

**DRAFT**

**APPENDIX A**

# **ADMISSION AND TERMINATION POLICY**

**LANCASHIRE COUNTY PENSION  
FUND**

**SEPTEMBER 2017**

**Lancashire County Council**



## A - INTRODUCTION

This document details the Lancashire County Pension Fund's (LCPF) policy on admissions into the Fund, the methodology for assessment of a termination payment on the cessation of an employer's participation in the LCPF, and considerations for current admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

## POLICY OBJECTIVES

## RISK MITIGATION

The Fund, in managing the admissions and exit process, aims to mitigate risk as far as possible, within its risk management framework. The admissions and exit process reflects this framework.

## EFFICIENT PROCESSES

The Fund, in managing the admissions and exit process, aims to operate procedures which minimise both cost and time taken to complete the necessary formal processes.

## COSTS OF MANAGING ADMISSIONS AND TERMINATIONS

The Fund will pass on relevant actuarial costs to new employers but at the same time operate a model which seeks to minimise these costs. The Fund will also recover its own costs from employers and apply a charging framework which encourages early engagement between involved parties and reflects the additional costs involved when admission requests are not made in good time.

It is essential that the Fund be given adequate notice of employers' plans around contracting-out exercises and other structural or organisational changes which will result in a new application for admitted body status; to this end the Fund's charging framework reflects the extra costs associated with 'late' admissions.

## LCPF 'DEFAULT' POSITION

This policy has been subject to consultation with employers in 2015: where the term 'default position' is used within this policy it is assumed that any existing or aspirant employer has made itself aware of, and accepts, existing policy and practice, unless specifically stating otherwise. In practical terms this means where there is a requirement (on the Fund) to consult with employers around aspects of the admissions/entry process, the Fund will assume employers accept its default position unless the employer expressly states otherwise. Should an employer wish to deviate from the Fund's default position then the Fund's charging framework will reflect the additional cost of doing so.

The Fund has discretion over many employers it chooses to admit, and whilst it wishes to see members who transfer to another employer, as a result of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement, to retain the benefits of ongoing LGPS membership, it may not accept applications from employers which have not previously adhered to the Fund's Pensions Administration Strategy Statement.

*Please see the glossary for an explanation of the terms used throughout this document.*

## B - ENTRY TO THE FUND

### 1. BACKGROUND

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme (LGPS) (the "Regulations"). Unlike other employers, such as county councils, district councils, academies and further and higher education corporations, who are named within the Regulations as bodies having an automatic right to participation in the LGPS, admission bodies do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the LGPS.

The Council as administering authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status MUST be submitted to the Council, as administering authority, in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should be submitted at least three months before the proposed transfer or admission date.

*Regulation reference: Regulation 3 (5), 4 (2) (b) and Schedule 2 part 3 paragraph 1 and 12 (a) of the Local Government Pension Scheme Regulations 2013/2356*

The regulations above detail the criteria under which an admission body may enter into an admission agreement with the Lancashire County Pension Fund. Those criteria are set out below specifically under the terms of Schedule 2 Part 3 paragraph 1 and Regulation 4 (2) (b):

#### *Schedule 2 Part 3 paragraph 1*

- 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. *(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*

#### *Regulation 4 (2) (b)*

*Where a person's entitlement to be a member of an NHS Scheme is by reason of employment by—*

- i. *a Care Trust designated under section 77 of the National Health Service Act 2006,*
- ii. *an NHS Scheme employing authority as a result of a prescribed arrangement under section 75 of that Act, or section 33 of the National Health Service (Wales) Act 2006, or*

- iii. the Care Quality Commission as a result of a transfer of employment from the Commission for Social Care Inspection, in connection with its dissolution under Part 1 of the Health and Social Care Act 2008;*

*Then that person can be designated as eligible for membership of the Scheme in an admission agreement made between an administering authority and one of the bodies specified in (i) to (iii) above if the person was an active member immediately before becoming employed by one of those bodies; and the person is not an active member of an NHS Scheme in relation to that employment.*

## 2. POLICY STATEMENT

### **a) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 para 1 (d) (i) (formerly known as Transferee Admission Bodies)**

Admissions under this criterion relate to organisations that have taken on work on behalf of a scheme employer by means of a contract or other arrangement. The Fund's policy is to accept these admissions but may not do so if there are unaddressed concerns around the prior compliance, with the Fund's Pensions Administration Strategy Statement (PASS), of an existing admitted employer. The Fund dedicates significant resource to supporting employers with PASS compliance, and will engage on an ongoing basis with employers proactively to ensure they understand and meet PASS commitments.

