some reason the Fund is not able to recover the full amount of the final deficit then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund. In some circumstances (e.g. where employees are transferring to another LGPS employer such as the local authority), an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

Payment of cessation deficit

Background

When the fund actuary carries out a cessation valuation, he or she is also required to certify the contributions due to the Fund. The LGPS regulations do not specify whether or not this exit payment should be paid as a lump sum or whether it is paid in instalments.

Policy

The Fund policy will be to collect this exit payment by way of a lump sum where it is the academy that is making the payment.

3 Year Rule

Background

If designating employer loses their last active member (through retirement or withdrawal), a cessation valuation is required under the Regulations. However, if the employer intends on admitting a new employee into the scheme within a three year period, a cessation payment may not be required.

Policy

As required under the Regulations, the administering authority will require a cessation valuation to be carried out when the last active member leaves the Fund, unless a suspension notice has been given to the exiting employer. At the ultimate discretion of the administering authority, the requirement to pay the cessation debt may be suspended for up to 3 years if in its reasonable opinion, the employer is actively seeking to admit new members to the Fund. After 3 years, if no member has joined, the suspension notice would be withdrawn and the employer would be required to pay the cessation debt (including any interest accrued since the original cessation event).