

Downer, Lois

From: Pensions Service Development
Sent: 26 October 2015 16:37
Subject: Consultation on employer policy and Funding Strategy Statement
Attachments: AEM 2015_(HF000010282422).pptx; Employer policy consultation letter.doc; funding_strategy_statement - Draft for consultation.doc

Following the Annual Employer's Meeting which was held on Friday 23 October, please find attached the slides from the presentations for your information.

If you were unable to attend and have any questions about the topics that were covered, please email them to servdev.pensions@hants.gov.uk

Also attached is a letter from Carolyn Williamson, asking for your feedback on the draft Employer Policy and the proposed changes to the grouping arrangements.

The Employer Policy documents the way in which employer changes are dealt with by the Fund, with particular focus on outsourcing and the creation of new organisations.

If you have any comments on the policy, please email them to Service Development Team by **20 November 2015**.

We are also inviting comments on proposed changes to the grouping arrangements in the Hampshire Pension Fund. By way of background, the grouping arrangements mean pension funding risks are shared between employers within a group to assist with smoothing employer contributions. Grouped employers pay a common percentage rate together with additional contributions towards any shortfall in the Group based on their relative payroll levels. There are currently two groups within the Fund;

- the Scheduled Body Group (containing principally the employers listed in Part 1 of Schedule 1 of the LGPS Regulations including the Councils, Fire and Police, Colleges, Pre 92 universities and Academies), and
- the Admission Body Group (containing principally not-for-profit charity admission bodies, Post-92 universities and Housing Associations participating in the Fund through an admission agreement)

The Funding Strategy Statement sets out further details.

The Fund Actuary has advised of the need to review the structure of the groups, in particular to determine whether all the employers still "fit" within the group or if it would be more appropriate to fund the liabilities for some employers on a 'standalone' basis (slides 84 / 85 on pages 42 and 43 of the presentation). The initial advice to the administering authority is that there are good reasons for reconsidering the participation of employers in the HE/FE sector (notably the Colleges, Universities and Independent Schools participating through an admission agreement with the Fund) and housing associations in the groups. Removing these employers from the groups would allow the following changes in funding strategy for those employers:

- Pension risks that were previously shared at a Group level will now rest with the employer. This has the advantage to the employer of ensuring that it pays only for the experience of its own membership - cross subsidies to/from other employers will be minimised (to the extent possible in a non-sectionalised scheme) apart from the lump sum benefit payable on death in service which remains shared at Fund-level.
- The funding target and recovery period adopted will be set for individual employers depending on their circumstances. Circumstances may include the expected term of participation of the employer in the Fund, the covenant of the employer and, if exit were to arise, whether a low risk

funding target would be required at that time. The Funding Strategy Statement gives further details on when a low risk (“orphan”) funding target would be adopted.

- Ungrouped employers will be permitted to make additional contributions which will be credited to their notional share of the Fund rather than being shared with grouped employers. This is particularly helpful for employers planning to exit from the Fund.
- Affected employers will be invited to a workshop in January 2016 and will have the opportunity to discuss their funding strategy with officers and the Fund Actuary.

Where employers are to be funded on a stand-alone basis, the proposal is to allocate a percentage share of the Group’s assets to those employers at the date the employer leaves the Group (which will be 31 March 2016 unless otherwise agreed with the employer). The percentage share will be equal to the percentage of the Group’s liabilities which relate to that employer at the 2016 valuation. This approach to apportioning assets between grouped employers is in line with the Administering Authority’s standard policy for allocating assets to employers who exit the Fund (where a valuation is undertaken in accordance with Regulation 64 of the LGPS Regulations 2013) and is the basis upon which employers’ FRS 17 (IAS 19) figures are produced.

If you have any comments on the proposals and/or the revised Funding Strategy Statement, please email them to the Investments and Borrowing Team by **20 November 2015**.

Please note that this consultation process is considered to be a critical element of our review and the Administering Authority would welcome alternative proposals from those who indicate that they do not support what we are putting forward. For example, it would be possible to group HE and FE sector employers together within their own Group (with some or all funding risks being shared). We would be interested in views from the sector on whether such an alternative approach would be preferred by employers, as well as any other alternative suggestions.

Finally, if there are any other employers within either of the two Groups which would prefer to be treated as an ungrouped employers, this is your opportunity to let us know!

Service Development Team

Pension Services

Hampshire Pension Fund

Tel: 01962 845588 | **Fax:** 01962 834537

email: pensions@hants.gov.uk | **web:** <http://www.hants.gov.uk/finance/pensions>

Pension Services, 3rd Floor Ell Court East, The Castle, Winchester, Hampshire, SO23 8UB

Hampshire Pension Fund

administered by



Hampshire County Council

To all Employers who
participate in the Hampshire
Pension Fund

Pensions Services

The Castle, Winchester, Hampshire SO23 8UB

Telephone 01962 845588

Fax 01962 834537

www.hants.gov.uk/finance/pensions

<i>Enquiries to</i>	Pensions Service Development	<i>My reference</i>	PEN/
<i>Direct Line</i>	01962 845588	<i>Your reference</i>	
<i>Date</i>	19 February 2016	<i>E-mail</i>	servdev.pensions@hants.gov.uk

Dear Colleague

Local Government Pension Scheme (LGPS) – draft Employer Policy

I am writing to ask for your feedback on two consultations that we announced at the Annual Employer Meeting on Friday 23 October.

The first is the draft Employer Policy, which is attached. This document seeks to codify the way in which employers participate in the Hampshire Pension Fund, particularly with regard to outsourcing and the creation and cessation of new organisations.

It is important to note that the policy only sets out the high level principles by which employers participate in the Fund. The Fund Actuary will continue to set employer contribution rates based on an individual assessment of the circumstances and risks posed to the Fund by the new body.

The second is inviting comments on the proposed review of the groups in the Hampshire Pension Fund. The Fund Actuary has set out the need to review the structure of the grouped employers, in particular to determine whether all the employers still fit within the group or would be better placed outside as ‘standalone’ employers.

The Funding Strategy Statement has been updated to reflect this proposal, as well as to incorporate minor changes stemming from the 2013 LGPS regulations.

Further information on these proposed changes can be found on the presentation slides from the meeting and the attached email.

I would be grateful if you could provide your comments on either the draft Employer Policy or the proposed changes to the Funding Strategy Statement no later than **Friday 20 November**, to allow the documents to be updated with any changes ahead of the December meeting of the Pension Fund Panel and Board.

If you have any questions about these changes please email the Service Development team in Pensions Services, who will be able to help. I should also like to take this opportunity to ask that if your organisation is considering any outsourcing arrangements, that they engage with Pensions Services at the earliest opportunity to ensure the continued pension provision for affected employees.

