

Hampshire Pension Fund – Employer Policy

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1. Background

- 1.1. This policy explains the Fund's policies and procedures in the treatment of employers including the admission and exit of employers in the Hampshire Pension Fund. Hampshire Pension Fund is administered by Hampshire County Council.
- 1.2. The purpose of this policy is to ensure that, as the Administering Authority of the Hampshire Pension Fund, we will minimise the risk that any employer places on the Fund before agreeing to admit any new employers to the Fund. It is also intended to provide clarity on the decisions made by the Fund and provide consistency in the way types of employers are dealt with.
- 1.3. This policy should be read in conjunction with the Hampshire Pensions Funding Strategy.
- 1.4. The policy will be reviewed from time to time and at least every three years in line with the Hampshire Pensions Funding Strategy. It will also be reviewed following changes in the regulations relating to employers in the Fund.
- 1.5. It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.
- 1.6. Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

2. Aims

- 2.1. Our aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund. In managing this risk we will have regard to the aims of Hampshire Pensions Funding Strategy:
 - to manage the employer's liabilities effectively,
 - to enable employers' contribution rates to be kept as stable as possible and affordable for the Fund's employers
- 2.2. The Administering Authority has an obligation to pursue all liabilities owed so this deficit does not fall on other employers.

3. Principles

- 3.1. For funding purposes, the Administering Authority will treat employers in different ways depending on how they participate in the fund.
- 3.2. Scheduled body employers under Part 1 of Schedule 2 of the Regulations and Town and Parish Councils under paragraph 2 or Part 2 of Schedule 2 will be part of the Scheduled body group subject to the Administering Authority being satisfied as to the financial security of the employer or the sector in which the employer operates. Decisions made by employers in the group must be in accordance with the group behaviours as set out in paragraph 4.1 below. Employers in the group will pay the same future service rate and share the funding risks of the group as set out in the Funding Strategy Statement.
- 3.3. Some existing Admitted bodies may be part of the Scheduled body group on the understanding that, where considered appropriate, a formal agreement will be put in place to protect the other grouped employers from the actions of the admission body and the effect of the admission agreement being closed to new entrants. The Administering Authority may remove those employers from the Group if satisfactory agreement cannot be reached or the terms of any agreement are not adhered to by the employers concerned.
- 3.4. Some existing Admitted body employers may be part of the Admitted body group. The Administering Authority may decide to remove an employer from the Admitted body group if the decisions it makes or the level of financial security provided would adversely affect other employers in the group.
- 3.5. Some employers will be in neither group and will be set an individual employer contribution.
- 3.6. Employers who are part of a group need to act in accordance with the group behaviours. The Fund will monitor the funding / membership experiences of the employers from time to time. If the Fund considers an employer is not acting in accordance with the group behaviours it will consider removing the employer from the group so the impacts of the decisions made by the employer do not adversely affect other employers in the group.
- 3.7. Regardless of whether they are grouped or ungrouped individual employers will pay for any legal and actuarial costs incurred on their behalf.

4. Responsibilities of employers in the Fund

- 4.1. We will expect all employers in the Fund to take into consideration the effect of their behaviours on the group, for example when considering;
 - Discretions policies
 - Outsourcing decisions
 - Salary increases
- 4.2. Employers should have regard to the Hampshire Pension Fund administration strategy at all times.
- 4.3. **Changes/mergers**
- 4.4. All employers, whether Admission or Scheduled bodies, need to inform the Hampshire Pension Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution or mergers with other organisations or other decision which will or may materially affect the employer's Fund membership.

5. Managing risk

- 5.1. Our aim is to minimise employer related risk to the Fund across all the employers in the Fund.
- 5.2. There must be no significant additional risk to the Fund from any outsourcing by a scheme employer or admission of any other new body for which a scheme employer is guarantor. We would want to ensure that the decisions made by an employer when outsourcing services or providing a guarantee have no adverse impact on the Fund or on other employers in the Fund. We would look to protect both the Fund and other employers in these circumstances.
- 5.3. Scheme employers must be prepared to manage any pension risk of an outsourcing.

6. New employers in the Hampshire Pension Fund

6.1. Admission bodies

- 6.2. Each Admitted body will be a stand alone body in the Fund with their own contribution rate.
- 6.3. Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from the Fund.
- 6.4. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund or the Scheduled body group.
- 6.5. The costs in terms of the contribution the new employer pays and the fees in relation to the solicitor and actuary costs will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the scheme employer and whether or not the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future. The fees will depend on the information required from the actuary and solicitor but an estimate will be provided prior to work being commissioned.

6.6. Scheduled bodies setting up a wholly owned company

- 6.7. [Where SPart 1 scheduled](#) bodies set ~~ting~~ up a wholly owned company [which participates in the Fund as a Part 2 employer, that wholly owned company w](#)ill be a stand alone body in the Fund with ~~its~~ ~~their~~ own [individually assessed](#) contribution rate.
- 6.8. Employers considering outsourcing any services to a wholly owned company should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from the Fund.
- 6.9. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund or the Scheduled body group.

