London Borough of Newham Pension Fund

Admission Bodies Policy

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Introduction

This is the policy of the London Borough of Newham Pension Fund as regards the treatment of admission bodies in the Fund. The London Borough of Newham is the Administering Authority for the Fund.

The process of admitting new employers to the Fund is carried out on the Borough's behalf by the Local Pensions Partnership Administration (LPPA). However, the London Borough of Newham's Pensions Committee (PC) remains responsible for the Policy, and where required, for considering applications by potential employers and making related decisions. They may delegate some matters to other officers.

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

This policy should be read in conjunction with the Fund's Funding Strategy Statement and Employer Admission Manual.

The Fund's policy does not override the requirements of legislation, such as the Local Government Pension Scheme Regulations 2013 (the Regulations), in particular Schedule 2 Part 3, which sets out the legal requirements with regard to the participation of admission bodies in the Fund.

In addition, participating employers, prospective employers and the Fund should have due regard to the statutory Best Value Authorities Staff Transfer (Pensions) Direction 2007 and to the New Fair Deal guidance issued in October 2013 where it applies to them. Upon considering letting a contract for the provision of services or applying for a contract to provide services, organisations should contact the LPP to discuss if these provisions apply to them and may need to take their own legal advice. This Policy takes account of these where appropriate and does not override them. Please see the Employer Admission Manual for further information.

It should also be noted that this policy statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. In exceptional circumstances, there may be departures from parts of this policy but only with prior agreement of the PC or the officers to whom responsibility has been delegated. Apart from in exceptional circumstances, the Fund's terms included within their admission agreements will be non-negotiable.

This policy will be reviewed from time to time as required and every three years prior to the finalisation of the actuarial funding valuation.

Any queries on it should be directed in the first instance to the London Borough of Newham Pension Manager and any queries on the process to LPP.

Matters over which the Fund has a Policy

The LGPS Regulations include some discretions relating to the admission and management of admission bodies to and in a Fund.

The discretionary areas are:

- Regulation 54 – Whether the Fund will set up a separate admission agreement fund.
- Part 3 of Schedule 2 (para 1) – Whether or not to admit an employer to the Fund
- Part 3 of Schedule 2 (para 9(d)) – Whether to terminate an admission agreement; and

there are also a number of other policy decisions that the administering authority will make in order to manage admission bodies within its Fund.

Specific items are detailed in this Policy and are set out in relation to the stages of the admission body cycle.

Admission bodies will also be affected by other Fund Policies such as those contained in the FSS.

The Administering Authority's Pension Funds

Whether the Fund will set up a separate admission agreement fund

Background

In accordance with Regulation 54, an administering authority may establish a further pension fund known as an admission agreement fund in addition to the main fund. It must give written notice to the Secretary of State that it has done so and specify in the notice the admission bodies whose employees are eligible for benefits from the admission agreement fund.

Policy

The Fund's Policy is to maintain the main Fund only and not to establish a separate admission agreement Fund.

Admission of Admission Bodies to the Fund

Whether to admit admission bodies to the Fund

Background

Under the Regulations, there are two types of employers with whom the administering authority may make an admission agreement in order to enable them to become an admission body in the Fund. These are:

- those bodies providing services as a result of a transfer of services, known as a Schedule 2, Part 3 1 (d) body or often referred to as a transferee admission body, and
- those bodies providing a public service in the UK otherwise than for gain and having a community of interest with a Scheme employer or which has been approved by the Secretary of State, or a body to which a Scheme employer contributes, or a body that represents Scheme employers, local authorities or their officers. They are described in Schedule 2, Part 3 1 (a), (b), (c) and (e) of the Regulations and are often referred to as a community admission body.

In accordance with the Regulations:

- the Fund may decide which community admission bodies it will accept into membership of the Fund.

- where a transferee admission body undertakes to meet the requirements of the Regulations, the Fund must admit to the Scheme the eligible employees of that body.

Policy

Where the employer meets the entry requirements contained within the LGPS Regulations the Fund's policy is to:

- accept applications from community admission bodies who meet the requirements of this Policy and which provide services linked to one of the scheme employers in the Fund (or other similar bodies such as section 75 NHS partnerships) where such an arrangement is beneficial to the relevant scheme employer or similar body

  The interests of the body must be closely aligned to the work of the scheme employer and meet the requirements in the LGPS regulations

  The admission agreement must be open to new employees.