Yours sincerely



Carolyn Williamson
Director of Corporate Resources

Downer, Lois

From: Pensions Service Development
Sent: 04 December 2015 15:02
Subject: Proposed de-grouping - invite to workshops - Response required by 24 December 2015

Employer type: Original

Dear Colleague

We are arranging workshops for employers in the HE/FE, private school, University and Housing Association sectors who would be affected by the proposal to remove such employers from the Scheduled and Admitted body groups.

We plan to hold 4 workshops for each type of employer on two dates – **2nd and 11th February 2016**.

Please can you indicate your availability on these dates, together with your preference for the morning or afternoon. We will then arrange workshops based on the one which suits the majority of employers for that category. If you are unable to make the event assigned to your employer type then you can still attend any of the other 3 sessions.

Please note, we are arranging these workshops in advance of the Pension Fund Panel and Board meeting on 18 December. This is purely for administration purposes so that we can get dates in diaries. **The content of the workshops will not be determined until the Panel have taken a decision on the proposal on 18 December.**

If the Panel choose not to go ahead with the proposal to remove certain employers, these workshops will still provide a valuable opportunity for the Fund Actuary to talk specifically to similar employers in the Fund. We will send out further details for the workshops after 18 December.

The purpose of the consultation was to allow feedback from employers to be considered by the Panel when reaching their decision on the proposal. Some responses raised specific concerns and issues which would be addressed in the workshops if the decision is taken to go ahead. We will therefore not be replying to individual consultation responses in advance of the workshops so that all employers hear a consistent response, directly from the Fund Actuary.

However to address one common misunderstanding, the timetable that has been set out (including the period for consultation) feeds into the triennial valuation process. This means that any contribution rate changes (from this proposal or from the valuation itself) will not take effect until 1 April 2017.

Please can you complete the below table regarding your preference for morning or afternoon on **2nd or 11th February 2016** and reply to servdev.pensions@hants.gov.uk no later than **24 December 2015**. We are aiming to ensure that we have a venue that means numbers of attendees from each employer do not need to be restricted, but it would be helpful if you could indicate the number of people you expect to attend so that we can book the right size venue.

	Tuesday 2 February 2016	Thursday 11 February 2016
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Morning		
Afternoon		

No of people expected to attend from your organisation ____

Kind regards

Service Development | Pension Services
Hampshire Pension Fund

tel: 01962 845588 | **fax:** 01962 834537

email: pensions@hants.gov.uk | **web:** <http://www.hants.gov.uk/finance/pensions>

Pension Services, 3rd Floor EII Court East, The Castle, Winchester, Hampshire, SO23 8UB

Downer, Lois

From: Pensions Service Development
Sent: 21 December 2015 09:41
Subject: Extension to the consultation on the Funding Strategy Statement
Attachments: funding_strategy_statement - Draft for consultation.doc

Please make sure that this email is shared with your senior management team and in particular your Director of Finance or equivalent as it contains important information which concerns all employers who are part of the Scheduled or Admitted Body Groups in the Hampshire Pension Fund.

At the end of October, all Fund employers were invited to comment on proposed changes to the Funding Strategy Statement (FSS) which reflect a proposal to alter the current grouping arrangements. Employers were also asked to feedback on the draft Employer Policy, which sets out the terms on which new employers will be accepted into the Fund and how exits from the Fund will be managed. Responses were requested by 20 November to allow the Pension Fund Panel and Board to make a decision on the changes at their meeting on 18 December.

The original information can be found on the Pensions Services website using this [link](#). The logon and password are both "Employer I".

Of those who responded to the proposed changes to the FSS, a significant number requested an extension to the consultation period to allow them to properly consider the proposals and the impact on their own organisation. The Panel and Board have approved an extension to the consultation which will now remain open until **19 February 2016**. The response can then be considered by the Panel and Board in their meeting on 4 March 2016 before any decision is taken as to whether to proceed with the proposed changes.

Please send your responses back to the [Service Development Team](#) – responses are also welcome from those who replied by the original deadline.

Employers who are directly affected by the proposals will be sent more detailed information about the impact on their own organisation in January, and have been asked for their availability to attend a workshop on either 2 and 11 February.

If you have received an invitation and have not yet responded please can you do so as soon as possible.

Only one comment was received on the Employer Policy which resulted in a minor amendment, and the Panel and Board have today approved that amended document. This has now been published on the Pensions Services website on the following [link](#). Detailed guidance for employers who are considering outsourcing or setting up new bodies who wish to access the LGPS will shortly be added to the technical pages on the Employer section of the website, and employers will be notified of this in Pensions Matters.

Service Development Team

Pensions Services

Hampshire Pension Fund

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Downer, Lois

From: Pensions Service Development
Sent: 21 December 2015 14:06
To: 'Kelvin Smith'; 'vanessa.chapman@altoncollege.ac.uk';
'karen.jones@altoncollege.ac.uk'; 'keith.hayward@highbury.ac.uk';
'evelyn.dixon@highbury.ac.uk'; 'jonathan.cox@highbury.ac.uk';
'jroberts@itchen.ac.uk'; 'info@itchen.ac.uk'; 'steve.frampton@portsmouth-
college.ac.uk'; 'peter.rudd@portsmouth-college.ac.uk'; 'julia.clark@portsmouth-
college.ac.uk'; 'sally-anne.spooner@qmc.ac.uk'; 'heidi.fletcher@qmc.ac.uk';
'gdodds@farnborough.ac.uk'; 'ncuff@farnborough.ac.uk';
'pbrooks@farnborough.ac.uk'
Subject: FW: Proposed de-grouping - invite to workshops
Employer type: Reminder to colleges

Dear Colleague,

As per our email below, we are trying to arrange workshops for employers in the HE/FE, private school, University and Housing Association sectors who would be affected by the proposal to remove such employers from the Scheduled and Admitted body groups.

To date, we do not appear to have received a response from your organisation. The current preference for the majority of colleges in the scheduled body group who have responded is the afternoon of Tuesday 2 February.

Please could you let us know if you would be able to send attendees on the **afternoon of 2 February** so that we can confirm this as the college workshop date.

We won't be able to confirm the workshop dates until the new year because many of our employers are now enjoying their Christmas break but as this is proving quite difficult for us to co-ordinate with everyone, if you are able to reply as soon as possible that would be really helpful.

With thanks,

Service Development | Pension Services
Hampshire Pension Fund

tel: 01962 845588 | **fax:** 01962 834537

email: pensions@hants.gov.uk | **web:** <http://www.hants.gov.uk/finance/pensions>

Pension Services, 3rd Floor EII Court East, The Castle, Winchester, Hampshire, SO23 8UB

From: Pensions Service Development
Sent: 04 December 2015 15:02
Subject: Proposed de-grouping - invite to workshops - Response required by 24 December 2015

Dear Colleague

We are arranging workshops for employers in the HE/FE, private school, University and Housing Association sectors who would be affected by the proposal to remove such employers from the Scheduled and Admitted body groups.