6.10. **Paragraphs 5 & 6, Part 2, Schedule 2 bodies**

6.11. To be an employer under paragraph 5 of part 2 of Schedule 2, the new employer would be connected with scheme employer, where connected means:

- a) it is an entity other than the local authority; and .
- b) according to proper practices in force at that time, financial information about the entity must be included in the local authority's statement of accounts for the financial year in which that time falls.

6.12. To be an employer under paragraph 6 of part 2 of Schedule 2, the new employer would be "under the control of" the scheme employer, where under the control of has the same meaning as in section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989.

6.13. The Fund actuary will determine the employer contribution payable for such a body as an ungrouped employer and if necessary revise the contributions payable by the scheme employer outsourcing to a [Part 2](#) Schedule 2 body with the aim of ensuring the transfer does not increase the risk to the Fund or the Scheduled body group.

6.14. As with Admission bodies, the costs in terms of the contribution the new employer pays and the fees in relation to the solicitor and actuary will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the scheme employer and whether or not the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future. The fees will depend on the information required from the actuary and solicitor but an estimate will be provided prior to work being commissioned.

6.15. Town and Parish Councils

6.16. Town and Parish Councils joining the Fund will automatically join the Scheduled body group.

6.17. When a Town or Parish Council designates to join an employee to the Fund, they have no current active members and are not currently subject to a suspension notice (see section 12 below), a standard employer rate equal to the prevailing future service rate of the Scheduled body group (currently 14%) will be payable until the contributions from the next triennial valuation come into force.

6.18. **Academies**

6.19. New academies will automatically join the Scheduled body group. Where the academy is formed from an existing school it will pay the same percentage of pay rate as the group (which in turn will be the same as the rate payable by the local education authority). Where the academy is a brand new school, i.e. it has no

accrued liabilities in the Fund at commencement, it will pay a rate equal to the prevailing future service rate of the Scheduled body group.

- 6.20. New academies will also be asked to take responsibility for a portion of the local education authority's deficit contributions in line with the proportion of pensionable payroll which is transferring from the local education authority to the academy.
- 6.21. Where academies outsource services the new admission body will be treated as an ungrouped employer subject to the orphan funding target as set out in the Funding Strategy Statement.

7. Bonds and guarantors

7.1. Guarantor

- 7.2. A guarantor takes responsibility for the assets and liabilities of the Fund which are attributable to the admission body. In the event that liabilities of the admission body remain unpaid, the Fund will seek payment from the guarantor.
- 7.3. Under The Local Government Pension Scheme Regulations 2013¹ every employer who outsources services becomes an ultimate guarantor for the pension liabilities of the new employer.
- 7.4. In some circumstances, where the letting authority is not a tax raising authority the Fund will require a bond to be put in place to cover certain funding risks to the Fund on the advice of the Fund actuary.
- 7.5. The admission agreement ends if the new employer becomes an exiting employer². The Fund will arrange for a valuation of the assets and liabilities of the exiting employer and a revised rates and adjustment certificate.
- 7.6. Payment of the outstanding liabilities must be made by the exiting scheme employer. If the exiting scheme employer fails to make this payment and if there is a bond in place we will call on this in the first instance.
- 7.7. If there is no bond in place and the scheme employer fails to pay the outstanding liability we will pursue payment from the guarantor. If there is no guarantor the liability will fall to the letting authority who arranged for admission body status for the exiting employer.
- 7.8. Charitable bodies seeking admission to the Fund will need a tax raising authority to act as guarantor.
- 7.9. Any employer acting as guarantor will need to complete a guarantor agreement. The Fund will provide a template document for completion.

¹ Schedule 2, Part 3, 1(d)

² The Local Government Pension Scheme Regulations 2013 Part 2 , 64

- 7.10. **Bond**
- 7.11. A bond is a way of insuring against the potential cost of the admission body failing by reason of insolvency, winding up or liquidation and being unable to meet its obligations to the Fund.
- 7.12. The Local Government Pension Scheme regulations provide that the risk assessment for bond cover must be carried out by the admission body. However, we will ask the actuary to calculate the minimum risk to the Fund for any outsourcing. This information will be shared with the scheme employer but not with the admission body. However, it will not constitute advice for either the scheme employer or admission body, who should take their own actuarial advice as required.
- 7.13. Where there is a guarantor, the bond will be largely for that scheme employer's protection, in which case the scheme employer must decide if the admitted body will be required to provide a higher bond than that calculated by the Fund actuary.
- 7.14. The Administering Authority will require a bond or indemnity to be in place for any outsourcings that are arranged by scheme employers that do not have tax-raising powers. Where there is no bond the Fund will require the letting employer to sign a guarantee agreement.
- 7.15. The scheme employer needs to be aware of and manage the ongoing risks.
- 7.16. The scheme employer should review the bond cover annually.
- 7.17. In the event of an admitted body failing and there being insufficient bond cover, any outstanding liability will fall to the scheme employer.