Unless exceptional circumstances are identified the Fund's default position will be for the admitted body to commence from a 100% funded position and be closed to those eligible employees identified at the point of transfer.

In addition where it is deemed appropriate, following a risk analysis agreed by the transferring Scheme employer and administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities. The Fund reserves the right to insist on security even if the transferring employer does not agree.

### **b) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Regulation 4 (2) (b)**

An application for an admission agreement from a Care Trust will be accepted on the basis that a guarantee will exist (or if in doubt, be explicitly provided) by either the NHS or the Local Authority as part of partnership working arrangements, or ultimately the Treasury in the event that a trust failed.

### **c) Criteria for admission to the Lancashire County Pension Fund of prospective admission bodies falling under Schedule 2 Part 3 para 1 (a) (formerly known as Community Admission Bodies) and the remaining criteria under schedule 2 Part 3 excluding a) above**

The Fund will expect an existing scheme employer to act as guarantor in respect of an admission (normally the Fund will require this to be a scheduled body of suitable standing). Otherwise, the Fund's policy is not to accept admissions unless exceptional circumstances apply, as determined by the Head of the Lancashire County Pension Fund.

Where an admission is agreed, following a risk analysis agreed by the administering authority, a bond, indemnity or other form of security may be required to be put in place to cover potential liabilities as determined by either the Fund actuary or the Fund.

In all cases an admission body must accept and agree to meet the conditions of participation detailed at Appendix 1 and the clauses set out within Lancashire County Pension Fund's standard draft admission agreement.

The Fund's default position is that it will not amend its standard Admission Agreement template; should a prospective admitted body wish to enter into discussions around changing clauses within the template, then the staff time involved on the Fund side will be charged at £35 per hour

## FUTURE SERVICE CONTRIBUTION RATES AND DEFICITS

In line with the philosophy of minimising costs for all involved, the Fund will use models (where possible) provided by the Fund actuary which will set interim future service contribution rates (FSR) and deficits according to the principles set out below.

Models are used in respect of new academies, Parish or Town Councils and the admission of an employer in respect of an arrangement to carry out work on behalf of a scheme employer by means of a contract or other arrangement.

Where the parameters fall outside those specified within the models below, admissions will normally involve a full actuarial assessment of relevant parameters. Any risk issues will be addressed by the Fund with a view to minimising risk exposure to itself.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However the administering authority reserves the right to determine that an employer specific deficit recovery period will apply.

### 1 - ACADEMIES

The new Academy will generally be an ex-Local Education Authority (LEA) school from one of the Fund's three employers with LEA status. Where this is the case:

- The FSR will be set at the previous employer's existing FSR rate, which will apply until the next valuation;
- The opening deficit will be calculated using an actuarial model which allocates a share of the LEA's deficit at the most recent valuation of the Fund.

At the next valuation a 'stand-alone' FSR and deficit will be calculated by the Fund's actuary. The Fund's general deficit recovery policy will be used to determine deficit payments, unless its risk management framework determines that a different period be applied, either at the academy creation stage or at subsequent triennial valuations

Where a new academy joins the Fund as an independent free school or via its status as part of a multi-academy Trust which is already a Fund employer, and where the pre-Academy status school was not the responsibility of either Lancashire County Council, Blackburn with Darwen Borough Council or Blackpool Borough Council, no opening deficit will typically be assigned. The FSR applied will initially match the LEA area in which multi academy trust or stand-alone free school is based. Any deficit arising at the next triennial valuation will be assigned to the new academy accordingly.

Academies which were previously schools under an LEA outside of the three existing LCPF LEA employers will only be able to join LCPF if they join a MAT which is already a Fund employer. If an academy leaves one MAT and joins another which is not a LCPF employer, any deficit will be allocated to the previous MAT.