We plan to hold 4 workshops for each type of employer on two dates – **2nd and 11th February 2016**.

Please can you indicate your availability on these dates, together with your preference for the morning or afternoon. We will then arrange workshops based on the one which suits the majority of employers for that category. If you are unable to make the event assigned to your employer type then you can still attend any of the other 3 sessions.

Please note, we are arranging these workshops in advance of the Pension Fund Panel and Board meeting on 18 December. This is purely for administration purposes so that we can get dates in diaries. **The content of the workshops will not be determined until the Panel have taken a decision on the proposal on 18 December.**

If the Panel choose not to go ahead with the proposal to remove certain employers, these workshops will still provide a valuable opportunity for the Fund Actuary to talk specifically to similar employers in the Fund. We will send out further details for the workshops after 18 December.

The purpose of the consultation was to allow feedback from employers to be considered by the Panel when reaching their decision on the proposal. Some responses raised specific concerns and issues which would be addressed in the workshops if the decision is taken to go ahead. We will therefore not be replying to individual consultation responses in advance of the workshops so that all employers hear a consistent response, directly from the Fund Actuary.

However to address one common misunderstanding, the timetable that has been set out (including the period for consultation) feeds into the triennial valuation process. This means that any contribution rate changes (from this proposal or from the valuation itself) will not take effect until 1 April 2017.

Please can you complete the below table regarding your preference for morning or afternoon on **2nd or 11th February 2016** and reply to servdev.pensions@hants.gov.uk no later than **24 December 2015**. We are aiming to ensure that we have a venue that means numbers of attendees from each employer do not need to be restricted, but it would be helpful if you could indicate the number of people you expect to attend so that we can book the right size venue.

	Tuesday 2 February 2016	Thursday 11 February 2016
Morning		
Afternoon		

No of people expected to attend from your organisation ____

Kind regards

Service Development | Pension Services
Hampshire Pension Fund

tel: 01962 845588 | fax: 01962 834537

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Pension Services, 3rd Floor EII Court East, The Castle, Winchester, Hampshire, SO23 8UB

Downer, Lois

From: Pensions Service Development
Subject: Employer LGPS workshop - 2 February 2016

From: Pensions Service Development [<mailto:servdev.pensions@hants.gov.uk>]
Sent: 22 January 2016 16:21
To:
Subject: Employer LGPS workshop - 2 February 2016

Dear Colleague,

Further to the email below, I can confirm that the workshop for the HE/FE sector will be held between 2.30pm – 5.30pm on 2 February 2016 in the Ashburton Hall.

Please come to the main Hampshire County Council reception in EII Court to get your visitors badges, and then make your way to Ashburton Hall which is past the coffee shop and canteen.

http://www3.hants.gov.uk/low_res_map_only.pdf

The purpose of the workshop is for the Fund Actuary to provide employers with more detailed information about the proposed changes. The agenda will cover:

- Overview of the existing grouping arrangements
- Recap on the main objectives of the proposed changes
- Explanation of the process for setting funding targets
- Options for risk sharing between employers
- Questions and next steps

Each employer will be provided with illustrative figures at the workshop which will help show the impact of the proposals on their own organisation.

It is important that these figures are provided to employers as part of the workshop, rather than in advance, so that the Fund Actuary can explain the context and limitations of the information.

We look forward to your participation at the workshop.

Kind regards,

Service Development | Pension Services
Hampshire Pension Fund

tel: 01962 845588 | **fax:** 01962 834537

email: pensions@hants.gov.uk | **web:** <http://www.hants.gov.uk/finance/pensions>

Pension Services, 3rd Floor EII Court East, The Castle, Winchester, Hampshire, SO23 8UB

From: Pensions Service Development
Sent: 15 December 2015 16:14
Subject: Proposed de-grouping - invite to workshops - Response required by 24 December 2015

Dear Colleague

We are arranging workshops for employers in the HE/FE, private school, University and Housing Association sectors who would be affected by the proposal to remove such employers from the Scheduled and Admitted body groups.

We plan to hold 4 workshops for each type of employer on two dates – **2nd and 11th February 2016**.

Please can you indicate your availability on these dates, together with your preference for the morning or afternoon. We will then arrange workshops based on the one which suits the majority of employers for that category. If you are unable to make the event assigned to your employer type then you can still attend any of the other 3 sessions.

Please note, we are arranging these workshops in advance of the Pension Fund Panel and Board meeting on 18 December. This is purely for administration purposes so that we can get dates in diaries. **The content of the workshops will not be determined until the Panel have taken a decision on the proposal on 18 December.**

If the Panel choose not to go ahead with the proposal to remove certain employers, these workshops will still provide a valuable opportunity for the Fund Actuary to talk specifically to similar employers in the Fund. We will send out further details for the workshops after 18 December.

The purpose of the consultation was to allow feedback from employers to be considered by the Panel when reaching their decision on the proposal. Some responses raised specific concerns and issues which would be addressed in the workshops if the decision is taken to go ahead. We will therefore not be replying to individual consultation responses in advance of the workshops so that all employers hear a consistent response, directly from the Fund Actuary.

However to address one common misunderstanding, the timetable that has been set out (including the period for consultation) feeds into the triennial valuation process. This means that any contribution rate changes (from this proposal or from the valuation itself) will not take affect until 1 April 2017.

Please can you complete the below table regarding your preference for morning or afternoon on **2nd or 11th February 2016** and reply to servdev.pensions@hants.gov.uk no later than **24 December 2015**. We are aiming to ensure that we have a venue that means numbers of attendees from each employer do not need to be restricted, but it would be helpful if you could indicate the number of people you expect to attend so that we can book the right size venue.

	Tuesday 2 February 2016	Thursday 11 February 2016
Morning		
Afternoon		

No of people expected to attend from your organisation ____

Kind regards

Service Development | Pension Services
Hampshire Pension Fund
 tel: 01962 845588 | fax: 01962 834537

Downer, Lois

From: Pensions Service Development
Sent: 05 February 2016 09:32
To: 'Vanessa.Chapman@altoncollege.ac.uk'
Cc: karen.jones@altoncollege.ac.uk
Subject: Documents from employer workshop on 2 February
Attachments: Alton College.pdf

Dear Vanessa,

Following the workshop on Tuesday, I have attached a pdf copy of the information produced for your organisation to this email.

