Lambeth Pension Fund

Admission Policy

May 2016

Contents

Policy for Admitting Employers into the Fund

1 Introduction

This is the policy of the Lambeth Pension Fund (“the Fund”) as regards the admission of new employers into the Fund, the management of such employers during their time participating in the Fund and, where applicable, their ultimate exit from the Fund.

It has been prepared by the London Borough of Lambeth Council (“the Administering Authority”), in collaboration with the Fund’s actuary, Hymans Robertson LLP. This policy replaces all previous policies on admission to the Fund and is effective from 1st April 2014.

This policy should be read in conjunction with the Fund’s Funding Strategy Statement, other Fund policies and relevant legislation, such as the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

In exceptional circumstances there may be departure from parts of this policy but only with prior agreement of the Pension Panel as appropriate.

1.1 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to the admission and treatment of new employers to the Fund. 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 Nemashe Sivayogan, Pension Fund Accountant in the first instance at NSivayogan@lambeth.gov.uk or on Tel. 020 7926 9699.

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 existing 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 level of employer contribution) 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 staff transfers and admission agreements are adhered to.

Finally, apart from in exceptional circumstances, the Fund's terms included within their admission agreements are 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 key areas covered by the FSS are:-

- The 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 Statement of Investment Principles;
- Identification of risks and counter-measures; and

- Monitoring and Review

The information contained within the FSS applies equally to the admission of new employers to the Fund. This Admission 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 set out in Schedule 2 Part 3 Paragraph 1 as being:–

- *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 former 2008 Regulations a majority of the principles remain. This can be found at:- http://timeline.lge.gov.uk/Statutory%20Guidance%20and%20circulars/statguide.htm.

2.2.2 Fair Deal, ODPM Code of Practice and the 2007 Direction

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

- for transferring employees:
  - protection of future and past service by allowing transferring members to remain in their original public sector scheme;
- for new employees:
  - provision of a good quality employer pension scheme. If this is through a defined contribution scheme there should be matching employer contributions of up to 6% of pay although they could pay more if they wished;
- the continuation of these protections in second and subsequent transfers of staff; and
- 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" ("the Code") which must be adhered to where staff are transferred by a local authority to a contractor. The Code refers to the treatment of transferees and makes clear that the pensions of transferees must be protected, either through admitted body status within the LGPS or broadly comparable pensions.

Finally, the Best Value Authorities Staff Transfers (Pensions) Direction 2007 (the "2007 Direction") came into force on 1 October 2007. The direction applies to all "Best Value Authorities" in England (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 2007 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 2007 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 decides to provide broadly comparable pension benefits in the LGPS.

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. As at the date of this policy the Department for Communities and Local Government ("CLG") are consulted on changes to the Scheme that would incorporate

[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)

the new Fair Deal requirements as well as changes that would see the removal of the 2007 Direction. Nothing has yet been confirmed. Until such time, with the exception of academies, LGPS employers still have to consider the pension protection requirements of the former Fair Deal policy, as well as the 2007 Direction.

2.3 Background and policies

It is essential for the Administering Authority to establish its approach to managing 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

2.3.1.1 Bodies that will be considered for entry

Background

Lambeth Council (as Administering Authority) is responsible for deciding which applications to become admission bodies within the Fund should be declined or accepted. 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 the 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, have 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.
- **Co-operative mutual** – these are similar bodies to outsourced providers – admit them into the Fund where the mutual and the council agree to meet the requirements of the LGPS Regulations and the terms of the Fund's admission agreement. Rather than being contracted to provide services the mutual provides community based services backed by the Council and will ultimately be transferred to the community. As a result of the Council backing they are not required to put in place a bond or indemnity. Where services provided by the Council are transferred to the co-operative mutual the body will be set up as an admission body in respect of those transferred Council staff eligible to remain in the LGPS.

Policy

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

- provides services linked to 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,
- provides services on behalf of one of the scheme employers in one of the ways prescribed in the LGPS regulations, or
- is set up as a co-operative mutual for the purposes of providing community based services where 1 or more Council employees have been TUPE transferred to the mutual at the outset of the arrangement.

The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees, depending on the nature of the arrangement.

2.3.1.2 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 and not explicitly covered under any risk sharing arrangement between the scheme employer and the admission body. 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;
- in the case of a co-operative mutual the Council; or
- in the case of any other admission body, from each employing authority within the Fund with active members.

