

# Admission bodies, scheme employers and bulk transfer policy 2021

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## 1 Introduction

This is the policy of the Cambridgeshire Pension Fund (“The Fund”) regarding the treatment of admission bodies and scheme employers in the Fund (in particular their commencement and cessation) and the bulk transfer of pension rights to and from the Fund. This policy should be read in conjunction with the Funding Strategy Statement and relevant legislation, such as the Local Government Pension Scheme Regulations 2013 (as amended) (“The Regulations”). These Regulations can be found [here](#).

## 2 Policy objectives

The Fund’s objectives related to this policy are as follows:

- To ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer;
- To ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment.;
- To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers.;
- To ensure appropriate exit strategies are put in place both in the lead up to and termination of a scheme employer.

## 3 Purpose of the policy

The purpose of the policy is to:

- ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub funds allocated to the individual employers;
- set out the process by which new employers are admitted into the Fund, including the various requirements they need to adhere to in order to achieve that;
- Set out the approach the Administering Authority will take in relation to bulk transfers into and out of the Fund;
- ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- help employers recognise and manage pension liabilities, and the possible effect on the operation of their business;
- use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- address the different characteristics of employers or groups of employers to the extent that this is practical and cost-effective; and
- maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

## 4 Cambridgeshire Pension Fund policies

### 4.1 Admission bodies

#### 4.1.1 **Bond, indemnity or guarantor requirements for entry**

In accordance with The Regulations every admission body must carry out, to the satisfaction of the Fund, a risk assessment, taking account of actuarial advice. This should assess the level of risk arising on premature termination of the provision of service or assets by reason of the admission body's insolvency, winding up, or liquidation.

Where the body is admitted under Paragraph 1(d) of Part 3 of Schedule 2 such risk assessment must also be carried out to the satisfaction of the scheme employer entering into the contract or arrangement with that body (the "awarding authority").

Taking account of the outcome of any risks assessments the Administering Authority will require any potential admission body to provide a suitable guarantee to the Fund, depending on the type of admission taking place, as follows:

Bodies admitted under Paragraphs 1(a), (b), (c) and (e) of Part 3 of Schedule 2 to The Regulations (broadly speaking, most admission bodies other than those fulfilling a contract) must provide a guarantor considered by the Administering Authority to be reliable and financially durable (generally only a local authority or central government department) or a bond/indemnity the Administering Authority considers to have equivalent strength and coverage.

For bodies admitted under Paragraph 1(d) of Part 3 of Schedule 2 to The Regulations (broadly speaking, those fulfilling a contract, which will sometimes include charities) there is a preference for a bond or indemnity to be provided. This is not a mandatory requirement as the awarding authority is in effect a guarantor already under the terms of the LGPS Regulations. However, the awarding authority will have to satisfy the administering authority that the form of the guarantee is sufficient to justify the exclusion of a bond or indemnity. In any case the awarding authority will be required to confirm the approach it wishes to take.

In all circumstances where a bond or indemnity is provided, the bond or indemnity must be re-evaluated by the Administering Authority and renewed by the body at regular intervals.

The Administering Authority reserves the right to exercise its discretion and alter the guarantor or bond requirements where the individual circumstances of an application make it prudent to do so.

#### 4.1.2 **Approval for becoming an admission body**

The officers of the Fund will be responsible for ensuring any bodies meet the criteria set out above, having regard to the appropriate legal and actuarial advice. The Fund's admission agreements will generally be standard and non-negotiable, drawn up on advice from the Fund actuary and legal advisor. These terms will include commencement, transfer, payment, bond/indemnity or guarantor requirements, as well as termination clauses to protect the other beneficiaries and participants in the

Fund.

All applications by bodies assessed by officers as complying with Paragraph 1(d) of Part 3 of Schedule 2 to The Regulations (broadly speaking, admissions to those fulfilling a contract), and meeting the terms of the admission agreement, will be accepted and reported to the Pension Fund Committee for information only. Applications that materially depart from these criteria and/or the standard terms of the admission agreement will be reported to the Pension Fund Committee for agreement, and may be refused.

All applications from bodies under Paragraphs 1(a), (b), (c) and (e) of Part 3 of Schedule 2 to The Regulations (broadly speaking, most admission bodies other than those fulfilling a contract) will be subject to agreement by the Pension Fund Committee.