The presentation slides can be found on the Employer section of the Pensions website by following this link:

<http://www3.hants.gov.uk/pensions/lgps/employer-pension-homepage/employer-a-z.htm#section546525-5>

(User name and password are both Employer I)

As the workshops covered a lot of information, we have set out a short summary below, together with the key dates for both this consultation and the 2016 triennial valuation.

Recap

The purpose of the session on Tuesday with the Fund Actuary was to provide more information on the proposal to remove HE/FE employers from the Scheduled and Admitted body groups, and what this would mean in practice for those organisations, including options for alternative risk sharing.

As a reminder, the main aims of the proposal are:

- to reduce risk to all employers in the Fund by recognising existing differences between employers in terms of their participation in the Fund,
- to remove the cross subsidies within the groups which have increased beyond an acceptable level, and
- to make it possible for those employers who are likely to stop contributing, to properly manage their exits.

The proposal to remove certain employers from the groups does not automatically mean that employers will pay increased contributions. Equally, it is not the case that contributions will remain at the same level following the 2016 valuation if no change is made to the groups.

In the workshops, it appeared that the overall affordability of the LGPS for the HE/FE sector, including the prospect of any contribution increases following the 2016 valuation (regardless of any changes to the funding strategy), was of more concern to attendees than the way in which those increases were calculated.

There was also significant interest in the detail of how covenant assessments will be made. At this point, although it is clear that an assessment of employer strength will have to be taken into account in the 2016 valuation in some way, we are not in a position to have determined the best approach, which balances fairness and cost effectiveness. More information about the process for this will be shared once known, and you will have a further opportunity to feedback on this in the normal consultation on the funding strategy statement as part of the triennial valuation.

Therefore although affordability and the approach taken to covenant assessment are both valid concerns, over which representations can be made to the Administering Authority, these are not directly linked to the consultation proposals.

In forming your response to the current consultation, it would be really helpful therefore if comments could be split between the original proposals posed in the consultation and separately, your more general comments on affordability following the 2016 valuation and your views on a fair approach to assessing relative employer

strength. This will help us put together a clear report for the Panel in the short time frame that we have to complete this work.

Key dates

19 February 2016 (5pm)	Deadline for consultation responses
23 February 2016 (Midday)	Deadline for submission of the Pension Fund Panel and Board Report on the consultation.
4 March 2016	Pension Fund Panel and Board meeting to make decision on consultation proposals
By 11 March 2016	Feedback from Panel and Board meeting emailed to employers (we hope to get this out more quickly, but the timetable is dependent on the confirmation of the minutes)
The following steps are the key dates for the valuation process, regardless of the decision taken on 4 March.	
31 March 2016	Financial information required for covenant assessments to be submitted by employers
30 April 2016	End of year returns deadline (providing accurate data to feed into the valuation)
15 July 2016	Valuation data supplied to the Fund Actuary
July/August 2016	Completion of employer covenant assessments by Fund Actuary. Results of covenant assessments shared with affected employers. Employers may request individual covenant assessments from this date. Note that indicative valuation results will not be available at this date.
August/September 2016	Indicative valuation results discussed with Administering Authority and consideration of appropriate funding targets to adopt in recognition of outcomes of covenant assessments.
September/October 2016	Indicative valuation results (at a whole fund level) shared at the AEM, together with consultation on the Funding Strategy Statement
November 2016	Closing date for responses on FSS consultation
December – March 2017	Finalising employer results and sign Rates and Adjustments Certificate

Kind regards,

Service Development Team
Pension Services
Hampshire Pension Fund
Tel: 01962 845588 | Fax: 01962 834537

Proposed changes to the funding strategy for the Hampshire Pension Fund

Background information for XXXXX Employer

Introduction

The purpose of this document is to set out in more detail the proposed changes to the funding strategy for the Hampshire Pension Fund and to provide information for your own organisation.

The figures shown in this letter are illustrative only and are intended to give you an idea of the difference for your organisation if you were not part of the Group in the 2013 valuation and, separately, the position if the orphan funding target had applied.

Your position at the 2016 valuation will be different to those shown in this letter and we cannot provide indicative data for your contribution rates from 1 April 2017 at this stage.

Your contribution rates from 1 April 2017 will depend on the results of the 2016 valuation; the funding target used; the deficit recovery period, and any agreed stepping of rates. If the valuation results suggest that contributions should increase, contribution increases will be phased in over a period.

Historic set-up

The Hampshire LGPS currently operates two contribution groups:

- the Scheduled Body Group, containing principally the local authorities, police and fire authorities, post '92 universities, colleges and academies, representing 95% of the Fund's liabilities in the 2013 valuation; and
- the Admission Body Group (ABG), containing principally the pre '92 universities, housing associations and charity admission bodies, representing 3% of the Fund's liabilities in the 2013 valuation

The remaining 2% of the Fund's assets are held in respect of the liabilities of employers which are not pooled (primarily private sector service providers and orphan bodies).

The Groups operate such that (nearly) all funding risks (e.g. investment risk, the risk of more ill-health early retirements than expected, fewer deaths than expected etc) are shared between the employers in the group. Grouped employers pay contributions based on their share of the Group's payroll. Since 2010, deficit contributions have been set as monetary amounts to guard against employers under-contributing due to falling payroll.

This grouped structure has been in place for many years. It reflects the Administering Authority's philosophy on risk sharing and helps keep contributions more stable, particularly for smaller employers.

However, there are a number of relatively recent developments which point to the need to review the participation of some of the employers in the Groups.

What has changed?

The ABG now comprises many disparate employers of different financial strengths, some of which are not admitting new members, some of which are not-for-profit and others which are commercial organisations.

The Fund Actuary advises that this diversity is likely to create increasing cross subsidies between the employers in the ABG, beyond that which the employers themselves may find acceptable. Employers may also be subject to increasingly unacceptable risk of default from other employers. In addition:

- The membership of ABG has been progressively maturing, making the Group's contribution rate (as a percentage of pay) more volatile, all other things being equal, reducing the smoothing benefit of operating the Group.
- In order to try to maintain contributions at an affordable level at the 2010 and 2013 valuations, the contribution plan for the Group was based on relaxed funding terms and the phasing of contribution increases over a period of time. These relaxed terms are not suitable for all employers within the Group and cannot be sustained indefinitely without posing an increasing risk to other employers in the Fund.
- There are a number of employers in the ABG who are closed to new members and others who may close the scheme to new joiners in the future. Some employers have been asking for an indication of their likely deficit on exit and at least one has indicated that it would like to pay additional contributions. The funding strategy for employers who are likely to exit the Fund should appropriately target the required level of funding on exit. This currently cannot be achieved within the Group environment. The current funding approach not only leads to a material gap between the ongoing funding target and the exit position but does not facilitate voluntary additional contributions being made by employers.

