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LONDON BOROUGH OF HACKNEY PENSION FUND

ADMISSIONS POLICY

(Employer Admissions to the Fund)

For the Local Government Pension Scheme (LGPS)

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Introduction

1 Purpose

The key purpose of this policy is to set out the criteria that the London Borough of Hackney Pension Fund (the "**Fund**") will use for admitting new employers to the Local Government Pension Scheme (the "**LGPS**").

The Fund is administered by the London Borough of Hackney (the "**Administering Authority**").

In establishing this policy, the Fund's main aims are:

- to minimise the risk and consequences of an employer being unable to fulfil its responsibilities as an employer of the Fund and meet the pension promises its employees have earned;
- to admit new employers where viable in order to provide access to the LGPS for eligible employees; and
- where new employers are admitted, to ensure sufficient protections are in place to minimise the funding risks.

This policy is effective from April 2019.

This policy should be read in conjunction with the Fund's current Funding Strategy Statement (FSS) and relevant legislation from time to time.

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

2 Reliance and Limitations

This policy is not to be construed as advice to any employer. It sets out the background to the Fund's policy on admission bodies, but it should be noted that the approach in any specific case may depend on the individual circumstances. As such, the guidance in this policy is generic.

All interested parties should seek their own legal advice to ensure they are clear about their responsibilities and the potential liabilities of participating in the LGPS.

3 Interaction with Funding Strategy Statement (FSS)

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

- The purpose and aims of the Fund;
- Solvency and target funding levels;
- Links to investment strategy;
- Key risks and controls.

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

4 Definitions used in this policy

In this policy, defined terms have the meanings set out below:

"2013 Regulations"	the Local Government Pension Scheme Regulations 2013.
"Administering Authority"	the London Borough of Hackney acting in its capacity as the administering authority of the Fund
"FSS"	the Fund's most recent Funding Strategy Statement from time to time
"Fund"	the London Borough of Hackney Pension Fund
"LGPS Regulations"	the 2013 Regulations and the Transitional Regulations
"Scheme"	the Local Government Pension Scheme (England & Wales)
"Transitional Regulations"	the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

Any reference in this policy to any statute or statutory provision will include any subordinate legislation made under it and will be construed as a reference to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

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The Regulatory Framework

5 The LGPS Regulations

The 2013 Regulations, in force since 1 April 2014, clearly set out those organisations that Administering Authorities may have admission agreements with -

Schedule 2 Part 3

Paragraph 1

The following bodies are admission bodies with whom an administering authority may make an admission agreement:

(a) *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);*

(b) *a body, to the funds of which a Scheme employer contributes;*

(c) a body representative of:
(i) any Scheme employers, or
(ii) local authorities or officers of local authorities;

(d) 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:
(i) the transfer of the service or assets by means of a contract or other arrangement,
(ii) a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),
(iii) directions made under section 497A of the Education Act 1996;

(e) 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.

Most admission bodies fall under Schedule 2, Part 3, 1(a) or 1 (d)(i):-

Schedule 2, Part 3, 1(a) (**formerly known as a community admission body)** is 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).

It is admitted to the Fund by way of an admission agreement. Employees of the admission body can join the LGPS if the admission agreement allows it.

Schedule 2, Part 3, 1 (d) (i) (**formerly known as a transferee admission body**)
is 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.

It is a commercial entity and is admitted to the Fund by way of an admission agreement. Employees of an admitted body can join the LGPS if the admission agreement allows it.

Regulation 3 – Active membership

Paragraph 5

Where an administering authority enters into an admission agreement with an admission body:

(a) *the admission body must comply with the requirements specified in paragraphs 3 to 12 of Part 3 of Schedule 2; and*

(b) *these Regulations apply to the admission body and to employment with the admission body in the same way as if the admission body were a Scheme employer listed in Part 2 of Schedule 2.*

LGPS (Amendment) Regulations, in force from 14 May 2018

Regulation 64.
Special circumstances where revised actuarial valuations and certificates must be obtained

64. -(1) Subject to paragraph (2A), if a person-

(a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

(b) is or was a Scheme employer, but irrespective of whether that employer employs active members contributing to one or more other funds, no longer has an active member contributing towards a fund ("a relevant fund") which has liabilities in respect of benefits in respect of current and former employees of that employer,

that person becomes "an exiting employer" in relation to the relevant fund for the purposes of this regulation and is liable to pay an exit payment or entitled to receive an exit credit.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain-

(a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or exit credit payable to the exiting employer in respect of those benefits.