The outstanding liability at the point of termination may largely exist 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 which may contribute to a deficit arising at the point of termination include:

- redundancy early retirements, on premature termination of the contract;
- current funding strain (this will be zero at outset if the contractor or co-operative mutual commences on a fully funded position);
- investment 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;
- 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 from 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 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 pay-out which is based on a fixed level of cover payable on defined events (e.g. insolvency) and is renewed annually will be sufficient to secure 100% funding of the departing employer's liabilities in the Fund. Similarly there is no guarantee any guarantor will pay out in order to secure 100% funding of the exiting employer's liabilities in the Fund. Any remaining shortfall would fall on 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:

- 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 (for a co-operative mutual, the Council will automatically act as the guarantor and as a result the mutual will not be required to provide any alternative guarantor, bond or indemnity).
- for a service provider, 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.

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

2.3.1.3 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;
- 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; or
- 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.

Policy

An awarding authority may enter into a 'risk sharing' arrangement with a participating employer (typically a contractor). The terms of any 'risk sharing' arrangement will be documented appropriately (i.e. in a signed legal agreement separate from the admission agreement) and shared with the Administering Authority.

The terms of each separate 'risk sharing' arrangement may differ (for example, the rate payable by the participating employer could be fixed or capped in some way). In addition, the approach taken to certify contributions required from employers in respect of separate 'risk sharing' arrangements may also differ. The Administering Authority will ensure that the Rates and Adjustments (R&A) certificate reflects any specific 'risk sharing' arrangement in place between an awarding authority and a participating employer.

The Administering Authority reserves the right to veto any risk sharing proposal in the event that the terms of the proposal leads to undue risk on the Fund and its participating employers.

2.3.1.4 Pass through arrangements

Background

Under the traditional funding route pension risks lie fully with the contractor during the period of its admission in the Fund. Any transfer of past service assets to the contractor are carried out on a 'fully funded' basis (i.e. assets are set equal to 100% of the liabilities). At each triennial valuation the updated financial position is recalculated to determine whether the employer is in surplus or deficit. The contractor's contribution rate is then recalculated at each triennial valuation, which can be particularly volatile as a result of factors such as membership changes, financial assumptions and the possibility of a deficit having arisen.

During this time the contractor may need to obtain the usual FRS102/IAS19 financial reports.

At end of the contract, a cessation valuation would be required and any exit payment would be paid to the fund by the contractor or, if this isn't possible, the council would seek recovery from any guarantor that is in place (although it cannot be guaranteed any guarantor will meet the full cost of any exit payment).

This means that the full volatility of the scheme resulting from market related risks as well as demographic experience would fall to the contractor. While this may not be an issue for larger outsourcings it can have significant risk impacts for smaller employers and their ability to bid to provide Council services for smaller contracts.

As an alternative the Council can enter into a 'pass through' arrangement with a contractor, enabling pension costs falling to the contractor to be better controlled, removing an element of the volatility from their pension costs (the contractor would still be expected to be liable for any costs associated with early retirement finding strain or excessive pay increases over and above the funding assumptions). At the outset, any transfer of past service assets to the contractor would still be on a 'fully funded' basis (i.e. assets set equal to 100% of the liabilities). Under 'pass through', however, the employer contribution would usually be fixed, leaving the ceding employer responsible for any deficit surplus arising throughout the period of the contract. The ceding employer can limit exposure to such risks, by ensuring the contractor remains liable for all early retirement funding strain costs as well as any detrimental impacts resulting from excessive salary increases or ill health experience out with assumptions at the previous triennial valuation.

During any 'pass through' arrangements the contractor would not be required to undertake IAS19/FRS102 assessments, but the ceding employer would need to allow for the pension risks within its own IAS19 reporting.

Policy

The Council will give consideration to entering into 'pass through' arrangements with any transferee admission body or co-operative mutual who has 5 or less employees transferred to it from the ceding employer. Notwithstanding any 'pass through' arrangement that is put in place, the contractor or co-operative mutual will remain responsible for all costs associated with:

- Salary increases in excess of those set out as part of the triennial valuation assumptions; and
- Early retirement funding strain costs.

The Council will not consider entering in to 'pass through' arrangements with any employer, including a co-operative mutual, who has more than 5 employees transferred to it from the ceding employer.

2.3.1.4 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. As well as the provisions required by the LGPS regulations, the terms will include transfer, payment, bond/indemnity or guarantor requirements and termination clauses to protect the other beneficiaries and participants in the Fund.