#### **4.1.3 Allocation of assets**

The allocation of assets at the commencement of an admission agreement will be as follows:

- For bodies admitted under Paragraph 1(d) of Part 3 of Schedule 2 to The Regulations (broadly speaking, those fulfilling a contract) the assets allocated will be 100% of the value at date of admission of the past service liabilities of any transferring employees; (Any alternative approach proposed by the awarding authority is subject to agreement by the Fund)
- For bodies admitted under Paragraphs 1(a) (b), (c) and (e) of Part 3 of Schedule 2 to The Regulations (broadly speaking, admission bodies other than those fulfilling a contract) the asset allocation will be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer and any relevant business agreement.
- In both cases, the assets will be calculated using the Fund's ongoing funding basis as set out in the Funding Strategy Statement.
- The respective admission body's asset share will be tracked on a monthly basis during the period of the admission agreement, allowing for cash flows in/out specific to the admission body and the Fund's investment returns. Note that for some admission bodies, such as those set up under a pass-through arrangement, the asset share is not tracked as the pension assets and obligations are generally retained by the awarding authority.

The assets will remain within the main Fund (i.e. no separate admission body fund will be set up).

#### **4.1.4 Investment strategy**

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund. Any alternative approach proposed is subject to agreement by the Fund.

#### **4.1.5 Contribution rates and other costs**

Admission bodies will be required to pay the employer contribution rate set out in the Fund actuary's initial report, and subsequently in the Fund's rates and adjustments certificate, issued as part of the triennial actuarial valuation of the Fund. The employer

contribution is split into two parts – Primary and Secondary – as detailed in the Funding Strategy Statement and initial report, and employers must pay both parts. The rate will be set by the Fund’s actuary using a risk-based approach and will be set in accordance with the Funding Strategy Statement (FSS), taking into consideration elements such as:

- the employer’s funding target;
- the desired likelihood of achieving that funding target;
- the time horizon over which the funding target is to be met;
- whether the admission agreement is open or closed to new members; and
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place.
- As well as its certified employer contributions, the admission body will be required to pay additional payments including, but not limited to:
  - lump sums in relation to any early retirements or early payment of pension benefits;
  - lump sums in relation to any award of additional benefits; and
  - reimbursement of the administering authority’s or other bodies’ costs incurred as a result of activity directly related to or requested by the admission body or due to poor administration by the admission body.

All lump sums in relation to non-ill health early retirement will be paid immediately by the admission body unless the Head of Pensions and Section 151 Officer for Cambridgeshire County Council jointly agree the payment may be extended over a maximum period of 3 years.

The Administering Authority reserves the right to also request immediate payment of any ill-health strain payment not covered by the Fund’s ill health pooling policy.

As set out in 4.1.6, a pass-through arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Administering Authority may require any actuarial, legal, administration and other justifiable cost to be paid by the admission body. It may be agreed that these costs are partly or wholly paid for by the awarding authority (if any).

The Administering Authority will communicate the implications to the awarding authority of a transfer and may require the revision of the contribution rate payable by the awarding authority after the transfer occurs.

The Administering Authority reserves the right to require payment by the awarding authority of a lump sum contribution to cover any deficit in respect of transferees.

The Administering Authority will consider, in certain circumstances, amending the employer contribution rate between valuations, further information is set out in the Funding Strategy Statement.

#### **4.1.6 Pass through arrangements**

In the case of a body admitted under Para 1(d) of Part 3 of Schedule 2 to The Regulations (broadly speaking, those fulfilling a contract), and where agreed by the awarding authority and the body, the Administering Authority may allow that employer to enter into a pass-through arrangement.

Under the pass-through arrangement, the admission body:

- will either have a fixed contribution rate, or its contribution rate will vary in line with the awarding authority's rate;
- may be required to pay additional contributions in excess of its employer contribution rate to reflect the impact of excessive pay awards to the admission body's own employees;
- may be required to provide a limited bond or indemnity in respect of redundancy and any other risks identified by the scheme employer; and
- will continue to be required to pay strain costs in respect of non-ill-health early retirements.

In the event of cessation of the admission agreement, that agreement will clarify the position re any cessation debt / exit credit payment, etc. However, it should be noted that normally in a pass-through case there would be no assignment of assets or liabilities to the employer.