(2ZA) If an exit credit is payable to an exiting employer, the appropriate administering authority must pay the amount payable to that employer within three months of the date on which that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer may agree.

(2ZB) When an 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 these Regulations.

(2A) An administering authority may by written notice ("a suspension notice") to an exiting employer suspend that employer's liability to pay an exit payment for a period of up to 3 years starting from the date when that employer would otherwise become an exiting employer, if the condition in paragraph (2B) is met.

(2B) The condition mentioned in paragraph (2A) is that in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice.

(2C) If an administering authority serves a suspension notice on an employer, unless that suspension notice is withdrawn, paragraph (2) does not apply in respect of that employer, but the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits in respect of the employer's current and former employees as the administering authority reasonably requires.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing-

(a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and

(b) in any other case, 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 from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an

exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion-

(a) the contribution at the primary rate should be adjusted; or

(b) 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 Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

6 Discretions under the 2013 Regulations

When an Administering Authority is considering permitting a body to become an admission body, the 2013 Regulations include a number of discretions relating to the creation and management of admission agreements. These discretions are considered within the remainder of this policy.

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THE FUND'S APPROACH TO EMPLOYER RISKS

Background

It is essential for the Administering Authority to establish their fundamental approach to the risks involved in the admission of new employers to the fund.

The admission body is responsible for any surplus or deficit arising during the period of the admission agreement so that when the admission agreement 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 or indemnity, the liability will fall to the other employers in the Fund (either, the awarding authority, any guarantor employer or all other employers, depending on the circumstances). 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 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 annually;
- Monitoring individual employer experience and status (e.g. salary experience, continued ability of employees to join the Fund);
- Monitoring employer covenant;
- 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;
- 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.

7 Entry Conditions and Requirements

London Borough of Hackney, 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 London Borough of Hackney can:

- ***for a body with links to a Scheme employer (formerly known as a community admission body – CAB)*** - have complete flexibility in deciding whether or not to accept applications. It is therefore appropriate for London Borough of Hackney to determine what entry criteria exists for employers to become admission bodies within Fund, and

- ***for outsourced service providers (formerly known as a transferee admission body- TAB)*** - in line with the December 2009 CLG guidance on admission bodies, admit a service provider if the service provider and the awarding authority agree to meet the requirements of the LGPS Regulations and the terms of the Funds admission agreement.

Fund Policy

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

- Provides services linked to one of the Scheme employers in the Fund where such an arrangement is beneficial to the relevant Scheme employer. The interests of the body must be closely aligned to the work of the Scheme employer and meet the requirements in the LGPS Regulations, or

- Provides services on behalf of one of the Scheme employers in one of the ways prescribed in the LGPS Regulations.

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

8 Bond / Indemnity or Guarantor Requirements

Before agreement is given for a new potential admission body to participate in the Fund, it is important to understand and minimise the risk it might place on the Fund and the other employers in it. Generally this risk relates to the costs of liabilities (i.e. under-funding) not yet paid for at the point of termination of the admission agreement. Termination can occur for a number of reasons, including the natural end of a contract, a takeover or a body going into liquidation.

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

- any insurer or person providing an indemnity or bond on behalf of that body (this might include a guarantor, such as a sponsoring employer or central government department);

and where that is not possible:

- in the case of a service provider, from the awarding authority for that service provider; or

- in the case of any other admission body, from each other employing authority within the Fund.

The outstanding deficit at the point of termination may largely already exist due to adverse experience but could be increased by additional liabilities resulting from the termination. The risks relating to the potential of 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 service provider commences on a fully funded position);
- asset 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 mortality 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 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 do include some requirements to reduce these risks, including:

- the need for the awarding authority (or Administering Authority in the case of some national Directions) to carry out a risk assessment on the premature termination of a service provider upon insolvency, winding up or liquidation and, where they consider it necessary taking into consideration the results of that assessment, require the service provider to put in place a bond or indemnity to cover the level of risk identified.

- where a body with links to an employer in the fund's entry criteria relates to them receiving funding from a Scheme employer and that funding is less than 50% of the total funding it receives from all sources, that Scheme employer must agree to act as a guarantor in relation to any deficit on termination.