- accept applications from transferee admission bodies that satisfy the security and other requirements of the Regulations.

Bond/indemnity or guarantor requirements for entry

Background

Employers that are admitted to the Fund place a risk on the Fund, other employers in the Fund or in the case of transferee employers, the Scheme employer who let the contract.

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 that the exiting admission body is unable to pay them at that point.

Reasons for the liabilities not being fully covered by assets at the point of termination may include:

- earlier than expected termination, before completion of the deficit recovery period

- change in valuation method used at termination and/or assumptions used

- lower than expected investment performance

- greater than expected pension or 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 such as costs covering the need for a termination valuation and all of the necessary additional administration costs such as actuarial fees, and

- unpaid contributions.

Schedule 2, Part 3, (6) (7) and (9) of the LGPS Regulations include some requirements to reduce these risks. These are:

- The admission body must, to the satisfaction of the administering authority and the Scheme employer letting a contract in the case of a transferee admission body carry out an assessment taking account of actuarial advice of the level of risk arising on premature termination on insolvency, winding up or liquidation. Where the level of risk identified by the assessment is such as to require it, the admission body must put in place a bond or indemnity in a form approved by the administering authority with:

    - a person who has permission under Part 4 of the Financial Services and Markets Act 2000 (117) to accept deposits or to effect and carry out contracts of general insurance;

    - a firm in an EEA state of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act (118), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule) (119) to accept deposits or to effect and carry out contracts of general insurance; or

    - a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

- Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission body must secure a guarantee in a form satisfactory to the administering authority from:

    - a person who funds the admission body in whole or in part;

    - in the case of a transferee admission body, the Scheme employer letting the contract

    - a person who owns, or controls the exercise of the functions of, the admission body; or

    - the Secretary of State in the case of an admission body which is established by or under any enactment, and where that enactment enables the Secretary of State to make financial provision for that admission body, or which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3) (c) of that section.

There is no guarantee that any bond or indemnity pay-out will be sufficient to secure 100% funding of the departing employer's remaining 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 remaining liabilities in the Fund. I.E in both cases, those liabilities that the departing employer is unable to meet themselves.

Any remaining shortfall would fall on the Scheme employer letting the contract 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 community admission body to provide:

- a guarantor considered by the Fund to be strong, secure and financially durable (generally only a Scheduled Body with tax raising powers such as a local authority or a central government department) or a bond/indemnity the Fund considers to have equivalent strength.

For a transferee admission body:

- the Fund has a preference for a bond or indemnity rather than a formal guarantee. The Scheme employer letting the contract is in effect a guarantor already under the terms of the LGPS Regulations.

- the Scheme employer letting the contract will be required to stipulate a bond or indemnity or will provide a formal guarantee.

- where the Scheme employer letting the contract is not considered by the Fund to be strong and secure, a bond or indemnity will be required

In all circumstances:

- where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis, or such alternative period of up to three years as the Fund may stipulate, at the cost of the admission body.

Risk sharing

Background

Scheme employers letting contracts and contractors may wish to enter into pension risk sharing arrangements. This can take many forms, for example:

- fixed employer contribution rates

- ceilings and floors to the employer contribution rate

- the Scheme employer letting the contract 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 Scheme employer letting the contract (e.g. past service, investment returns, ill-health retirement)

- waiving the requirement to provide a bond or indemnity where agreed with the administering authority, 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 can be subject to dispute between the parties involved.

Policy

The Fund will not normally be party to any risk sharing agreement between any Scheme employer letting a contract and the contractor.

Accordingly, any such arrangements will not be detailed in the admission agreement. The admission body will be required to follow the principles of the admission agreement and the Regulations 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 Scheme employer letting the contract and the service provider to put in place a separate legal agreement and 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 Scheme employer who let the contract rather than the exiting employer, and

- the potential for the bodies to agree to a pooling arrangement as outlined later in this policy

- the potential for the Scheme employer letting the contract and administering authority to agree that a pass through arrangement will apply to a particular outsourcing, 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 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 as well as the provisions required by the LGPS regulations details on commencement, 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 above criteria are met, the standard terms of the admission agreement are accepted and an indemnity or bond in a standard form agreed with the PC is put in place. All applications meeting these criteria will be reported to the PC for information only.

All applications where an indemnity or bond in a standard form agreed with the PC is not put in place and the guarantor route is instead suggested will be presented to the PC for determination.