Added to these points, a greater focus on employer covenant is being encouraged by those scrutinising the LGPS, including the Pensions Regulator.

What is being proposed?

The two elements to the proposal are:

1. to remove employers who are not guaranteed by a secure tax-raising body (or eligible for a guarantee by the Scheduled Body Group) from the ABG (this includes employers in the HE/FE sector and independent schools), and
2. to consider the suitability of individual funding targets.

What does it mean for your organisation?

1. ***As an ungrouped employer (i.e. no longer part of the ABG) your contributions will be related to the position of your membership within the Fund:***

- The contributions towards new benefits being earned by your employees (the 'Future Service Rate', set as a percentage of pay) will be based on the cost of the benefits being earned by your staff in the Fund. Currently your contribution rate is based on the average cost across all of the Group's employees.
- The deficit contributions (those you currently pay as monetary amounts) will reflect your own deficit in the Fund. Currently you contribute towards the deficit in the Group based on your share of the Group's payroll from time to time.

The data relating to your organisation at the 2013 valuation is shown below:

	Part of the Group	Stand alone
Future service rate	15.6%	17.30%
Assets	n/a	£5.16m
Liabilities	n/a	£6.30m
Deficit	n/a	£1.14m
Deficit contributions 14/15	£10,600	£62,000

This data is for illustrative purposes only and shows what the position would have been if you had not been grouped at the 2013 valuation, but without changing any other assumptions. For the avoidance of doubt, the 2013 valuation results are not being re-visited. The proposal is that employers will be removed from the Group at 31 March 2016 and you should be aware that the situation at that date will almost certainly result in different figures.

Anonymised figures for the other employers within the Group are shown in Appendix 1.

2. From 2016 your funding target (i.e. the value of your liabilities) will depend on the risk you bring to the Fund:

- The funding target is the amount of money that needs to be set aside to meet the promised benefits.
- As part of the Group your contributions are calculated using an 'ongoing' funding target appropriate to the local authorities and other bodies with a government guarantee¹.
- As a stand-alone employer your contributions would be calculated using a funding target which is related to your financial strength as an employer. This may result in a higher contribution rate, although please note that we do not intend to implement immediate material contribution increases even if your individual funding target suggests this.

¹ This funding target makes allowance for the higher expected returns on the Fund's growth-biased investment strategy and is intended to ensure more affordable contributions. However, returns on growth assets (e.g. equities) are not guaranteed and if those returns do not materialise, employer contributions would have to increase in the future. This funding target is considered appropriate for local authority and other employers with a government guarantee but not for employers whose future participation in the Fund is less certain and who have no such guarantee.

For illustration purposes, the following table shows what your 2013 valuation results would have looked like had a more prudent approach had been taken. The funding target on which these figures are based was that adopted for some of the admitted body employers whose liabilities will become 'orphaned' in the Fund when their admission agreement ends due to not having a guarantee from a tax-raising / other wholly government-funded body.

	Stand alone: 'Orphan' funding target
Future service rate	24.10%
Assets	£5.16m
Liabilities	£7.95m
Deficit	£2.78m
Deficit contributions 14/15	£148,000

This data is for illustrative purposes only and shows what the position would have been if you had not been grouped at the 2013 valuation and the orphan funding target had been adopted. As noted above, we are not proposing to revisit the 2013 valuation results and nor are we proposing that the orphan funding target will automatically be applied.

- Our proposal for the 2016 valuation is to adopt a funding target for the HE/FE sector and independent schools that depends on employer covenant. The result could be a funding target between the 'ongoing' and 'orphan' targets.
- Employers will have the opportunity to request an individual assessment, should they believe that they are of stronger covenant than the average for the sector. Details of the information required by the Actuary in order to carry out an individual assessment will be provided at the workshop.
- Even if your funding target suggests that contributions should increase, contribution increases will be phased in over a period.

What would your debt be on Exit?

It is important that you understand the liabilities which would remain in the Fund should you exit. The table below shows what your exit debt would have been at the 2013 Valuation had you left the Fund at the valuation date and all your employee members had become deferred members on that date.

	Stand alone: 'Gilts' funding target
Assets	£5.16m
Liabilities	£8.90m
Deficit on Exit	£3.74m

This data is for illustrative purposes only and shows what the position would have been if you had exited at the 2013 valuation leaving orphan liabilities. The exit debt itself changes over time and only becomes payable on exit. We have included this figure to

give you an indication of why it is so important that we take steps to reduce the Fund's exposure to employers who may leave the Fund.

The illustrative figure has been calculated in accordance with the Funding Strategy Statement in force at the 2013 valuation which states that:

The Exit deficiency is higher than the other measurements because we will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. To achieve this, we will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government fixed-interest and index-linked bonds.

Appendix 1

Table showing certified contribution rates, assets and liabilities at the 2013 valuation for employers in the ABG

Certified contribution rates and liabilities / assets at the 2013 valuation				Comparative figures were all stand alone employers		
Future service rate for SBG	14/15 Fixed deficit contributions (£ 000)	Share of Liabilities (£ 000)	Notional Share of Assets (based on group funding level) (£ 000)	Surplus / (Deficit) (£ 000)	Future service rate at 2013 valuation	14/15 Fixed deficit contributions (£ 000)
15.60%	4	1,329	1,089	(240)	10.90%	13
15.60%	311	22,745	18,638	(4,107)	13.00%	224
15.60%	21	4,848	3,972	(876)	13.10%	48
15.60%	59	4,706	3,856	(850)	14.50%	46
15.60%	12	2,356	1,930	(426)	15.20%	23
15.60%	27	1,885	1,545	(340)	15.80%	19
15.60%	42	3,682	3,017	(665)	16.80%	36
15.60%	39	8,761	7,179	(1,582)	16.90%	86
15.60%	36	3,300	2,704	(596)	17.00%	33
15.60%	11	6,299	5,162	(1,137)	17.30%	62
15.60%	17	10,857	8,896	(1,961)	18.10%	107
15.60%	76	6,661	5,458	(1,203)	18.60%	66
15.60%	5	2,968	2,432	(536)	19.80%	29
15.60%	18	12,589	10,316	(2,273)	20.00%	124
15.60%	17	6,830	5,597	(1,233)	21.00%	67
15.60%	15	2,556	2,095	(461)	22.10%	25
15.60%	10	4,219	3,457	(762)	24.90%	42

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Dear Colleague

This is a reminder that the current consultation on the proposed changes to the funding strategy statement closes this week on **Friday 19 February**. Please can you make sure that any responses are sent to the Service Development team in Pensions.