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

To minimise the risks further, LGPS funds often may put in place further requirements or processes, such as looking for a guarantor or a bond or indemnity. In some circumstances, particularly in the case of CABs, it may not be necessary to put a bond or indemnity in place. Instead a body closely linked to the admission body may agree to act as guarantor, meaning that it will become liable for any pension costs should the admission body fail or cease to exist.

Fund Policy

The Fund will require any potential admission body to provide:-

For a body with links to a Scheme employer

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 service provider

a preference for a bond or indemnity to be provided but 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 at the providers cost.

9 Risk Sharing

It is becoming commonplace for awarding authorities and service providers to enter into risk sharing arrangements as part of the provision 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;
- ‘pass through’ arrangements;
- 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;
- pooling the new admission body with the Scheme employer.

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

Fund Policy

In order to avoid the pension fund becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a service provider.

Accordingly, any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of agreement as if no such risk sharing was in place and as if they were any other employer within the Fund; it will then be up to the awarding authority and the service provider to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments).

Accordingly the service provider will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place.

The only exceptions to this are:-

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

It is also acknowledged that, although the Fund will encourage the provision of a bond or indemnity to provide cover on the early termination of the service provider, it is the awarding authority's decision as to whether such a bond or indemnity is required (as they are ultimately a guarantor for all pension costs).

10 Approval Process for becoming an Admission Body

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.

Fund Policy

The Funds Pension Committee have allowed Responsible Officers of the Fund to approve, or decline if there is sufficient justification, any applications to join the Fund, and they will be responsible for ensuring any bodies meet the criteria, having regard to the appropriate legal and actuarial advice.

Responsible Officers are:

Head of Pensions Administration, or
Head of Pension Fund Investments
and either are permitted to approve, or decline, entry to the Fund.

Fund 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, monitoring and termination clauses to protect the other beneficiaries and participants in the Fund.

All applications will be acceptable if either of the Responsible Officers of the Fund named above, are satisfied the criteria are met and the standard terms of the admission agreement are accepted.

All applications to join the fund are reported to the Council's Pensions Committee on an individual basis, for information purposes only.

11 Allocation of Assets

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 contract 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.

Fund Policy

The allocation of assets at the commencement of an admission agreement will typically 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 on a basis consistent with the Fund's Funding Strategy Statement (FSS).

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;
- 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).

12 Investment Strategy

Fund Policy

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

13 Contribution Rates and Other Costs

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

Fund 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 admission agreement is open or closed;
- whether the admission agreement is fixed term or not, and the period any fixed contract period;
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place;

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;
- re-imbursement of the administering authorities or other bodies costs due to poor administration by the admission body.

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

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

The Fund will 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 between or amongst them).

The Fund will, if deemed appropriate, 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.

14 Pooling

There may be circumstances where an admission agreement is created in relation to a small number of staff and the link between a Scheme employer and that body is extremely strong. This may or may not be in an outsourcing situation. In these circumstances, the Scheme employer may consider that they are willing to share some pension risks with the admission body as if the employees were part of their own workforce and that the administrative procedures around putting in place, monitoring and maintaining an admission body are material in comparison to the number of employees and/or liabilities involved.

In these circumstances, the Scheme employer and the admission body may both agree that a pooling arrangement is an appropriate alternative means of ongoing funding. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

Fund Policy

The Fund may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill health retirements or death in service.

- Service providers are **ineligible** for pooling.
- Other admitted bodies that are deemed to have closed to new entrants are also **not permitted** to participate in a pool.

15 Ongoing Monitoring of Admission Bodies

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

- Regular reviews of the employer funding level;
- Regular reviews of the employer covenant, where applicable;
- 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 and to provide certain financial information upon request;
- Regular assessment of the 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).

Fund 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 annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to it have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle). In addition, the Fund may require employers to provide information to enable the Fund to assess the covenant of the employer and evaluate the scale of obligations to the pension scheme relative to the employer's operating cash-flow.

The Fund will also obtain a revision of contribution rates where it considers there are circumstances which make it likely that an employer will become an exiting employer. Any review of contribution rates will be carried out in consultation with the Fund Actuary.

16 Cessation Terms and Requirements

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 a termination payment (obviously assuming there are appropriate grounds for doing so).

Fund Policy

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

- Where the admission body is not paying monies in a timely manner;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

17 Planning for a future cessation

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/contract 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.