Any applications departing materially from these criteria and/or the standard terms of the admission agreement **will be considered by the PC on a case by case basis for agreement, and may be refused.**

Financial Aspects

Allocation and tracking of assets, and deficit recovery periods

Background

On initial admission, each employer is notionally allocated assets in the Pension Fund and thereafter each employer's assets and liabilities are tracked.

They are reviewed at each triennial valuation during the period of the admission agreement. 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, with a view to achieving solvency at the end of the targeted deficit recovery period.

Policy

The notional 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 transferee admission bodies usually 100% of the value of the past service liabilities of any transferring employees.
  - Where exceptionally a deficit is transferred, or where a deficit later arises, a deficit recovery period no longer than the shorter of the length of the fixed term contract or 10 years will be applied, or other shorter period as may be determined by the Fund's actuary acting reasonably.

- For community admission bodies to be determined in each individual case depending on the circumstances of that case.

  - Where a deficit is transferred, or where a deficit later arises, a deficit recovery period no longer than the shorter of the expected future life of the employer in the Fund or 10 years where less will be applied, or other shorter period as may be determined taking account of the employer's security level and by the Fund's actuary acting reasonably.

- 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

  - the asset share will be tracked during the period of the admission agreement and adjusted at each formal triennial valuation to take account of cashflows paid and received in respect of the employer, and investment returns earned by the Fund over the period.

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

Prior to the commencement of each admission agreement, it will be necessary to determine what employer contribution rate will be payable by the admission body.

In accordance with the Regulations, employer contribution rates are reviewed and adjusted at each triennial valuation during the period of the admission agreement taking account of the tracking and monitoring of the assets and liabilities and the deficit recovery period. They may be reviewed more frequently in certain circumstances including likely termination or where it is agreed that a formal review of contributions between valuations is appropriate. These are detailed in the section on Ongoing Monitoring of Admission Bodies.

Employer contributions are set and adjusted with a view to achieving solvency at the end of the targeted deficit recovery period.

There will also be circumstances where additional costs arise for which admission bodies will be required to make further payments such as in respect of the exercise of discretions or provisions contained within the Regulations, legal and 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 recovery period
- whether the admission agreement is open or closed to the admission of new members
- whether the admission agreement is fixed term or not and any fixed contract period
- the employer covenant and that of its guarantor or the bond or indemnity in place
- the Fund's investment strategy
- the cost of administering the Fund

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

- lump sums in relation to strain costs of any non-ill-health early retirements or early payment of pension benefits
- lump sums in relation to the cost of 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 Fund may agree to allow the admission body to make payment of any 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 in respect of a transferee admission body, and
- the period to the cessation of any admission agreement.

Where a pooling or pass through arrangement is entered into these policies may differ.

Where an admission agreement for a community admission body that has no scheme employer or central government guarantor is likely to terminate for whatever reason within the next 5 to 10 years, 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.

The Fund may require any actuarial, legal, non-standard administration and other justifiable cost to be paid by the admission body. In the case of a transferee admission body it may be agreed that these costs are paid for by the Scheme employer who let the contract or shared with that employer and the transferee admission body.

Pooling

Background

There may be circumstances where an admission agreement is created in relation to a small number of staff and the link between an existing scheme employer and the proposed admission body is extremely strong. This may or may not be in an outsourcing of work situation. In these circumstances, the existing scheme employer may consider that they are willing to share some pension risks with the admission body as if their employees were part of the existing Scheme employer's own workforce and that the administrative procedures around putting in place, monitoring and maintaining an admission body are disproportionate in comparison to the number of employees and/or liabilities involved. In these circumstances, the existing 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 would allow the two bodies to effectively be treated as if they were one employer. As a result, the same employer contribution rate and other funding arrangements would apply, generally equally, in relation to all members.

Policy

The general policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, where the number of members under a proposed open or closed admission agreement is considered very small in comparison to the existing Scheme employer the existing Scheme employer and Fund may allow the new Scheme employer to be pooled with the existing Scheme employer.

- The Fund reserves the right to refuse this approach to any new admission body, including, for example, considering the proportion of total past service liabilities at commencement calculated on an ongoing funding basis that the new admission body represents.

In order for a pooling arrangement to become effective:

- the new admission body and the existing Scheme employer must 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

- it may be required to provide a bond or indemnity in respect of redundancy and any other risks identified as required by the scheme employer and/or the administering authority, 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 or non-ill-health early retirements. Similarly, it will not be entitled to receive any exit credit from the Fund.