All applications will be acceptable if the officers 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 Pension Committee for information only.

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

The Pension Committee will only consider requests from Admission Bodies with links to the 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 Pension Panel for agreement, and may be refused.

2.3.2 Financial Aspects on Entry

2.3.2.1 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. 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 – 100% of the value of the past service liabilities of any transferring employees;
- For others - 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 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 all of 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).

2.3.2.2 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 extremely 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.

2.3.2.3 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 benefits;
- 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;
- whether a 'pass through' arrangement is in place; and
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place.

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.

The Fund may agree to allow the admission body to make payment of any additional payments or lump sums as equal monthly payments over a fixed period. That fixed period will be the lesser of;

- 3 years;
- the period between the date the member ceased membership and their assumed retirement date;
- the remaining term of any contract (for a service provider); or
- the period to the cessation of any admission agreement.

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.

2.3.2.4 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 or co-operative mutual 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 or co-operative mutual 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 (this is different to the 'pass through' arrangement set out earlier). As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Policy

The Fund may allow employers to be pooled with the scheme employers in limited circumstances. The new admission body or co-operative mutual 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 or co-operative mutual 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;
- with the exception of co-operative a mutual, 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 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 and any contributions and other payments due).

*The Fund reserves the right to refuse this approach to any new admission body or co-operative mutual.

2.3.3 Ongoing Monitoring of Admission Bodies

Background

It is important that monitoring of an admission body or co-operative mutual is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all other 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;
- 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 an annual 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 and co-operative mutuals 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 (e.g. at 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 an admission body or co-operative mutual 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 may also obtain a revision of contribution rates where it considers there are circumstances which make it likely that a Scheme employer will become an “exiting” employer.

2.3.4 Cessation terms and requirements

2.3.4.1 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 where required (assuming there are appropriate grounds for doing so - see the section “Issue of Suspension Notice” below).

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 or co-operative mutual is not paying monies in a timely manner;
- Where the admission body or co-operative mutual 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 (and there is no expectation, on the part of the Fund, that within the next three years new active members will join the Fund); or
- Where the employer is wound up, merged or ceases to exist.

2.3.4.2 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/the contract is to 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

The Fund will carry out a provisional cessation valuation where it has reason to believe that there is a likelihood of an employer exiting the Fund early. The exception to this is where the employer is likely to exit in the immediate future, effectively meaning the provisional cessation valuation becomes an actual cessation valuation.

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 two 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 or a co-operative mutual 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 with additional allowance made for longevity risks (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 minimise any exit payment by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will 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.

2.3.4.5 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 anything from an ongoing funding basis to a buy-out basis.

Policy

The Fund's general principle on the cessation of an admission body or co-operative mutual 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 (where required) 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 Council's 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 are in place); the employer will leave the Fund. Under these circumstances, it is usual 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. 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). 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 service provider (to which the Fund is a party) dictate a different approach.

b) Those with links to a Scheme employer (including co-operative mutuals) - 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 provides 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 the admission body has no guarantor (these will generally be historical admission 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 (which will usually be the guarantor) or a co-operative mutual ceases to exist 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.

2.3.4.6 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 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 cessation 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 Section 151 Officer, up to a maximum of 5 years.

Where the admission body is not making the payment, 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;
- Where the full deficit payment cannot be paid immediately the Fund will enter into a payment plan with the leaving employer. The maximum period for repayment of any exit payment will be no more than 5 years from the commencement of such payments, during which interest will be added at 1% above the Bank of England base rate. It will be a requirement of any repayment plan that during the period of payment the exited employer must also have in place sufficient security (as agreed by the Section 151 officer) in the event of default or insolvency; and
- For other admission bodies, where the deficit is to be spread amongst all the employers in the fund who have active members, 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 Section 151 Officer.

Issue of a Suspension Notice

Background

Where there is a reasonable expectation on the part of the Administering Authority that an exiting employer is likely to have one or more active members contributing to the fund within a period of up to 3 years the Administering Authority may issue a written notice ("a suspension notice") to the exiting employer, suspending that employer's liability to pay its cessation debt during the period of the suspension notice.

The suspension notice can be issued for any period, up to a maximum of three years from the date the employer might otherwise become an exiting employer. During the period of the suspension notice the employer is still required to make such other payments to the fund in respect of its current and former employees as the Administering Authority requires (e.g. ongoing early retirement strain payments).

At the end of the suspension notice period, or earlier if the notice is withdrawn, the employer will become immediately liable for payment of the exit payment if it has no active members contributing to the fund.