The proposed changes are to remove certain categories of employers (those in the HE/FE sector and Housing Associations) from the existing funding groups which would in turn enable individual contribution rates to be calculated, recognising the different circumstances and financial covenant of those employers, with the aim of:

- reducing risk to all employers in the Fund by recognising existing differences between employers in terms of their participation in the Fund,
- removing the cross subsidies within the groups which have increased beyond an acceptable level, and
- making it possible for those employers who are likely to stop contributing, to properly manage their exits.

The consultation with employers started at the Annual Employer's meeting on 23 October 2015 and, following representation from the affected employers, was further extended until 19 February 2016 at the Panel and Board meeting on 18 December 2015.

A summary of the proposals can be found on the employer section of the Fund's website (<http://www3.hants.gov.uk/pensions/lgps/employer-pension-homepage/employer-news-1/employer-consultation.htm>), with additional papers presented to the Panel and Board on 18 December 2015

http://www3.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemdocuments.htm?sta=&pref=Y&item_ID=7158&tab=2&co=&confidential=

The Username and Password for the employer section of the website is 'Employer1'. Please be aware that the part of the consultation relating to the Employer Policy was not extended and the policy was approved in the December meeting and is now available on the website. Workshops have been held for those employers who are directly affected by the proposals, but as the changes are Fund wide, we welcome responses to this consultation from all employers.

We understand that many employers are concerned more generally with the affordability of the scheme and may wish to make representations to the Pension Fund Panel and Board regarding this, to feed into the 2016 valuation decisions. There will be an opportunity for employers to do this as part of the normal triennial valuation process in the late summer/autumn this year, when there will be a further consultation on the Funding Strategy Statement. We would therefore ask that if you want to include any general comments on affordability in your response to this current consultation, you set these out separately to your comments on the specific proposals which are being consulted on.

Kind regards,

Service Development Team

Pension Services

Hampshire Pension Fund

Tel: 01962 845588 | **Fax:** 01962 834537

email: pensions@hants.gov.uk | **web:** <http://www.hants.gov.uk/finance/pensions>

Pension Services, 3rd Floor EII Court East, The Castle, Winchester, Hampshire, SO23 8UB



Hampshire County Council Pension Fund: Employer Workshop

Alison Murray FFA
Joel Duckham FIA
2 February 2016

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2 February 2016
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Agenda

- Summary of proposals
- Current grouping arrangements
- Review of the groups
- Funding strategy and proposed changes
- Fund-wide changes to risk-sharing
- Options for creating new funding pools

Summary of main proposals

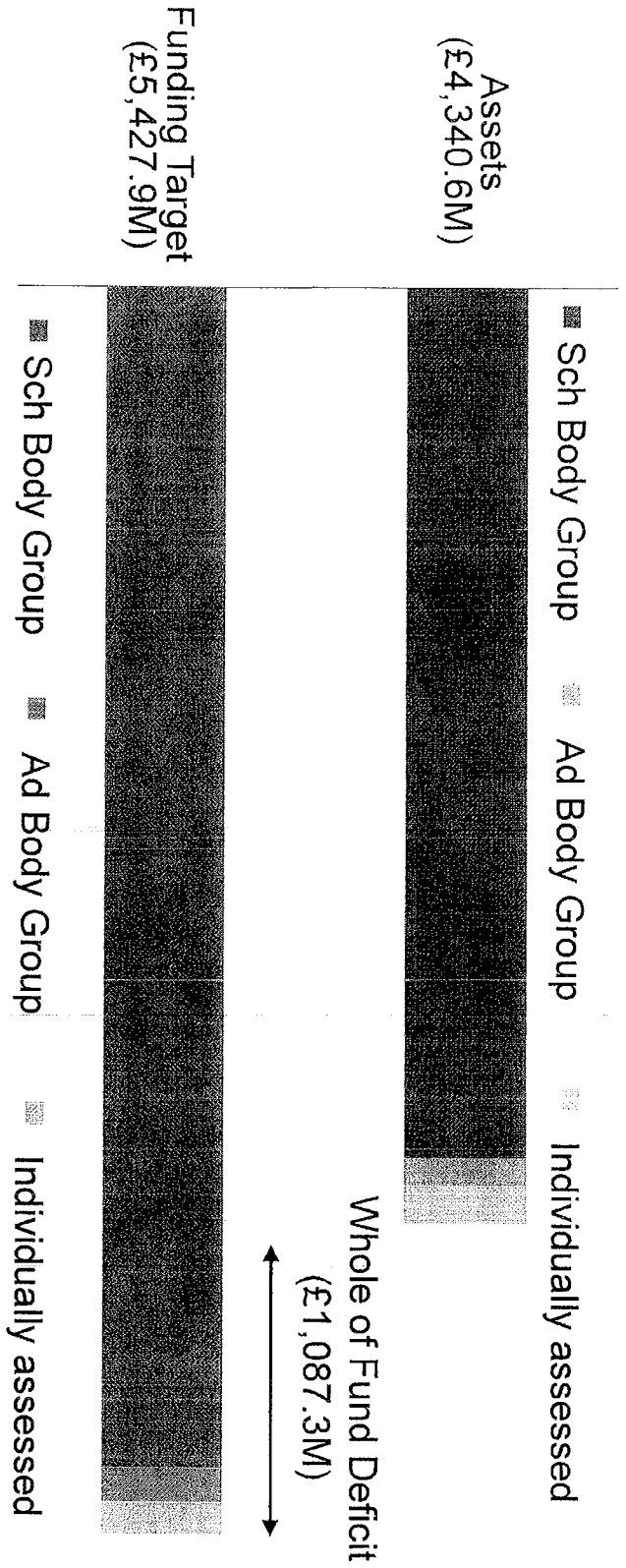
- ☒ Removal of the following employers from the Fund's grouped funding arrangements:
 - All education sector employers within the Scheduled Body Group and Admission Body Group (where they are not backed by a central government guarantee)
 - Housing Associations within the Admitted Body Group
- ☒ Assets to be allocated on a "share of fund" basis (same as FRS accounting)
- ☒ Default approach of individual funding for de-grouped employers
- ☒ Facility to adopt a weaker funding target than the "orphan" target for de-grouped employers, depending on strength of employer covenant
- ☒ Stepped implementation of any increase in employer contributions
- ☒ Open to employer proposals for new grouping / risk sharing arrangements within the sector