#### **4.1.7 Ongoing monitoring of admission bodies**

During the period of the admission agreement, the level of risk in relation to any guarantees, bonds or indemnities in place will be reassessed at regular intervals and the relevant admission bodies will be required to renew their bond or indemnity appropriately. As set out in 4.1.5 above, contribution rates will be reviewed at triennial actuarial valuations, however, in certain circumstances the Administering Authority will consider amending the employer contribution rate between valuations. The Administering Authority reserves the right to review contribution rates for admission bodies annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Where an employer acts as a guarantor to an admission body or bodies, an assessment will be carried out every three years to establish the level of risk being borne by the employer in respect of its guarantees and to ensure that the strength of the guarantee continues to be to the satisfaction of the administering authority.

Furthermore, the Administering Authority will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. As per 4.1.5.9 above, the Administering Authority may review the employer contribution rate (i.e. outside of the formal triennial actuarial valuation cycle).

#### **4.1.8 Cessation terms and requirements**

The Administering Authority reserves the right for the admission agreement to be terminated in any of, but not limited to, the following circumstances and following unsuccessful attempts to enable the admission body to remedy the situation, where applicable:

- Where the admission body is not paying monies due to the Fund within the period required by the Fund;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where the admission body is not meeting its requirement to renew, adjust or review any bond/indemnity or to confirm an appropriate alternative guarantor;



- Where the admission body breaches any other obligations under the admission agreement, not covered above;
- Where no active members exist (and it is not expected that the admission body will acquire one or more active Fund members within the three-year period following the cessation event. In this situation the Administering Authority has discretion to defer taking action for up to three years);
- Where the employer becomes insolvent, is wound up, merged or ceases to exist; or
- On termination of a deferred debt agreement.

#### 4.1.9 **Future cessation**

Where an admission agreement for a body that has no awarding authority or central government guarantor is closed to new entrants, the Administering Authority policy is to set contribution rates by reference to liabilities valued on the termination basis (as per 4.1.12 below). The purpose of this policy is to protect other employers in the Fund. This policy will increase regular contributions for such admission bodies and reduce, but not entirely eliminate, the possibility of a final deficit payment being required on termination. However, it will also assist the admission body in the affordability of its eventual cessation debt.

#### 4.1.10 **Deferral of cessation debt**

Where an admission body has ceased from participating in the Fund but is expected to have one or more new active Fund members within the three-year period following the cessation event, the Administering Authority has the discretion to suspend payment of the cessation debt for an agreed period of time. Where approved, the Administering Authority will liaise directly with the employer and confirm the contribution rate requirements to be paid during the period of deferral.

#### 4.1.11 **Deferred debt agreement (“DDA”) alternative to immediate cessation**

The Administering Authority may, at its discretion, allow a ceasing employer who is continuing in business, to enter into a funding agreement whereby the payment of an exit debt is deferred and, instead, the employer continues to pay secondary contributions. Further details on this type of agreement are set out within the Funding Strategy Statement, but any agreement would be considered on an individual basis. The Administering Authority will likely require some form of security from the ceasing employer to enter into such an agreement.

#### 4.1.12 **Basis of termination valuation**

The Fund’s general principle on the cessation of an admission body is to assume a “clean break” on termination, i.e. the departing employer’s liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis.

The Fund’s policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Cambridgeshire County Council’s Scheme of Delegation.

#### a) Admission bodies with a predetermined contract end date which may be specified in the admission agreement.

- **Employers at the natural end of a contract** – Once the contract is complete or the employer has completed the services it was contracted to carry out (and no plans for extending the contract are in place); the employer will leave the Fund. Under these

circumstances, it is usual for the remaining active employees to transfer back to the awarding authority or into a second (or later) generation contractor.

In this scenario, the Administering Authority would expect the responsibility for the deferred pensioners and pensioners to transfer back to the awarding authority. The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority (and, where relevant, the next generation contractor) will be taking responsibility for funding those liabilities.

If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the ceasing employer.

- **Employers that leave the Fund prior to the natural end of an admission agreement –** Under these circumstances, it will need to be established whether the current active membership will transfer to another LGPS employer or contractor and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners (and also potentially the past and future accrual of benefits of transferring active members).

Under the admission agreement, those liabilities that cannot be recovered via a bond/indemnity or guarantor would usually fall back to the awarding authority (who may well be the guarantor) and ideally this should be written into the admission agreement or supporting documents. The Administering Authority should be advised if the transfer agreement between the awarding authority and the admission body dictates a different approach than above.

In broad terms, when assessing a cessation debt on early termination, liabilities may be assessed on a lower risk termination basis to protect other Fund employers.