Fund Policy

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

Where an admission agreement for an admission body that is not a service provider and has no guarantor is likely to terminate within the next 5 to 10 years, or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts).

The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

18 Basis of Termination Valuation

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 such that the potential for the requirement for additional funds are limited in the future. 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 basis.

Fund Policy

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

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 service provider. In this scenario, the Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority.

The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy.

If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the ceasing employer.

** If the contract is extended/renewed with the same provider, a side-agreement to the original Admission Agreement will be set up between the provider and the Fund to acknowledge the continuation of the contract, a new termination date and detail any change in employer contribution rate for the extended period.*

If the contractor doesn't already have a "pass through" or risk sharing" arrangement in place at the date of the contract extension, then the following will apply and be noted in the side-agreement to and confirm that:

- *If the same provider is in surplus at the end date of the original contract, then the provider will be offered an extension on the basis that any future exit credit will not exceed the surplus at the end of the original contract.*
- *If the same provider has a deficit at the end date of the first contract period, then this will continue and any deficit as at the end of the subsequent contract period will be sought from the provider.*

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 service provider and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners (and also potentially the transferring active members).

For terminating contracts those liabilities that cannot be recovered via a bond/indemnity or guarantor would usually fall back to the awarding authority and ideally this should be written into the admission agreement. 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.

Those with links to the Scheme employer –
Admission agreements for these are typically open-ended rather than time-limited. It is now a condition of admission that this type of employer be "sponsored" by another Scheme employer or another public body or to provide an indemnity acceptable to the Fund.

The sponsor (or guarantor) generally assumes responsibility for the assets and liabilities in the Fund which are attributable to this admitted body in the event that they cannot be met.

Where there is a guarantor, as required by this admissions policy, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. Where the admission body has no guarantor (these will generally be historical cases), the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements.

If for some reason the Fund is not able to recover the full amount of the final deficit then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund. In some circumstances, e.g. where employees are transferring to another LGPS employer (which will usually be the guarantor) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date. The Administering Authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

19 Payment of Cessation Deficit or Exit Credit

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).

Also under Regulation 25A of the Transitional Regulations, the Administering Authority reserves the right to levy a cessation debt on employers who have ceased participation in the Fund under previous LGPS regulations, but for whom a cessation valuation was not carried out at the time.

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.

Fund Policy

Payment of Cessation Deficit

The Fund will collect any deficit on cessation by way of a single lump sum payment where it is the admission body that is making the payment.

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

For Service Providers

- The outstanding payment will be paid via an increase to the awarding authority's ongoing contribution rate, calculated by spreading the outstanding payment over the awarding authority's pensionable payroll (over a spreading period to be determined by the Fund).
- The fund reserves the right to require payment by immediate lump sum;

For other admission bodies

- Where the deficit is to be spread amongst all the employers in the fund, the rates and adjustments certificate will be adjusted to allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised).
- Where a Scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as outlined for a service provider (above).

Where however the participation of the exiting employer in the Fund has been subject to a "pass-through" or other "risk sharing" arrangement during the time of their contract then, the funding deficit will revert back to the Scheme Employer who awarded the service contract to the exiting employer.

Payment of any Exit Credit

If it is determined by the fund actuary that there is an exit credit i.e. funding surplus, the Administering Authority is required to pay the specified amount to the exiting employer within 3 months of the exit date or such longer period as agreed between the Administering Authority and the exiting employer.

The Administering Authority therefore requires the exiting employer to provide the information required to calculate the cessation valuation within 2 weeks of the exit date in order to meet this deadline. If this information is delayed, then the Administering Authority requires the exiting employer to amend the payment date of any surplus to 3 months from the date all of the leaving information is received by the Fund.

Where however the participation of the exiting employer has been subject to a "pass-through" or other "risk sharing" arrangement during the time of their contract then, the funding surplus will not revert back to the Scheme Employer who awarded the service contract, nor to the exiting employer.

Hackney

pensions@hackney

20 Changes to this Admissions Policy

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

The Fund reserve the right to change this policy at any time without notice. This policy has been reviewed and updated in March 2019 and the next scheduled review is March 2021.

Any queries should be directed to:

Julie Stacey
Head of Pensions Administration
London Borough of Hackney
4th Floor, Hackney Service Centre
1 Hillman Street
London Borough of Hackney E8 1DY

Email: julie.stacey@hackney.gov.uk.