LONDON BOROUGH OF HACKNEY PENSION FUND

Small Employers Admissions Policy 2024

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Version 1

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London Borough of Hackney Pension Fund - Policy on Small Admission Bodies

Introduction

The purpose of this policy is to set out the administering authority's approach to admitting small admission bodies into the fund on a pass-through basis, where those admission bodies' participation in the Fund is guaranteed by another scheme employer (e.g. local authority outsourcings).

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

To set out the fund's approach to admitting small admission bodies, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.

To outline the process for admitting small admission bodies into the fund.

Background

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education (DfE)) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

Guidance and regulatory framework

The [Local Government Pension Scheme Regulations 2013] (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.

Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the employer's contribution rate.

Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

Statement of principles

This statement of principles covers the admission of small admission bodies to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

A 'small admission body' is a new employer participating in the Fund due to an outsourcing, where the number of active members at outset is less than (or equal to) 20.

In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all small admission bodies to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils and academy trusts ("the letting authority").

The small admission body's pension contribution rate is set equal to the contribution rate (primary plus secondary rate) payable by the letting authority. This will change from time to time in line with changes to the letting authority's contribution rate (i.e. following future actuarial valuations).

The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.

The small admission body will meet the cost of additional liabilities arising from augmentations.

Ill health and early retirement experience will be pooled with the letting authority and no additional strain payments will be levied on the small admission body in respect of ill health or early retirements.

The small admission body will not be required to obtain an indemnity bond.

There will be no notional transfer of assets to the small admission body within the Fund. This means that all assets and liabilities relating to the small admission body's staff will remain the responsibility of the letting authority during the period of participation.

At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the small admission body (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no “exit credit” payment will be made from the Fund to the small admission body (or letting authority).

The terms of the pass-through agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the small admission body.

All existing admission agreements are unaffected by this policy.

This policy may apply to admissions where there are more than 20 active members at outset, subject to the agreement of the administering authority.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

Policy and process

Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

Risk sharing and cessation valuation

The letting authority will retain the risk of the small admission body becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor’s participation in the fund.

A cessation valuation is required when an employer no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of the employer body or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore no cessation debt or exit credit is payable to or from the Fund.

The small admission body will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	**Letting Authority**	**Contractor/Admitted body**
Surplus/deficit prior to the transfer date	✔	
Interest on surplus/deficit	✔	
Investment performance of assets held by the Fund	✔	
Changes to the discount rate that affect past service liabilities	✔	
Changes to the discount rate affecting future service accrual *		✔
Change in longevity assumptions that affect past service liabilities	✔	
Changes to longevity that affect future accrual *		✔
Price inflation/ pension increases that affect past service liabilities	✔	
Price inflation / pension increases that affect future accrual *		✔
Exchange of pension for tax free cash	✔	
Ill health retirement experience	✔	
Strain costs attributable to granting early retirements (not due to ill health) (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)	✔	
Greater/lesser level of withdrawals	✔	

Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

** These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time, and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that small admission bodies may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (small admission bodies are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to small admission bodies, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expects employers to seek approval to the treatment of pension costs from their auditor.

Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the fund.

- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to the employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the small admission body and its employee members (backdated if necessary).

- **Commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the fund. It is the letting authority’s responsibility to ensure that the commercial contract reflects the pension arrangements in the admission agreement.

Cost

The letting authority will be liable to meet any additional costs incurred by the administering authority as a result of any deviation from the fund’s standard processes and agreements for pass-through arrangements, which includes (but is not limited to) the actuarial fees.

Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "How does the fund calculate employer contributions?".

The treatment of new employers joining the fund is set out in the Funding Strategy Statement, specifically "What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the Funding Strategy Statement, specifically "What happens when an employer leaves the fund?"