Given that there are a growing number of academy chains (or multi academy trusts), which operate as single employers with common policies in regard to issues such as ill health and early

retirement and common sets of employer discretions, the Fund will offer the option of pooling to academy chains as part of subsequent valuation exercises.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

## **2 – PARISH OR TOWN COUNCILS**

Temporary contribution rates are used based on the most recent valuation funding assumptions and the average age of member/s involved. The factors cover future service only, and so assume that the employer is fully funded on admission. If this is not the case then cases are referred to the Fund's actuary for assessment.

Similarly cases will also be referred to the scheme actuary if any member has an earlier period of LGPS service which they wish to link to service with the Parish or Town Council or, additionally, where exceptional circumstances are identified.

The temporary FSR will apply until the next valuation, at which stage a 'stand-alone' FSR for the Parish or Town Council will be calculated by the Fund's actuary.

The proforma provided by the Fund's actuary to establish the temporary rates will be updated following each valuation of the fund.

## **3 – PROSPECTIVE ADMISSION BODIES FALLING UNDER SCHEDULE 2 PART 3 PARA 1 (D) (I) (FORMERLY KNOWN AS TRANSFEREE ADMISSION BODIES)**

Admission agreements for bodies relating to organisations that have taken on work on behalf of a scheme employer by means of a contract, will have an opening FSR matching the transferring employer's FSR, where the criteria set out below are met:

- The admission body is fully funded at the outset
- The number of transferring pensionable employees is less than 2% of the transferring employer's payroll
- The number of transferring pensionable employees is less than 20
- The contract length is limited to a maximum of 5 years

Under these circumstances the FSR used throughout the lifetime of the contract will match that of the original transferring employer (including any changes following triennial valuations).

Under this approach the original transferring employer assumes the assets and liabilities at the end of the contract without a termination calculation being carried out. This principle also applies where a contract is re-let to either an incumbent or new contractor.

Where the above criteria are not met, then, at the point of admission, the FSR will be set by the Fund actuary, and reassessed at each following valuation. At the end of the contract any identified deficit will be recovered from the out-going admission body. If this cannot be recovered from the admission body, or a surplus position exists, then this will be absorbed by the original transferring employer. This principle also applies where a contract is re-let to either an incumbent or new contractor.

Transferring employers will be able to propose the use of other models, any security arrangements or termination deficit calculations. However the Fund will not instigate discussion around such and will assume the transferring employer accepts the above approach unless stated otherwise. Where the transferring employer deviates from the standard approach additional costs will be incurred.



## C - EXITING THE FUND

### BACKGROUND

Lancashire County Pension Fund must obtain an actuarial assessment showing the exit payment due when a body ceases to be a scheme employer or no longer has any active members. That body is liable for the exit payment. This applies equally to all scheme employers participating in the fund, regardless of whether an admission agreement is in place. The purpose of the exit payment is to ensure all future liabilities arising from the exiting employer's members are met by the employer at the time of exit.

In the event that these liabilities cannot be recovered from the exiting employer then these liabilities will normally fall to be met by the Fund as a whole (i.e. all scheme employers) unless there is a guarantor or successor body within the Fund.

*Regulation reference: Regulation 64 of the Local Government Pension Scheme Regulations 2013/2356;*

### POLICY STATEMENT

A termination assessment will always be carried out for bodies who cease to be a scheme employer within Lancashire County Pension Fund, the actuarial cost of which will be charged to the outgoing scheme employer, together with any other related costs of the termination. The exception to this will be those admission bodies where it is agreed that liabilities will be subsumed by the relevant transferring scheme employer as detailed in part B of this policy statement.

Treatment of assets and liabilities at termination will be as follows:

- Where a guarantor is in place, all assets, liabilities and any funding deficit (not recovered from the outgoing body) will be subsumed by that guarantor being that they will also be a scheme employer within the Fund.
- If there are surpluses at termination then these will be subsumed by the Fund, unless the admission body exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract, in which case on termination, any 'orphan' liabilities and the related assets in the Fund will be subsumed by the relevant scheme employer.
- If there are potential liabilities that cannot be recovered from the outgoing employer and a bond or other form of security is in place, then the amount of those liabilities will be recovered from the bond/security.
- In the case of older admissions in place prior to 20/11/2009, where there is no guarantor, bond or other security in place and where the existing admission agreement has not been subsequently amended to include a guarantor, bond or other security, then following the termination assessment any outstanding liabilities will be recovered from the outgoing body. Where this is not possible then this liability will be subsumed by the Fund as a whole. Any surplus identified will likewise be subsumed by the Fund.