Policy

The Fund will consider all reasonable applications to issue a suspension notice where an exiting employer can provide evidence that it is actively seeking to have active members contributing to the Fund. For this purpose evidence could include:

- confirmation that impending new joiners will be automatically enrolled into the fund;
- evidence of an intention to recruit employees who will be eligible for the LGPS; or
- an expectation that an individual will be automatically enrolled or re-enrolled into the LGPS during the period of the suspension notice.

The Fund will consider an application for a suspension notice where an employer has no active members but does have one or more members who have opted out of the LGPS and who retain a statutory right to join. This will be the case where individuals have transferred to an admission body and have a right to join the LGPS through the Best Value Authorities Staff Transfers (Pensions) Direction 2007. Under the LGPS Regulations such members will be brought into the LGPS on their automatic enrolment or re-enrolment date.

Where the Fund, having issued a suspension notice, then believes there is no longer a likelihood of new active members of the employer contributing to the Fund it will take all necessary steps to withdraw the notice and seek recovery of the exit payment. Reasons for withdrawing a suspension notice could include:

- insolvency, liquidation or winding up of the employer;
- failure of the employer to make payments to the fund required by the Administering Authority;
- termination of, or premature ending of, contractual arrangements to provide services or assets to a scheme employer;
- failure to recruit employees who are eligible to join the LGPS; or
- failure to provide evidence that the employer is actively seeking to recruit employees who will be eligible to join the LGPS.

Where a suspension notice period ends, or the notice is withdrawn, and the employer does not have any active members contributing to the fund it will become immediately liable for the payment of the exit payment as per any other exiting employer (see above).

3 Scheduled and Designating Bodies

Part 1 Scheduled bodies, such as district councils and academies (i.e. those bodies 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 (Part 2 Scheduled bodies), such as town and parish councils or a body connected with a local authority or under the control of a scheme employer (i.e. those bodies listed in Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013) can nominate whether to provide the LGPS and if so which individuals or classes of individual are eligible for access to the scheme.

Policy

Scheduled bodies are 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 LGPS obligations.

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 the 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, 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 Pension Panel for information only.

3.1.2 Financial Aspects on Entry

3.1.2.1 Allocation of assets

Background

On initial admission, each body will be notionally allocated assets, based on any existing active members already in the fund that transfer across to the new employer. 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.

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.

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 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 Regulations provide that it is the MAT and not the constituent academies that is treated as the employer for LGPS purposes. In the case of MAT's the academy's initial past service liabilities and asset share will be calculated as below but will 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 the Fund's ongoing funding basis as set out in the Funds Funding Strategy Statement. 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; and
- 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 level of the ceding council at the date of academy conversion where the funding level is calculated as the ratio of the active liabilities to the remaining assets after sufficient assets have been retained to meet the deferred and pensioner liabilities of the London Borough of Lambeth in full. The asset allocation will be based on market conditions and the academy's active Fund membership 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/DfE guidance on academies. Any changes will be notified to academies and will be reflected 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 all of 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.

3.1.2.2 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 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.

3.1.2.3 Contribution rates and other costs

Background

At the beginning of each transfer (or date of commencement for Free Schools), 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; 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 ceding Council 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.

The Fund may agree to allow the academy to make payment of any additional payments or lump sums as equal monthly payments over a fixed period. That fixed period will be the lesser of;

- 3 years; or
- the period between the date the member ceased membership and their assumed retirement date;

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.

3.1.2.4 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 offer pooling for academies.

3.1.3 Ongoing Monitoring of Academies

Background

It is important that monitoring of an academy is carried out 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 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; or
- 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 academies 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 an academy have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. outside the formal triennial valuation cycle).

3.1.4 Cessation terms and requirements

3.1.4.1 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.

To date there has been no agreement on what will happen should an academy close down or be wound up. Under the Regulations, a Scheduled Body is unable to choose to cease participation within the Fund. While the Department for Education has guaranteed funding for academies for a period of at least seven years from ******* this is not seen by DfE as being linked directly to the strength of covenant of the academy. The financial position of academies thereafter is unclear.