#### b) Non time limited admission bodies

- The cessation liabilities and final deficit will normally be calculated using a low risk exit basis as per the Funding Strategy Statement with an allowance for further future mortality improvements.
- It is now a condition of admission that such bodies will be “sponsored” by another scheme employer or another public body or provide an indemnity or security acceptable to the Fund.
- If, for some reason, the Fund is not able to recover the full amount of the final deficit from the admission body, the sponsor (or guarantor) will be expected to assume responsibility for the assets and liabilities in the Fund, which are attributable to the admitted body. Where this is the case, the cessation valuation will normally be re-calculated using an ongoing valuation basis appropriate to the investment strategy.
- If, for some reason, the Fund is not able to recover the full amount of the final deficit from the admission body and there is no guarantor (these will generally be historical cases), then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund.

The Administering Authority reserves the right to use different funding assumptions if they are deemed to be appropriate, after taking actuarial advice.

#### 4.1.13 **Payment of cessation debt**

The Fund’s preferred and default position will be to collect the cessation payment by

way of a lump sum where it is the admission body that is making the payment. The Fund's normal policy is that the payment is made within 30 days of the admission body being notified. The admission body may be allowed to spread payment over an extended period where this is agreed by the Head of Pensions and the Section 151 Officer, however, some form of security relating to the unpaid amount may be required: further details are contained in the Funding Strategy Statement.

Where the cessation debt cannot be repaid by the admission body, any outstanding payment, once any bond, indemnity or alternative guarantor has been exhausted, may be recovered by one of the following means:

- by incorporating the cessation debt into the awarding authority's or guarantor's ongoing contribution rate, calculated by including the ceasing employer's assets and liabilities in the awarding authority/guarantor's share of the Fund. The Administering Authority reserves the right to require payment by immediate lump sum;
- where the deficit is to be spread amongst all the employers in the fund, the rates and adjustments certificate will allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body or bodies depart (unless the results of that valuation have already been finalised);
- the approach in the previous bullet may be deferred whilst there are sufficient assets in the ceased employer's share, to pay benefits to its ex-employees;

The Administering Authority will in all cases seek to maximise the monies recoverable and hence minimise the risk of deficit costs being levied on other Fund employers. In exceptional circumstances this may result in an admission body paying less than the full cessation deficit. Any such cases will be subject to approval by the Pension Fund Committee.

#### **4.1.14 Payment of surplus / exit credit**

Where the Administering Authority determines that an exit credit may be payable, the Administering Authority will:

- promptly notify the employer – and any other relevant body – of its intention to make a determination as to the value, if any, of any exit credit payable to the employer
- revise the rates and adjustments certificate showing the excess of assets over the liabilities as assessed by the actuary
- make any necessary exit credit payment to an employer within six months of the cessation date (or another date agreed between the Administering Authority and the employer).

Further details can be found within the Funding Strategy Statement.

## **4.2 Scheduled and designating bodies ("scheme employers")**

These are employers who have a right to participate in the Fund, as opposed to joining via an admission agreement. They include local authorities, town & parish councils, academy schools, and other employers listed in parts 1 and 2 of schedule 2 of the Regulations.

### **4.2.1 Allocation of assets**

The allocation of assets at the commencement of an employer will be as follows:

- Academy conversion from LEA school – share of deficit basis where the amount of assets notionally transferred to an academy is based on the ongoing funding level of active members of the ceding local authority on the calculation date. The funding level is calculated as the ratio of the remaining assets after sufficient assets have been retained to meet the deferred and pensioner liabilities of the relevant ceding authority in full, to the value of active members' liabilities immediately prior to transfer.
- Academy free school – normally these are established with staff who have no prior LGPS service and hence will have nil assets and liabilities at the outset. If any members bring in individual transfers (whether from another Fund employer or another LGPS Fund) these will be brought in using standard GAD CETVs.
- Existing academy established as new employer, eg on failure of previous academy/trust and being brought into a Multi Academy Trust – this will normally be on the basis of all assets and liabilities (including deferreds and pensioners) being transferred from the existing academy.
- Non academy scheme employers - to be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer and business agreement (unless a pooling arrangement is entered into as described later in this policy).

The assets will be calculated using the Fund's ongoing funding basis as set out in the Funding Strategy Statement.

The asset share will be tracked on a monthly basis during the period of participation in the Fund, allowing for cash flows in/out of the scheme employer and the Fund's investment returns.

#### 4.2.2 **Matched investment strategy**

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

Any alternative approach proposed is subject to agreement by the Fund.