8. Open or closed admission agreements

- 8.1. **Open agreement**
- 8.2. An open agreement allows any person employed in connection with the contract to join the LGPS.
- 8.3. The Fund will consider an open agreement for an outsourcing. It is for the scheme employer/admission body to ensure only those eligible are admitted to the Fund.
- 8.4. **Closed agreement**
- 8.5. A closed agreement relates to a fixed group of employees. Only the employees or roles that transfer to the admission body from the scheme employer can remain or be members of the Scheme.
- 8.6. Unless advised otherwise, we will assume the admission agreement is closed and there will be a default joining window of 6 months.
- 8.7. A scheme employer arranging an outsourcing may agree to vary from this position but they must be aware of their obligations under Best Value.

9. Funding targets

- 9.1. The funding target relates to what happens to the liabilities for the members being outsourced at the end of the contract or termination of the admission agreement, and may also take into account the administering authority's view on the strength of the scheme employer's covenant.
- 9.2. The presumption will be that the scheme employer will provide a "subsumption commitment" (i.e. be responsible for the future funding of the liabilities post-exit) but this should be confirmed in each case.
- 9.3. **Orphan funding target**
- 9.4. Outstanding liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.
- 9.5. The Fund will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities.
- 9.6. To achieve this, where an admission body is admitted on an orphan funding target, the Fund will seek to notionally transfer sufficient assets from the scheme employer to match the transferring liabilities with low risk investments. (Generally Government fixed-interest and index-linked bonds).
- 9.7. **Subsumption funding target**
- 9.8. Where an employer is leaving the Fund another employer or group of employers may agree to provide future funding for any liability.
- 9.9. In that case, any funding deficit arising in future in relation to the exited employer's liabilities will be subsumed by the accepting employer or group.
- 9.10. The Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.
- 9.11. **Intermediate funding target**
- 9.12. The actuary also has the option to place an employer on an intermediate funding target if they deem it appropriate.

10. Pass-through

- 10.1. A scheme employer may agree a pass-through arrangement with an admitted body. In this case the employer contribution is still calculated by the Fund actuary and the admitted body will be expected to pay this to the Fund. Any arrangement to share the cost of this rate will be between the scheme employer and the admitted body.
- 10.2. New Admitted bodies will not be included in the scheduled body or admitted body group even if there is a pass-through arrangement in place between the letting authority and the admitted body.

11. Fully funded or share of fund

- 11.1. **Fully funded**
- 11.2. When a new employer starts in the Fund, they will usually start as fully funded.
- 11.3. This means that any past deficit for the members who are transferring to the new employer remains with the scheme employer and does not transfer to the new employer.
- 11.4. This applies even where there is an onward outsourcing from an existing body. The new employer will start fully funded and the existing admission body will pay any deficit (unless specified otherwise in their contract with the scheme employer).
- 11.5. Where the funding target for the new employer is higher than that for the scheme employer, the Fund actuary will revise the contributions for the scheme employer to take this into account.
- 11.6. **Share of fund**
- 11.7. In exceptional circumstances and only where agreed between the employers the Fund may consider starting a new employer with a share of fund. The Fund will only agree to this where it doesn't increase the risk to the Fund.

12. Exit from the Fund (terminations)

- 12.1. If an exit is triggered, the employer will be responsible for all costs (including any deficit).
- 12.2. An exit valuation will be carried out when an employer becomes an "exiting employer", i.e. it :
- ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or
 - no longer has an active member contributing towards the Fund
- 12.3. For admission bodies, this includes the following scenarios:
- An outsourcing contract ends or,
 - For a closed agreement, when the last member leaves if it is before the contract end date, or
 - The admission body becomes insolvent, is wound up or goes into liquidation.
- 12.4. For exits of a body admitted to the fund under Schedule 2 Part 3 paragraph 1(d) (or earlier regulations) or where a scheme employer is acting as guarantor, the scheme employer should notify the Administering Authority as soon as it knows the admission agreement is likely to be terminated.
- 12.5. The Fund will instruct the actuary to carry out an exit valuation. The costs of this will be added to the final exit valuation
- 12.6. The Administering Authority will pursue all liabilities owing to the Fund. We will support employers to develop a strategy to exit the Fund where required and it is in the interests of the Fund to do so
- 12.7. The Fund will pursue the body, any insurer providing a bond or any guarantor as appropriate but ultimately, if unsuccessful, the scheme employer will become liable for any outstanding costs.
- 12.8. **Town and Parish Councils**
- 12.9. Under the Regulations an exit is triggered when the last active member leaves the Fund.
- 12.10. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves as it may take some time to replace a member of staff and the Parish Council may wish to admit the new employers into the scheme. The Local Government Pension Scheme (Amendment) Regulations 2015³ specifically introduced the power to suspend a demand for an exit payment for up to 3 years where the administering authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in

³ Provision 22

the suspension notice. The Administering Authority considers that it would be appropriate to exercise that discretion in relation to Town and Parish Councils.

- 12.11. The Fund will issue written notice of the period of the suspension notice. The employer must continue to pay any deficit payments and the actuary will recalculate any deficit at the next valuation.

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