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 and no other employer takes over responsibility for the Fund liabilities in respect of its current and former employees then any existing and future funding shortfall in the Fund in respect of those liabilities will fall to the remaining employers in the Fund. The Department of Education however has provided a guarantee for LGPS administering authorities that, where an academy closes, it is expected that any outstanding LGPS liabilities that arise will not fall back on the other employers in the fund. This is set out in a Parliamentary Minute and Written Ministerial Statement. If an academy were to close (i.e. with no successor academy in its place), the Department of Education would assess whether the LGPS pension liability could be met from the assets of the academy trust. This is because under an academy trust's funding agreement the Secretary of State has powers to decide how assets are allocated when an academy closes. Where the liabilities could not be met from the assets we understand the Department of Education would meet the remaining liabilities and ensure they do not revert to the fund. Should this not be the case, then the outstanding LGPS liabilities would have to be met by all of the remaining employers in the fund with active members;
- The failure of the academy may precipitate the immediate payment of pension benefits if there are any employees aged 55 or over, who are deemed to have been made redundant, thereby causing a further funding strain. This strain may fall to the other employers in the Fund; and
- If the Local Education Authority retains an obligation to provide education services (and it should be noted that it is not clear to us whether this is the case or not once an academy has been established), then it may be possible to argue that the assets and liabilities in the Fund in respect of the academy's current and former employees should transfer back to that LEA rather than being spread over all the employers in the Fund. The Administering Authority should consider what provisions, if any, should be put in place to cover this possibility.

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.

3.1.4.2 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.

3.1.4.3 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 anything from an ongoing funding basis, to a buy-out 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.

The cessation liabilities and final deficit for academies will normally be calculated using a gilts basis with an allowance for further future mortality improvements. In the first instance the fund will seek to recover any funding shortfall directly from the exiting academy or Multi Academy Trust. If unsuccessful the fund will then seek to invoke the DfE guarantee and obtain the amount of the funding shortfall directly via that route. 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 with active members. 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.

3.1.4.4 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 payment should be paid as a lump sum or whether it is paid in instalments.

Policy

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

3.1.5 Issue of a Suspension Notice

Background

Where there is a reasonable expectation on the part of the Administering Authority that an exiting academy is likely to have one or more active members contributing to the fund within a period of up to 3 years the Administering Authority may issue a written notice ("a suspension notice") to the exiting academy, suspending that academy's liability to pay its cessation debt during the period of the suspension notice.

The suspension notice can be issued for any period, up to a maximum of three years from the date the academy might otherwise become an exiting academy. During the period of the suspension notice the academy is still required to make such other payments to the fund in respect of its current and former employees as the Administering Authority requires (e.g. ongoing early retirement strain payments).

At the end of the suspension notice period, or earlier if the notice is withdrawn, the academy will become immediately liable for payment of the exit payment if it has no active members contributing to the fund.

Policy

The Fund will consider all reasonable applications to issue a suspension notice where an exiting academy can provide evidence that it is actively seeking to have active members contributing to the Fund. For this purpose evidence could include:

- confirmation that impending new joiners will be automatically enrolled into the fund;
- evidence of an intention to recruit employees who will be eligible for the LGPS;
- an expectation that an individual will be automatically enrolled or re-enrolled into the LGPS during the period of the suspension notice;

The Fund will consider an application for a suspension notice where an academy has no active members but does have one or more members who have opted out of the LGPS and who retain a statutory right to join. Under the LGPS Regulations such members will be brought into the LGPS on their automatic enrolment or re-enrolment date.

Where the Fund, having issued a suspensions notice, then believes there is no longer a likelihood of new active members of the academy contributing to the Fund it will take all necessary steps to withdraw the notice and seek recovery of the exit payment. Reason to withdraw a suspension notice could include:

- insolvency, liquidation or winding up of the academy;
- failure of the acaemy to make payments to the fund required by the Administering Authority; or
- failure to provide evidence that the academy is actively seeking to recruit employees who will be eligible to join the LGPS.

Where a suspension notice period ends, or the notice is withdrawn, and the acaemy does not have any active members contributing to the fund it will become immediately liable for the payment of the exit payment as per any other exiting employer (see above).

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 Pension Panel for information only.

3.2.1 Financial Aspects on Entry

3.2.1.1 Allocation of assets

Background

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.

On initial admission to the Fund, each body may be notionally allocated assets. Thereafter the body's assets and liabilities are tracked and future employer contributions set at each triennial valuation with a view to achieving solvency at the end of the targeted deficit recovery period.

Policy

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 all of 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.

3.2.1.2 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 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.

3.2.1.3 Contribution rates and other costs

Background

At the beginning of each designating employer's 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;
- 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.