Consultation on changes to the Funding Strategy Statement closes 19 February

Responses to be considered at Panel & Board in March

Current funding arrangements

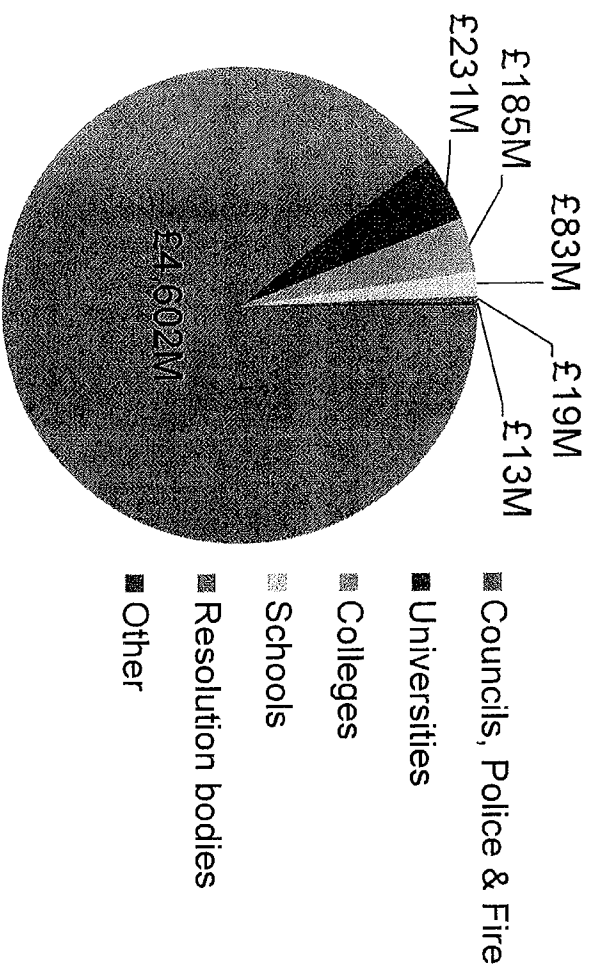
Whole of fund position as at 31 March 2013



Whole of Fund funding ratio: 80.0% (Total Assets/Total Liabilities %)

Current funding arrangements

Scheduled Body Group



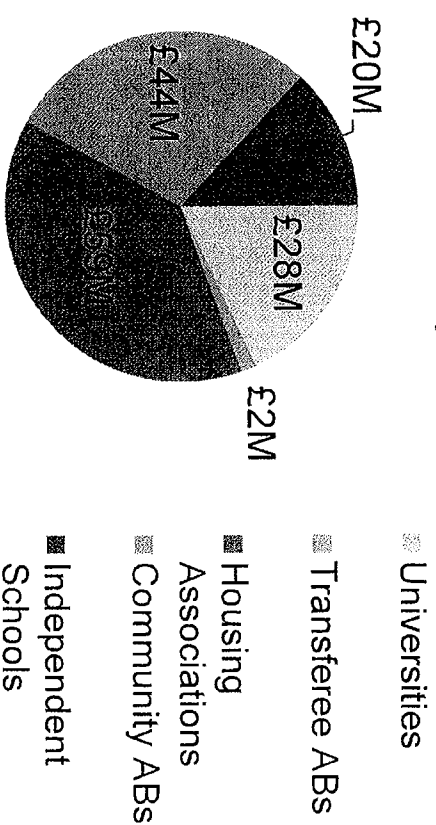
Liabilities as at 31 March 2013: £5,133M
 Assets as at 31 March 2013: £4,050M

Figures in pie charts are liability values as at 31 March 2013

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Admission Body Group



Liabilities as at 31 March 2013: £1,533M
 Assets as at 31 March 2013: £1,125M

Current funding arrangements

	Group	Individual
Future Service Rate	Average across all the group's membership SBG = 14.0% of pay ABG = 15.6% of pay	Average of employer's membership HE/FE sector range from 12.6% to 24.9% of pay
Asset / Deficit tracking	Group level	Individual level
Deficit contributions	Based on a share of the Group's shortfall (in proportion to pay*)	Based on employer's shortfall
Strain contributions	Paid in addition	Paid in addition

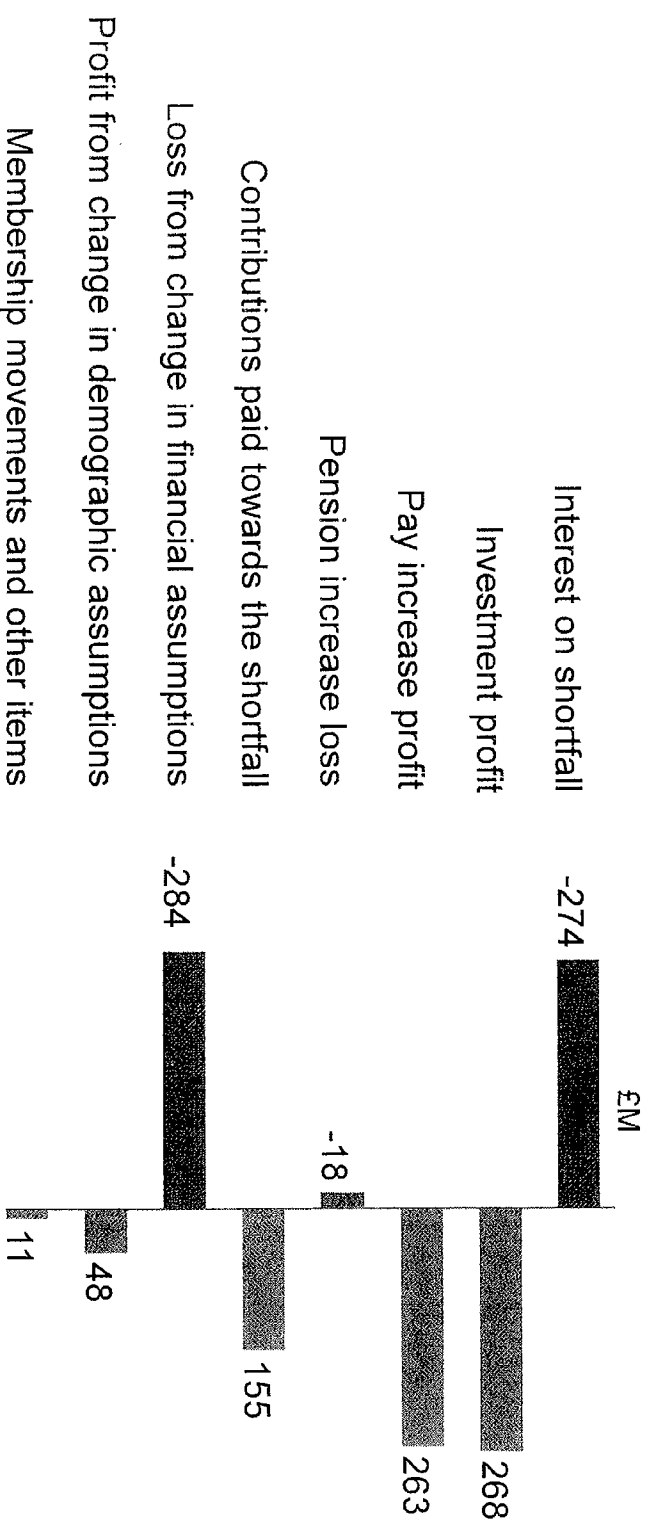
* Layered Employer Recovery Plan

--- fixes deficit contributions to protect against falling payroll

Group philosophy is that risks are shared

What are the funding risks?