#### 4.2.3 **Contribution rates and other costs**

The employer contribution rate will be set in accordance with the Funding Strategy Statement, using a risk-based approach, taking into consideration elements such as:

- The employer's funding target.
- The desired likelihood of achieving the funding target.
- The time period over which the funding target is to be met.
- In the case of an employer permitted to designate which of its employees may join the Scheme, whether such a designation applies to all employees or is restricted.

The approach taken is to calculate an individual contribution rate such that, when combined with the employer's asset share and anticipated market movements over the time horizon, the funding target is met with a given desired likelihood. Further information is available within the Funding Strategy Statement. The employer contribution is split into two parts – Primary and Secondary – and employers must pay both parts.

However, academies may opt to pay an employer contribution rate in line with the stabilisation mechanism offered by the Fund. The mechanism keeps year to year

contribution rate variations within a pre-determined range, allowing academy employers to benefit from paying stable employer contribution rates.

In addition, a Scheme employer will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits; lump sums in relation to any award of additional benefits; and
- reimbursement of the administering authorities or other bodies costs incurred as a result of activity directly related to or requested by the admission body or due to poor administration by the employer.

All lump sums in relation to non-ill health early retirement will be paid immediately by the Scheme employer unless the Head of Pensions and Section 151 Officer for Cambridgeshire County Council jointly agree the payment may be extended over a maximum period of 3 years.

The Administering Authority reserves the right to also request immediate payment of any ill-health strain payment not covered by the Fund's ill health pooling policy

The Administering Authority may require any actuarial, legal, administration and other justifiable cost to be paid by the Scheme employer.

The Administering Authority will consider, in certain circumstances, amending the employer contribution rate between valuations, further information is set out in the Funding Strategy Statement.

#### **4.2.4 Ongoing monitoring of scheme employers**

The Administering Authority will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. As per 4.2.4.8 above, the Administering Authority may review the employer contribution rate (i.e. outside the formal triennial actuarial valuation cycle).

#### **4.2.5 Cessation terms and requirements**

Termination of an employer would be considered to take place, though not limited to, the following circumstances:

- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist; or
- Where the employer moves to another LGPS Fund, or another pension scheme, due to reorganisation.

#### **4.2.6 Future cessations**

Where a Scheme employer is likely to terminate within the next 5 to 10 years due to losing its last active member within that timeframe, the Administering Authority reserves the right to set contribution rates by reference to liabilities valued on the termination basis (as per below). The target in setting contributions for any employer in these circumstances is to achieve full funding on a termination basis by the time the employer terminates, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required on termination. However, it will also assist the employer in the affordability of its eventual cessation debt.

#### 4.2.7 **Deferral of cessation debt**

Where an employer has ceased from participating in the Fund but is expected to have one or more new active Fund members within the three-year period following the cessation event, the Administering Authority has the discretion to suspend payment of the cessation debt for an agreed period of time. Where approved, the Administering Authority will liaise directly with the employer and confirm the contribution rate requirements to be paid during the period of deferral.

#### 4.2.8 **Deferred debt agreement (“DDA”) alternative to immediate cessation**

The Administering Authority may, at its discretion, allow a ceasing employer who is continuing in business, to enter into a funding agreement whereby the payment of an exit debt is deferred and, instead, the employer continues to pay secondary contributions. Further details on this type of agreement are set out within the Funding Strategy Statement, but any agreement would be considered on an individual basis. The Administering Authority will likely require some form of security from the ceasing employer to enter into such an agreement.

#### 4.2.9 **Basis of termination valuation**

The Fund’s general principle on the cessation of an employer is to assume a “clean break” on termination, i.e. the departing employer’s liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis.

The Fund’s policy in relation to the calculation of cessation valuations is shown below, albeit each case will be considered on its own merits in accordance with the Scheme of Delegation.

The cessation liabilities and final deficit will normally be calculated using a low risk exit basis as per the Funding Strategy Statement. If for some reason the Fund is not able to recover the full amount of the final deficit, then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund. In some circumstances, e.g. where employees are transferring to another LGPS employer such as the local authority, an ongoing valuation approach may be adopted for any transferring liabilities.

#### 4.2.10 **Payment of cessation debt**

The Fund policy will be to collect this cessation payment by way of an immediate lump sum. The Fund’s normal policy is that the payment is made within 30 days of the employer being notified. The employer may be allowed to spread payment over an extended period where this is agreed by the Head of Pensions and the Section 151 Officer, however, some form of security relating to the unpaid amount may be required: further details are contained in the Funding Strategy Statement.