The regulations allow the fund to suspend (by issuing a "suspension notice") an exiting employer's liability for an exit payment for any period up to 3 years. This is only possible where, in the reasonable opinion of the administering authority, the body is likely to have one or more active members in relation to the Fund within the period specified in the suspension notice. On this point, the Fund will always seek to recover the exit payment due at the point no more active members exist, unless it can be demonstrated that exceptional circumstances apply to allow a suspension period to apply.



## FUNDING ASSUMPTIONS FOR TERMINATION CALCULATIONS

The LCPF policy is that a termination assessment will be made based on a corporate bond funding basis, **unless** the terminating employer has a guarantor within the Fund or a successor body exists to take over their liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the terminating employer's liabilities will become "orphan liabilities" within the Fund, and there will be no recourse to the terminating employer if a shortfall emerges in the future (after termination).

If, instead, the terminating employer has a guarantor within the Fund or a successor body exists to take over their liabilities, the LCPF policy is that the valuation funding basis will be used for the termination assessment. The guarantor or successor body (or the Fund in respect of older admission arrangements) will then, following any termination payment made, subsume the assets and liabilities of the terminating employer within the Fund. This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

The corporate bond financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

<b>31 March 2016</b>	<b>Valuation funding assumptions</b>	<b>Corporate bond assumptions</b>
Discount Rate	4.4% p.a.	3.6% p.a.
CPI price inflation	2.2% p.a.	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption for the corporate bond approach. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

Therefore the corporate bond approach for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.5% p.a. used in the 2016 valuation for ongoing funding and contribution purposes.

Notwithstanding the above, at the discretion of the Head of Fund a "minimum risk" approach may be used for the calculation of the termination assessment. Under such an approach the discount rate would be linked to long-term gilt yields rather than corporate bond yields. If this were to be applied then the employer would be notified when termination was being discussed.

## NOTIFICATION OF TERMINATION

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to

open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

## TERMINATION PAYMENTS

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

The actuarial cost of carrying out the termination assessment will be charged to the outgoing employer, together with any other related costs of the termination.

## D - CHARGING STRUCTURE

### 'TARIFF' CHARGES – RECOVERY OF LCPF ADMINISTRATION COSTS

- Admission agreement - £1,000
- New Academy – £350

### 'NON-TARIFF' CHARGES – RECOVERY OF LCPF COSTS

The above represents the charging structure for new admission agreements and academies using the Fund's default position. Where employers choose to deviate from the Fund's default position the Fund's costs will be recovered at a rate of £35 per hour in addition to the 'tariff' rates above.

Where pensions contributions due to the LCPF are paid 'late' then additional interest charges will be made against those contributions. 'Late' within this context means where the appropriate pension contributions have not been paid across to the fund on or before the due date. To be clear the due date is 19 days after the end of the month in which a new employer is deemed to have commenced in the LCPF.

The interest charges applicable will be in line with the requirements set out in regulation 71 of the LGPS Regulations 2013/2356. Under this arrangement any interest payable will be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

The Fund commits to processing model-based admissions within a month of first becoming aware of an impending admission, provided that all information needed to complete the admission has been provided to it at the outset of the process.

## RECOVERY OF OTHER COSTS

Actuarial, Legal and any other costs incurred by LCPF in direct relation to an admission will be recovered from the new employer.

## **E - RISK MANAGEMENT**

When an employer is admitted to the Fund, the regulations require that a risk assessment be carried out. The purpose of this risk assessment is to ensure that any liabilities which arise from the admission are paid for by the admitted employer.

Whilst circumstances can vary, in general terms, under a contracting out arrangement the transferring employer 'guarantees' the new employer's liabilities, in the event (due for example to insolvency) that any liabilities are not paid when due. Transferring employers can, in conjunction with LCPF, decide that security measures be put in place to mitigate against this risk.

Such matters require context and judgement in applying the regulations— for example if the potential liabilities are small in comparison to the transferring employer's financial strength, then the risk assessment and mitigation process may in itself be disproportionate, time consuming and costly relative to the risks involved.