- In the event of termination of the admission agreement the other Scheme employer will inherit any residual surplus or deficit

- The administering authority may determine following actuarial advice to adjust the other Scheme employer's contribution rate prior to the next triennial valuation

The admission body will be removed from the pool and be treated as a stand-alone admission body in the event that the number of members increases above a number, or proportion of the total membership, agreed at commencement.

- It will be given sufficient assets to provide the same funding level as that of the pool and its contribution rate may be adjusted to reflect its specific membership profile and funding position as a stand-alone employer

- The admission body may be required to put in place a bond or an indemnity to the satisfaction of the administering authority

- The other Scheme employer will continue to act as guarantor until such time as the administering authority agrees otherwise.

Pass Through

Background
There may be circumstances where an outsourcing of services is planned where the Scheme employer letting the contract would like to operate a pass through arrangement as a form of risk sharing. This is primarily a commercial decision.

There are many types of pass through arrangements and these normally cover responsibility for any deficit at the end of a contact remaining with the Scheme employer letting the contract as well as the transferee admission body commencing on a fully funded basis. The contribution rate payable will form part of the commercial negotiation and agreement, after taking actuarial advice.

Policy

Where the Scheme employer letting the contract and the administering authority agree prior to the commencement of a particular outsourcing exercise to contract out a service, a pass through arrangement may be applied. The administering authority will require that:

- the pass through arrangements are open to all potential bidders in the particular outsourcing and on a non-discriminatory basis. They must be included in the tender documentation and will apply to all bidders and to whichever is successful.

- the Fund Actuary is involved in the discussions about the arrangements including to determine an appropriate contribution rate to apply. The Scheme employer letting the contract will be responsible for meeting the Actuary's fees

- all such requests and proposed arrangements are referred to the PC for agreement before the tender is advertised

- the arrangements are included in any eventual admission agreement.

In forming its decision, the administering authority will consider the security and financial strength of the employer letting the contract and may require additional security in the form of bond, indemnity or guarantor to be put in place.

Ill-health self-insurance

Background

Most LGPS benefits build up gradually during each member's employment. However there are some protection benefits, such as ill-health retirement, which will give rise to an immediate strain cost and funding deficit when they occur, unless some advance funding has been made to meet an estimate of these costs.

The contribution rate calculated as part of the most recent triennial valuation, or at the time an employer commences participation in the Fund, will include an allowance for ill-health retirements. This allowance is specific to the membership profile for each employer but will typically be a relatively small percentage of payroll each year of around 1% - 2%, as the incidence of these events is relatively infrequent. However, employers should be aware that the additional cost of an ill-health retirement, particularly a tier 1 ill-health retirement, can be significant relative to the contributions and an employer's payroll.

Policy

The administering authority implements an ill-health self-insurance pool within the Fund whereby a portion of all non-Council employers' contributions is allocated to a segregated ill-health section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain incurred as a result of any tier 1 or tier 2 ill-health retirements. This means that the employers covered by the policy will not be invoiced for the cost of ill-health retirements when they occur. By participating as an admission body in the Fund, the admission body will automatically join the ill-health self-insurance pool.

Ongoing monitoring of admission bodies

Background

As admission bodies generally participate for a limited period in the Fund, it is important that monitoring of an admission body is carried out throughout the term of the 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 admission body's 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 in place, and
- checks to see whether an employer has failed to notify the Fund of relevant changes such as closure to new entrants.

When an admission agreement ceases for whatever reason, the employer's assets should at least equal its liabilities on an appropriate basis. Where they do not do so, the exiting employer is liable to pay an exit payment. Where there are circumstances which make it likely that the admission body will cease at some point, the Regulations make provision for the administering authority to obtain from an actuary:

- a certificate specifying the percentage or amount by which, in the actuary's opinion the contribution at the primary rate should be adjusted; or any prior secondary rate adjustment should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will be due from the admission body are provided to the Fund by the likely exit date of the admission body or, where they are unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

  To a limited degree, this can also reduce any overfunding.

