

Appendix 'D'

Admissions and Terminations

Certain employers and their staff are 'allowed' to participate in LGPS by virtue of being specifically designated. Other employers can be admitted to the scheme, at the discretion of the AA. 'Admissions and Terminations' is the term used to describe the process by which new employers gain entry to, and leave, LGPS.

Dealing with admissions or exits from LCPF consumes staffing resource and incurs other costs, and can create risk to the fund. It is therefore desirable to:

- reduce administrative costs borne by the fund;
- reduce the complexity of the current admissions process as far as possible; and
- put in place measures to manage risk.

In a typical year between 20 and 40 admissions or terminations may occur, at an estimated administrative cost of £60k to £100k. Recently the bulk of admissions have occurred due to schools contracting out catering or cleaning functions, usually involving very small numbers of LGPS members.

➤ Scheduled Employers and Admitted Bodies

There are over 200 active employers in the LCPF, ranging from the very large to the very small in terms of employee numbers. Employers are categorized into two types:

- 'Scheduled Employers'; and
- 'Admitted Bodies'

Scheduled employers have a statutory 'right' to participate in LGPS and include councils and academies.

Admitted bodies are 'allowed' to participate at the discretion of the AA and include organisations which contract with scheme employers following a contracting-out exercise, housing associations, universities and charities.

Admitted bodies gain entry to LCPF by means of an admission agreement; scheduled employers do not need an admission agreement.

Employers can also leave LGPS, for example when an admitted body's contract with a scheme employer ends. An admission agreement would end at the time of leaving so long as any debts due to LCPF are paid.

➤ Admission Agreements

An admitted body joins LGPS by means of an Admission Agreement – this is a formal legal document which spells out responsibilities, risk management arrangements and financial issues etc. and requires agreement between the parties involved.

➤ **Contracting out by Scheduled Employers**

Where scheduled employers contract work out to third parties, those staff who transfer under the contract have a right to remain with LGPS or otherwise be offered membership of a 'broadly comparable pension scheme'. In practice this means that whilst there is a wider element of discretion in allowing who to admit under admitted body status, LCPF to all intents and purposes **must** admit certain employers where this is requested by a scheduled employer.

➤ **Valuing Liabilities, Risks, and Setting Contribution Rates**

In dealing with admissions and departures from the fund, LGPS regulations require an assessment of employers' incoming and outgoing liabilities, and future contribution rates; historically this has been achieved through a very detailed process, the cost of which often bears little relation to number of employees or liabilities involved. This existing process works in such a way as to ensure that ceding employers either pass on (to the new employer), or guarantee, any existing 'liability risk' and pay contributions at a level which will not increase liability risk in future. Clearly, this risk management process provides an element of security to the Fund.

Liability risk is a term used to describe the risk to the pension fund of an employer's pensions liabilities falling upon other employers, if the original employer becomes insolvent or otherwise unable to meet its commitments.

When a new employer is admitted, its liability risk is managed either by requiring a scheme employer to guarantee any liabilities or by requiring the admitted body to obtain an insurance bond which would cover any future shortfall in the event of insolvency.

➤ **Administrative Issues**

As stated previously, admissions cost the fund upwards of £60k per annum in staff time and legal costs. Generally speaking actuarial costs are passed onto new employers. LCPF publishes detailed guidance documents to assist employers in understanding and managing the admissions process, and engages with employers regularly, however a number of persistent problems exist, such as:

- chasing employers to sign documents (time and resource);
- Employers wanting to change the LCPF standard admission agreement (time and legal costs); and
- Employers not keeping the AA up to date about planned contracting out exercises or the potential creation of new aspirant admission bodies (causing the AA to backdate admission agreements).

➤ **Outdated Admission Agreements**

In some instances existing admission agreements have become obsolete due to changes in LGPS regulations. Many of the older admission agreements do not contain provisions which require employers to provide security against their liability risk. It is the intention of the AA, following consultation, to draw up a new template admission

agreement, specifying a requirement to provide security, which would not normally be subject to negotiation with individual employers on an admission-by-admission basis.

Given such a position it would seem unreasonable to 'impose' a new admission agreement on existing employers, however the proposed AA position will be that admitted employers either sign up to the new admission agreement, or consider whether they wish to remain in LCPF. Whilst this may appear a relatively assertive position, the AA does not wish to enter protracted negotiations but instead move to a standardized admission agreement, quickly and without prolonged debate or legal arguments. This course of action is required to reduce risk to the Fund.

Current LCPF policy and practice

This is generally to:

- accept admissions from aspirant admitted bodies so long as adequate risk management arrangements (largely insurance bonds or ceding employer guarantees) are put in place; and
- require a detailed actuarial calculation in respect of liabilities and contribution rates for any admission;
- absorb the costs of legal and administrative time in dealing with admissions and terminations;
- negotiate admission agreements with individual employers; and
- accept late admissions.

Potential Changes

➤ Actuary's Proposal to Simplify Admissions and Terminations

The LCPF actuary, Mercer, has proposed a new model to manage admissions and set initial contribution rates which will simplify processes significantly, and reduce costs. It is proposed to adopt this approach.

➤ Passing on Costs to Employers and Moving to a Standard Admissions Model

It is proposed that the recommendations below would help ensure that employers, rather than the Fund, meet the costs of the admissions process and additionally would provide some imperative for employers to actively engage in/support the wider objective of simplifying and speeding up administrative processes.

Recommendations

That a policy be approved and adopted where:

- the Mercer proposal for a simplified approach to the setting of initial contribution rates be adopted by LCPF;

- that entry to LCPF be restricted in future only to those employers whom the fund is required to admit; in practical terms this means excluding any new admissions except where these occur as a result of scheduled employers contracting out work;
- a philosophy of 'no changes to the fund's standard admission agreement' be applied unless exceptional circumstances apply;
- a charging framework for the processing of admission agreements be introduced;
- this charging framework to additionally reflect any costs associated with changing template admission agreements;
- LCPF refuse to accept backdated admission agreements unless exceptional circumstances apply; where this is the case the charging framework applying to employers will be twice as high as 'on time' admissions; and
- existing admitted employers with outdated admission agreements be required to sign up to the current template admission agreement.