The default position is that the Fund will carry out an assessment of risk, and will notify the transferring employer of this, but will only engage in active discussion with the transferring employer if it considers that security measures are required. If the transferring employer insists on security despite the Fund's viewpoint, then the work involved by the Fund in setting up and agreeing security measures will be charged at £35 per hour.

Where an aspirant admitted body joins the Fund under the exceptional circumstances route (as specified in section B2 above) the Fund will carry out a risk assessment and will only accept the admission if is satisfied with the mitigation mechanism proposed.

## GLOSSARY

### **Actuarial Valuation:**

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

### **Administering Authority:**

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

### **Admission bodies:**

A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

### **CPI:**

Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

### **Corporate bond basis:**

An approach where the discount rate used to assess the liabilities is determined based on the yields of AA-rated corporate bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted for employer accounting purposes, and also is usually adopted when an employer is exiting the Fund.

### **Covenant:**

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

### **Deficit:**

The extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

### **Deficit recovery period:**

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

### **Discount Rate:**

The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

**Employer's Future Service Contribution Rate:**

The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**Scheme employers:**

Any organisation that participates in the LGPS, including admission bodies.

**Funding or solvency Level:**

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**Funding Strategy Statement:**

This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

**Guarantee/guarantor:**

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**Letting/transferring employer:**

An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**Liabilities:**

The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:**

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**Members:**

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Minimum risk basis:**

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may sometimes be adopted when an employer is exiting the Fund.

**Orphan liabilities:**

Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**Recovery Plan:**

A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**Scheduled bodies:**

Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. Scheduled bodies include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**Valuation funding basis:**

The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

## Appendix 1

### Conditions of Participation

#### 1. PAYMENTS

- 1.1 The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.
- 1.2 The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.
- 1.3 The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.
- 1.4 Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/or AVC insurance company selected by the Administering Authority and notified to the Admission Body. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.
- 1.5 Where the Admission Body certifies that:
  - 1.5.1 an eligible employee aged 55 or more, is retiring by reason of redundancy or in the interests of efficiency; or
  - 1.5.2 an eligible employee is voluntarily retiring on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions; or



- 1.5.3 an eligible employee who is a deferred member of the Scheme requests that their benefits are brought into payment early on or after age fifty-five (55) and the Admission Body exercises a discretion to waive actuarial reductions;

and immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits as certified by an actuary appointed by the Administering Authority. Such sum to be paid (unless other terms are agreed between the Administering Authority and the Admission Body) within thirty (30) calendar days of receipt by the Admission Body of the written notification.

- 1.6 The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.
- 1.7 If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

## **2. ADMISSION BODY'S UNDERTAKINGS**

The Admission Body undertakes:

- 2.1 to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

- 2.2 To comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734);
- 2.3 To adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;
- 2.4 To formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;
- 2.5 To notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;
- 2.6 To notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;
- 2.7 To immediately notify the Administering Authority (and the Scheme employer where appropriate) in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.
- 2.8 Where the admission agreement exists under the criteria set out in Schedule 2 Part 3 para 1 (d) (i) relating to organisations that have taken on work on behalf of a scheme employer by means of a contract then employees are only eligible for continued participation of the LGPS where they are "employed in connection with" the contract. "Employed in connection with" shall mean that an Eligible Employee is employed by the Admission Body on the basis that in any six (6) month period an

Eligible Employee spends not less than fifty per cent (50%) of his time whilst working on matters directly relevant to the Contract. For the avoidance of doubt, when assessing the time spent working on matters directly relevant to the Contract the Admission Body should take into account a range of factors including (but not limited to) the time spent on different parts of the business, the value given to each part of the business, the contract of employment and how the costs of that employee are dealt with.

### **3. ACTUARIAL VALUATIONS**

- 3.1 The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.
- 3.2 Upon termination of this Agreement the Administering Authority must obtain:
  - 3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former eligible employees as at the date of termination; and
  - 3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

the costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

### **4. TERMINATION**

- 4.1 An Admission Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate the Agreement to the other party or parties to the Agreement.

4.2 The Agreement shall terminate automatically on the earlier of:

- 4.2.1 the date of the expiry or earlier termination of the Contract ; or
- 4.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations.

4.3 The Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

- 4.3.1 the insolvency winding up or liquidation of the Admission Body;
- 4.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;
- 4.3.3 the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;
- 4.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