In the case of academies, it may be possible for the cessation position to be covered either by another academy trust taking on the ceasing school’s assets and liabilities, or by payment of the Department for Education guarantee.

Where the cessation debt cannot be repaid by the employer, any outstanding payment, once any bond, indemnity or alternative guarantor has been exhausted, may be recovered by one of the following means:

- where the deficit is to be spread amongst all the employers in the fund, the rates and adjustments certificate will allow for any ongoing deficit for departed employers at

each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised);

- the approach in the previous bullet may be deferred whilst there are sufficient assets in the ceased employer's share, to pay benefits to its ex-employees.

The administering authority will in all cases seek to maximise the monies recoverable and hence minimise the risk of deficit costs being levied on other Fund employers. In exceptional circumstances this may result in an employer paying less than the full cessation deficit. Any such cases will be subject to approval by the Pension Fund Committee.

#### **4.2.11 Payment of surplus / exit credit**

Where the Administering Authority determines that an exit credit is payable, the Administering Authority will:

- promptly notify the employer – and any other relevant body – of its intention to make a determination as to the value, if any, of any exit credit payable to the employer
- revise the rates and adjustments certificate showing the excess of assets over the liabilities as assessed by the actuary
- make any necessary exit credit payment to an employer within six months of the cessation date (or another date agreed between the Administering Authority and the employer)
- Further details can be found within the Exit Credit Policy and Funding Strategy Statement.

### **4.3 Bulk transfers**

#### **4.3.1 Calculation of bulk transfer out of the Fund**

Payments of bulk transfers from the Fund will be carried out in line with the following:

- Where the bulk transfer is to a broadly comparable scheme by virtue of a local authority or public sector outsourcing services to an employer fulfilling a contract under the ODPM Code of Practice on Workforce Matters and/or Fair Deal Guidance the transfer payment will represent the full value of the transferring liabilities on the ongoing funding basis, irrespective of the funding level of the transferring awarding authority. In exceptional circumstances, the bulk transfer may be adjusted to reflect specific issues of the transferring employer.
- In all other circumstances the bulk transfer, calculated on an ongoing basis, will be considered on the merits of the case. Generally, the Fund's approach is for Government Actuary's standard CETVs being paid.
- However, where the transferring employer is leaving the Fund in its entirety (for example as part of a reorganisation, or an academy moving to a Multi Academy Trust in another Fund), the bulk transfer value paid from the Fund should be equivalent to the employer's share of the assets in the Fund. In particular, this would apply where all deferred and pensioner members are also transferring (which will typically require a Secretary of State Direction).
- If an employer is leaving behind any liabilities (eg deferred and pensioner members) then the bulk transfer value to be paid should be equivalent to the employer's share of the assets in the Fund less an amount withheld to ensure non-transferring liabilities are fully funded on a low risk exit basis.

- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme. This will be particularly important where the transferring employer's participation in the Fund is ending and the bulk transfer payment is being reduced to accommodate a cessation valuation in respect of the remaining deferred and pensioner liabilities.
- Although there is no physical payment to or from the Fund, transfers between employers within the Fund should be treated in the same way as external transfers, particularly for outsourcings to employers fulfilling a contract, to ensure a level playing field between those offering a broadly comparable scheme and those proposing to seek admitted body status. This is to ensure that the level of security offered to the remaining employers in the Fund is not diminished by reason of the transfer.

#### 4.3.2 **Adjustment to transfer payment between transfer date and payment date**

Normally the transfer value will be calculated as at the date the members transfer their employment (on the Transfer Date); this value is then adjusted until the actual Payment Date, which is typically some months or years later.

There is an overriding principle of minimising the risk to the Fund of paying out more in the bulk transfer than the Fund holds in assets which are attributable to the transferring liabilities. Consequently, the most appropriate adjustment would be to use the actual returns achieved on the Fund's assets over the appropriate period.

There are a number of practical difficulties associated with this, not least the fact that Fund returns are typically only available on a quarterly basis and there is a lag between the quarter end and the availability of the return information. As a result, an approximation is usually required for part of the period, which will typically take the form of:

- (a) applying index returns in line with the benchmark agreed at the time of the bulk transfer, and/or
- (b) applying implied returns from monthly asset values.

It may subsequently be agreed between both parties to carry out a "true-up" exercise whereby the original payment amount is updated to reflect Fund returns to the Payment Date (when they become available), the difference between the original amount and the revised amount is settled between the two parties.