Whole of fund experience 2010-2013



Source: 2013 valuation report

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How are the funding risks shared?

Group experience

- £400M increase in deficit between valuations, equivalent to 3% of pay over 22 years

Employer type	Average	Immature	Mature
Proportion of Group's payroll	1.0%	2.0%	0.5%
Proportion of Groups' liabilities	1.0%	1.0%	1.0%

If a Grouped employer:

Deficit allocated to employer	£4M	£8M	£2M
Additional deficit contributions (22yrs)	3.0%	3.0%	3.0%

If an ungrouped employer:

Deficit allocated to employer	£4M	£4M	£4M
Additional deficit contributions (22yrs)	3.0%	1.5%	6.0%

Concern that deficits no longer being shared fairly

Real life example within the Fund

	Total liabilities £Ms		Increase in Liabls 2004 - 2013
	31 March 2004	31 March 2013	
Council employer	£89.8	£146.0	63%
University employer	£71.3	£158.4	122%
Whole of Fund	£2,901.1	£5,427.9	87%
Pensionable pay £Ms			
	31 March 2004	31 March 2013	Increase in Pen Pay 2004 - 2013
Council employer	£15.2	£16.8	11%
University employer	£19.0	£31.4	65%
Whole of Fund	£633.7	£809.2	28%

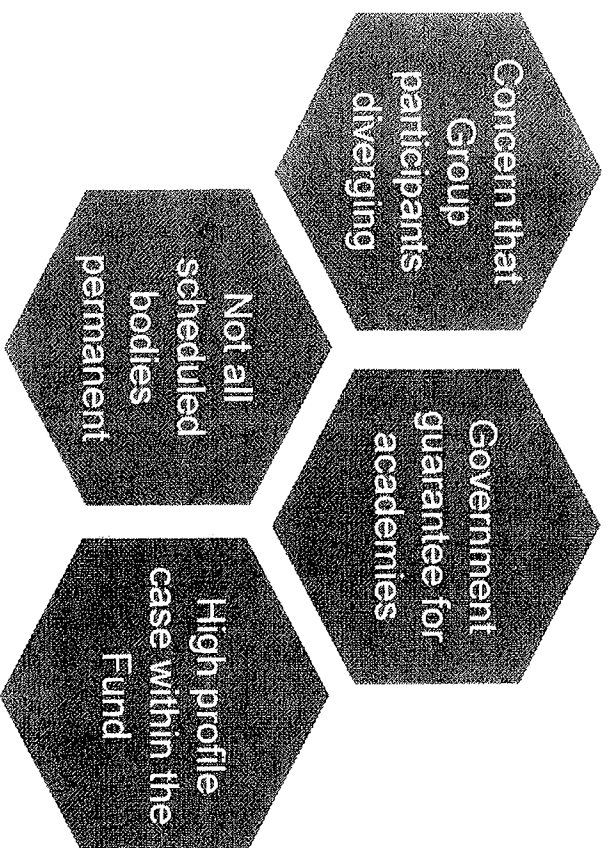
Source: Aon Hewitt, Reports on 2004 and 2013 valuations

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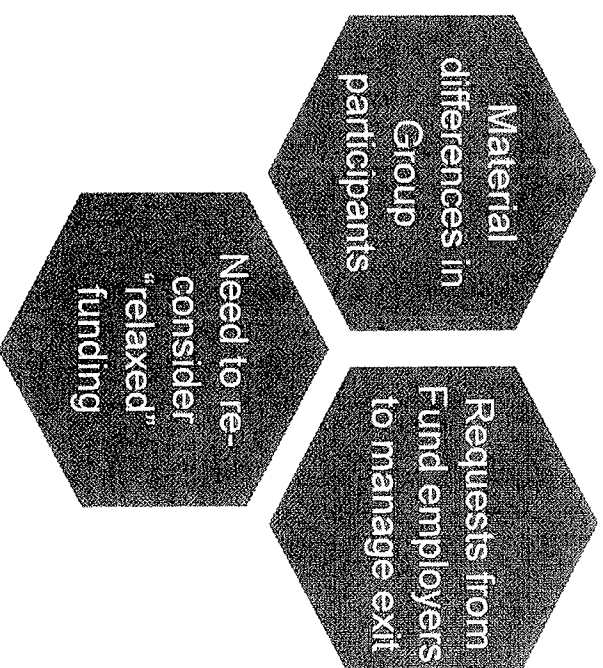
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Why review the Groups?

Scheduled body group



Admission body group



Very few LGPS funds now operate large-scale grouping

Initial outcome of review of the SBG

- ▣ All scheduled bodies admit new members
 - ▣ Some / all government funded
 - ▣ Some difference in profile e.g. schools/academies and colleges less mature
- Do all scheduled employers still “fit”?
- ▣ Are they classified exclusively as public sector?
 - ▣ Where does their funding come from?
 - ▣ How committed are they to the LGPS?
 - ▣ How financially secure are they?
 - greater focus on employer covenant (SAB, TPR, Cipfa guidance on FSS)
 - Totton College

Strong reasons for re-structuring the SBG

Initial outcome of review of the ABG

- Greater variation between employers
 - charities, other not-for-profit, commercial organisations
 - some material difference in profile – e.g. employers not admitting new members
- Use of 'Ongoing' funding target (used in 2010 / 2013 valuations) only appropriate for employers guaranteed by a secure tax-raising body ("subsumption" commitment)
- For employers exiting the Fund with no guarantor orphan funding target should be used (to target exit position)
- Some employers asking to pay extra contributions to manage the exit position

Very difficult to justify continuation of ABG in its current form

Legal advice

Legal advice to Administering Authority

- HCC has the statutory power to amend the funding model (via the LGPS Regulations)
- HCC must act “fairly and reasonably” and in line with its statutory powers
- changes to the Funding Strategy Statement must be made in consultation with “such persons as it [HCC] considers appropriate”
- recent Pensions Ombudsman’s case (Thomas Ferens Academy v East Riding of Yorkshire Council)
 - AA has a duty of care to members and employers as a whole, not to one particular employer, to adopt policies it considers fair and reasonable
 - difficult for a Scheme Employer to challenge the funding and contribution decisions provided that the correct process has been followed and appropriate advice taken

As long as HCC has exercised statutory powers fairly and reasonably, successful challenge is unlikely