The Fund may agree to allow the admission body to make payment of any additional payments or lump sums as equal monthly payments over a fixed period. That fixed period will be the lesser of;

- 3 years; or

- the period between the date the member ceased membership and their assumed retirement date;

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

3.2.2 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

The Fund does not offer pooling for designating employers.

3.2.3 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 (e.g. closure to new entrants).

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).

3.2.4 Cessation terms and requirements

3.2.4.1 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.

3.2.4.2 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.

3.2.4.3 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 anything from an ongoing funding basis to a buy-out 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 Council's Scheme of Delegation.

The cessation liabilities and final deficit for designating bodies 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.

3.2.4.4 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 payment should be paid as a lump sum or whether it is paid in instalments.

Policy

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

3.2.5 Issue of a Suspension Notice

Background

Where there is a reasonable expectation on the part of the Administering Authority that an exiting employer is likely to have one or more active members contributing to the fund within a period of up to 3 years the Administering Authority may issue a written notice ("a suspension notice") to the exiting employer, suspending that employer's liability to pay its cessation debt during the period of the suspension notice.

The suspension notice can be issued for any period, up to a maximum of three years from the date the employer might otherwise become an exiting employer. During the period of the suspension notice the employer is still required to make such other payments to the fund in respect of its current and former employees as the Administering Authority requires (e.g. ongoing early retirement strain payments).

At the end of the suspension notice period, or earlier if the notice is withdrawn, the employer will become immediately liable for payment of the exit payment if it has no active members contributing to the fund.

Policy

The Fund will consider all reasonable applications to issue a suspension notice where an exiting employer can provide evidence that it is actively seeking to have active members contributing to the Fund. For this purpose evidence could include:

- evidence of an intention to recruit employees who will be eligible for the LGPS;
- plans for a resolution to allow further members to be eligible to join the LGPS; and
- an expectation that an individual will be automatically enrolled or re-enrolled into the LGPS during the period of the suspension notice;

The Fund will consider an application for a suspension notice where an employer has no active members but does have one or more members who have opted out of the LGPS and who retain a statutory right to join. Under the LGPS Regulations such members will be brought into the LGPS on their automatic enrolment or re-enrolment date.

Where the Fund, having issued a suspensions notice, then believes there is no longer a likelihood of new active members of the employer contributing to the Fund it will take all necessary steps to withdraw the notice and seek recovery of the exit payment. Reason to withdraw a suspension notice could include:

- insolvency, liquidation or winding up of the employer;
- failure of the employer to make payments to the fund required by the Administering Authority;
- termination of, or premature ending of, contractual arrangements to provide services or assets to a scheme employer;

- failure to recruit employees who are eligible to join the LGPS;
- failure to provide evidence that the employer is actively seeking to recruit employees who will be eligible to join the LGPS;
- failure to pass a resolution to allow further members to be eligible to join the LGPS; or
- in the case of designating employers only; recruitment to positions which qualify for LGPS membership of individuals who then choose to opt out of the Scheme.

Where a suspension notice period ends, or the notice is withdrawn, and the employer does not have any active members contributing to the fund it will become immediately liable for the payment of the exit payment as per other exiting employers (see above).

3.3 Other Scheduled Bodies

It is possible that a new Part 1 Scheduled body could be set up (for example a joint board, body or committee appointed under any Act or statutory order or statutory scheme, of which the Council is at least one of the constituent authorities). While such occurrences are rare it is possible that any such new organisation would be required to participate in the Fund. At such time the Council would need to consider the financial apects on entry to the Fund (e.g. allocation of assets, investment strategy, contribution rates and other costs, pooling and no-going monitoring).

It is also possible for any Part 1 Scheduled body to cease participation in the Fund, leading to the need to consider cessation issues (such as the basis on which any cessation debt would be calculated, payment of any amounts due, the role of any ongoing guarantor to fund residual liabilities and the issue of suspension notices.

It is expected that for Part 1 Scheduled bodies that, while possible, such events would be rare. As a result this policy does not deal with the likely treatment of them in the same way as for all other employers admitted into the Fund.

Policy

Where a new Part 1 Scheduled body enters the Fund the Council will consider all elements of that new organisations participation in the Fund at that time and in accordance with its Funding strategy Statement in force at that time.

Similarly, in the event that any Part 1 Scheduled body were to cease to participate in the Fund the Council will consider all aspects of the cessation process in respect of that exiting employer at the time, taking account of the individual circumstances of that employer's exit from the Fund.