The Regulations also enable a revision of the rates and adjustments certificate showing the resulting changes in the admission body's employer contribution rate:

- where they agree to pay increased contributions to meet the cost of an award of additional pension under Regulation 31, or
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with the admission body exceeds the amount specified, or likely as a result of the assumptions stated, for that body, in the rates and adjustments certificate, or

- that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation, or

- it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme, or

- a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Policy

During the period of the admission agreement, in consultation with the Fund Actuary as appropriate:

- 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.

  Where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis, or such alternative period of up to three years as the Fund may stipulate, at the cost of the admission body

- 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.

  The Fund will obtain a revision of the employer contribution rate where it considers there are circumstances which make it likely that an employer will become an exiting employer.

- 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.

  The administering authority may require a bond or indemnity to be put in place where the guarantee is no longer considered to be of sufficient strength.

- 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 the admission body have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate prior to the next triennial valuation.

- The Fund will obtain a revision of the rates and adjustments certificate showing the resulting changes for the admission body where they agree to pay increased contributions to meet the cost of an award of additional pension under Regulation 31

- A review of an employer's contributions may also be triggered by either the administering authority or on request from the employer under the following circumstances and in line with the guidance set out in the Fund's Funding Strategy and separate Contribution Review policy:

  - The amount of the liabilities arising or likely to arise has changed significantly since the last valuation. Examples include a significant staff transfer, changes to whether the employer is open or closed to new members or significant changes to the membership of the employer.

  - There has been a significant change in the ability of the employer to meet their obligations to the Fund. Examples include provision or removal of security provided to the Fund by the employer or a change in the employer's financial strength.

Where it is known or there appears to be circumstances where it appears that the admission body will cease:

- A provisional cessation valuation will be carried out 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.

Termination of Admission Bodies in the Fund

Whether to terminate an admission agreement

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.

Part 3 of Schedule 2 (para 9(d)) of the Regulations provides that an admission agreement must include a right for the administering authority to terminate the agreement in the event of

i) the insolvency, winding up or liquidation of the admission body,

ii) a material breach by the admission body of any of its obligations under the admission agreement or the Regulations which has not been remedied within a reasonable time,

iii) a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so

The Regulations also require the admission agreement to cease where an admission body ceases to be such a body or no longer has any active members in the Fund unless in this latter case:

- the administering authority agrees to issue a written suspension notice for a period of up to three years because they believe that at least one further member will join in that period. During the suspension notice period the Regulations require the admission body to continue to pay contributions, or

- the administering authority enters into a "deferred debt agreement" with the exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make secondary rate contributions as certified in the Rates and Adjustment certificate.

Policy

The Fund will include appropriate termination requirements in 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

- is not meeting administrative requirements relating to the provision of information

- is not meeting its requirement to provide or review any bond/indemnity or guarantor

- experiences insolvency, winding up or liquidation

- is merged or ceases to exist, or ceases to be an admission body or fails to meet the terms of its agreement and does not remedy this in a reasonable time

- has no further active members, and considering each case on its merits the administering authority decides not to issue a suspension notice or enter into a deferred debt agreement (or upon termination of an existing suspension notice or deferred debt agreement).

Termination valuations and their basis

Background

Where an admission agreement terminates, and no suspension notice is issued or deferred debt agreement entered into, the Regulations require that an administering authority obtain a valuation as at the exit date of the admission body's liabilities in the Fund in respect of the

benefits for the body’s current and former employees and a revised rates and adjustment certificate showing the exit payment due from the exiting employer or the excess of assets in the Fund relating to that employer in respect of those benefits.

Once an exit payment has been made, the Regulations provide that no further payments will be due from that employer in respect of any liabilities relating to the benefits of those employees as a result of the Regulations.

Similarly, when the administering authority has paid an exit credit to an exiting employer, no further payments are due from that administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer as a result of the Regulations.

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.

The termination valuation is calculated by the Fund Actuary and it is important to note that any policy or requirement in an admission or side agreement cannot fetter the Fund Actuary in carrying out their role albeit that he or she will have regard to the FSS.

Policy general

The Fund’s general principle on the cessation of an admission body is to assume a “clean break” on termination as the departing employer’s liability to make further contributions to the Fund is extinguished on payment of the exit payment and to calculate it on an appropriate basis.

The Fund’s policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit that each case will be considered on its own merits and may differ from the policy shown.

The administering authority and the Fund Actuary reserve the right to use different funding assumptions if they are deemed to be appropriate.

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

Policy for transferee admission bodies

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 Scheme employer who let the contract 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 Scheme employer who let the contract.