Where the bulk transfer is between two employers in the Fund, the notional transfer of assets is assumed to occur on the transfer date so there is no need to specify such an adjustment.

#### 4.3.3 **Format of bulk transfer**

The type of payment will usually be in cash but is at the discretion of the Fund, to be decided by the Section 151 Officer. A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

#### 4.3.4 **Bulk transfers in**

The Administering Authority will expect all bulk transfers in to be sufficient to meet the value of the accrued benefits on ongoing valuation assumptions (i.e. the Fund's funding basis) applicable at the transfer date.



There may be situations where the transfer amount accepted is less than the benchmark outlined above, in which case the receiving employer will be required to fund this deficit.

Depending on the strength of covenant of the receiving employer and the significance of the shortfall, any such shortfall will be met by either a lump sum payment or through increases to its ongoing contribution rate at the point the transfer is made or at the next funding valuation.

#### **4.3.5 Approval process for paying or receiving a bulk transfer**

The Administering Authority will normally agree to bulk transfers into or out of the Fund where this policy is adhered to. However, all bulk transfers into or out of the Fund will be put to the Pension Fund Committee for agreement, where the proposals depart from this policy.

#### **4.3.6 Costs**

The Administering Authority may require any actuarial, legal, administration and other justifiable cost to be paid by the employer in the Fund responsible for the transfer in or out.

## Appendix 1

### Admission bodies - overriding principles

The purpose of an admission policy is to ensure that only appropriate bodies are admitted to the Fund and that the financial risk to the fund and to employers in the fund is identified, minimised and managed accordingly.

The Fund's policy is drafted on the basis of the following key principles:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.
- to complement the Funding Strategy Statement (FSS)

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfers (Pensions) Direction 2007 [Statutory Guidance to Local Authorities on Contracting effective from October 2007] and Fair Deal guidance) as they pertain to admission agreements are adhered to.

## Appendix 2

### Admission bodies and scheduled bodies - the regulatory and guidance framework

#### The LGPS

The Local Government Pension Scheme Regulations 2014, as amended, ("The Regulations") describe two main routes by which bodies may gain admission body status. These are;

1. By being linked with, funded by, or representative of a local authority or scheme employer, or providing a public service and having sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest
2. By providing a service as a result of the transfer of the service or assets by means of a contract or other arrangement (e.g. outsourcing).

In December 2009, the Department for Communities and Local Government ("DCLG") issued guidance explaining the LGPS regulatory provisions relating to admission bodies.

Employers may also be admitted to the Fund by virtue of being listed in Schedule 2 of The Regulations. Referred to as Scheduled bodies, such employers have a right to participate in the LGPS.

#### Fair deal, ODPM code of practice and the direction

Where employees are being transferred under TUPE, the principles of the Cabinet Office Statement of Practice ("COSOP") dated January 2000 and revised in December 2013 "Staff Transfers in the Public Sector – Statement of Practice", and in particular the "Fair Deal for Staff Pensions" guidance that supports "COSOP" (commonly known as 'Fair Deal') must also be adhered to. The Government published the reformed Fair Deal policy on 4 October 2013, which pertains to transfers from Central Government. The key requirements of this policy are: -

- that employees transferred to a supplier will in future automatically be entitled to remain in their existing public sector pension scheme.
- under the reformed Fair Deal winning bidders generally will not have an option to move employees eligible for public sector pension schemes to a broadly comparable private sector pension scheme apart from in exceptional cases.
- where provision of a broadly comparable pension scheme is agreed, payment of a bulk transfer and protection of past service by provision of day for day service credits (or equivalent allowing for differences in the benefit structure of the new scheme), and
- protection of other pension related terms and conditions of employment, such as enhancement of benefits on redundancy.

Fair Deal for the LGPS is still under consideration. However, it is expected that the spirit of the above policy will be followed.

## Appendix 3

### Bulk transfers – overriding principles

The purpose of bulk transfer negotiations is to determine the transfer payment to be paid and the amount of service credits to be awarded when a number of members transfer their benefits from one pension scheme to another.