The cessation liabilities for the termination valuation will normally be calculated on an ongoing funding basis since the Scheme employer who let the contract will be taking responsibility for funding those liabilities in the future.

If any member is made redundant at the natural end of the contract, or is able to access their pension benefits early in any way that results in an early non-ill-health retirement strain, this must 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 who will carry out the work and therefore to where the current active membership will transfer.

  The same principles as for employers ceasing at the natural end of a contract will apply. Under this scenario, it may be less likely that actual payment of the exit payment calculated under the termination valuation may be recovered from the admission body.

- Where in accordance with the policy on risk sharing, a separate agreement between the Scheme employer who let the contract and the transferee admission body require a different approach, this will be considered on a case by case basis.

Policy for community admission bodies

Admission agreements for community admission bodies are typically open-ended rather than time-limited. However, it may be known in advance when an event will arise that will cause them to terminate or they may terminate more suddenly.

In accordance with the Regulations and this policy, it is now a condition of admission that community admission bodies will have security in the form of a bond, indemnity or guarantor. Some older admission bodies may have no security at all or other forms of security.

- Community admission bodies with a guarantor in the Fund

  Where there is a guarantor in the Fund, they generally assume responsibility for the assets and liabilities in the Fund which are attributable to the community admission body after payment of the exit payment or after receipt of an exit credit.

  In this case, the cessation valuation will normally be calculated using an ongoing funding basis.

  However, where contribution rates have been set by reference to liabilities valued on a gilts basis in the lead in to a termination, the assumptions used in the calculation of the cessation liabilities will be consistent with that strategy.

- Community admission bodies with no guarantor in the Fund

  Where the community admission body has no guarantor, or the guarantor is not within the Fund and cannot assume responsibility for the assets and liabilities in the Fund beyond payment of the exit payment, the cessation liabilities and exit payment or credit will normally be calculated using a gilts, minimum risk basis. This includes where there is a bond, indemnity or other security in place but no guarantor in the Fund.

- In some circumstances, e.g. where employees are transferring to another LGPS employer which will usually be the guarantor, an ongoing funding approach may be adopted for any transferring liabilities.

Payment of cessation deficit or surplus

Background

Under the Regulations, when the Fund Actuary carries out a termination valuation, he or she is required to issue a Rates and Adjustment Certificate showing the exit payment due from, or exit credit due to, the exiting employer. The LGPS Regulations specify that the exit payment be paid by the exiting employer over such period of time as the administering authority considers reasonable to meet the liabilities identified in the termination valuation as at the exit date. Where an exit credit is payable to the exiting employer, this should be paid within six months of the exit date, or such longer time as the administering authority and the exiting employer may agree.

There are also provisions that clarify what should happen if it is not possible to recover the exit payment, from the exiting employer, or person providing the indemnity, bond or guarantee.

In this situation, the Regulations require that the administering authority obtain a further revision to the Rates and Adjustment Certificate showing for:

- transferee admission bodies, the revised contribution due from the employer who let the contract

- community admission bodies, the revised contributions due from each Scheme employer which contributes to the Fund, with a view to providing that assets equivalent to the exit payment due are paid to the Fund over such period of time as the administering authority considers reasonable.

Alternatively, the Regulations enable the administering authority and admission body to enter into a deferred debt agreement (DDA) or a debt spreading agreement (DSA). Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement. Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Policy

The general Fund policy will be to collect the exit payment by way of a lump sum where it is the exiting admission body that is making the payment.

However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a DDA or DSA. Further guidance on the availability of these routes is provided within the Fund's separate DDA and DSA policy documents.

In any other circumstances where the admission body is unable to pay the full amount due, the Fund will attempt to recover any outstanding payment from any bond or indemnity in the first instance, and then from any guarantor.

Where any outstanding payment remains, once any bond, indemnity or guarantor has been exhausted, it will be recovered as follows:

- For transferee admission bodies, the outstanding payment will be paid via an increase to the ongoing contribution rate by the Scheme employer who let the contract, calculated by spreading the outstanding payment over their 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 community 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 another scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as for transferee admission bodies.

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 termination deficit. Any such cases will be subject to approval by the PC.

The administering authority has discretion to determine the amount, which may be zero, of any exit credit payable to an exiting employer where a surplus is identified on cessation. Guidance on the payment of exit credits can be found in the Fund's separate Employer Exit Policy.