The Fund's policy is drafted on the basis of the following key principles:

- when a group of active scheme members joins the Fund, the Administering Authority's objective is to ensure, as far as practical that the Fund does not accept an ongoing funding deficit in respect of the transferring employees;
- when a group of active scheme members leaves the Fund, in order to protect the funding position in respect of the remaining members, the transfer values in respect of the transferring members should be no more than the assets held in respect of the transferring liabilities, and at most be 100% of the transferring liabilities on the ongoing funding basis as set out in the Funding Strategy Statement; and
- service credits granted to active scheme members should fully reflect the value of the benefits being transferred, irrespective of the transfer value paid or received.
- There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Statutory Guidance to Local Authorities on Contracting issued in August 2005 and Fair Deal guidance) as they pertain to bulk transfers are adhered to.

It should be noted that, as far as possible, employers should treat the Fund's preferred terms on bulk transfers as non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept should be dealt with by the employers concerned outside the Fund.

## Appendix 4

### Bulk transfer circumstances

#### **Bulk transfers from the Fund to non-LGPS Funds**

Bulk transfers of active scheme members from LGPS employers to approved non-LGPS schemes typically involve the outsourcing of services to a private sector employer with its own approved scheme under a transfer of undertakings (TUPE) or from the reorganisation of central government services (such as the merger of certain government agencies) where the active scheme members transfer to another public service scheme (e.g. NHS, PCSPS etc.).

Regulation 98 of the Local Government Pension Scheme Regulations 2013 (“The Regulations”) governs the bulk transfer of members’ pension liabilities out of the LGPS to an approved non-LGPS pension arrangement.

Regulation 98 allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement. The transferring and receiving schemes and the employer must agree that a bulk transfer will be made. If there is no agreement, then our understanding is that the standard cash equivalent transfer basis would apply if the active scheme member elected to transfer his or her accrued rights.

The 2003 ODPM Code of Practice on Workforce matters requires that the new employer’s pension scheme allows the employees transferring their accrued rights from the LGPS to do so on a fully protected basis. Our interpretation is that this refers to protection of the benefits (i.e. value of service credits) not the amount of the bulk transfer since no reference is made to the bulk transfer payment having to reflect that fully protected basis.

For any bulk transfer the Fund’s administrators must also obtain members’ consent to be part of the bulk transfer.

The Regulations give the Fund’s actuary discretion as to the calculation of the bulk transfer value. This means that, when paying bulk transfers from the Fund to a non-local-government scheme, it is possible for the calculation to be structured so as to minimise the risk of the transfer value exceeding the share of the Fund assets attributable to the transferring liabilities<sup>1</sup>.

#### **Bulk transfers between LGPS Funds within England and Wales: changes in the Fund**

Transfers of membership between different LGPS funds commonly occur when employers within one council area expand into or merge with employers in another council area and/or LGPS fund.

Regulation 103 of The Regulations governs the bulk transfer of members’ pension liabilities between funds within England & Wales. Regulation 86 requires a bulk transfer to be agreed between the actuaries to the transferring and receiving scheme where 10 or more members are affected by virtue of a single event.

The Regulations require the actuaries to each fund to agree on the amount of the bulk transfer payment to be made. If agreement is not reached within 12 months then the matter may be referred to a third actuary chosen by the two actuaries or, if they cannot agree, to an actuary chosen by the President of the Faculty and Institute of Actuaries and his decision will be final.

The active scheme member will be credited with the same period of service in the new fund as he or she had accrued in the Fund so there is no discretion to award anything other than day-for-day service credits.

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<sup>1</sup> It is not possible to completely eliminate this risk, for example because the transfer value will be adjusted between the transfer date and the payment date and Cambridgeshire Pension Fund returns may not be available for the full period.

### **Bulk transfers between employers in Fund**

Bulk transfers between employers within the Fund may be relatively common. An example of this type of transfer is where a unitary authority transfers control of certain services to another body and the transferring active scheme members are eligible to remain in the Fund. These types of transfers can be broken into two different categories:

- The transferring active scheme members join a new employer in the Fund (e.g. a transferee admission body, community admission body, or even a new scheduled body); or
- The transferring active scheme members join an existing Fund employer.

There are no specific references in the Regulations to the allocation of assets for these types of scenario or any other guidance relating to such transfers. Obviously the ODPM Code of Practice on Workforce Matters and the Fair Deal guidance applies to transfers from local authorities to private contractors within the same fund.

### **Transfers in**

Bulk transfers into the LGPS can occur for a number of reasons including a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, where there is a reorganisation of central government operations (transfers in from other government sponsored schemes) or where an outsourced contract ceases and active scheme members (re)join the LGPS from a broadly comparable scheme.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any service in respect of a transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be calculated the same way as individual transfers.