LONDON BOROUGH OF REDBRIDGE PENSION FUND ADMISSION POLICY

1. ENTRY CONDITIONS AND REQUIREMENTS TO THE REDBRIDGE PENSION FUND

Introduction

The Local Government Pension Scheme (LGPS) Regulations classify employers into four categories.

- Scheme employers – these are bodies that have a statutory obligation to participate in the LGPS.
- Employers that are specifically identified within Schedule 2 Part 2 of the Regulations
- Admission Bodies
- Educational Establishments such as foundation schools

The London Borough of Redbridge, as administering authority, is responsible for deciding whether applications from organisations to be admitted into the Redbridge Pension Fund are accepted or declined. Clearly consideration for admission will only be given to bodies that meet the requirements as outlined within the LGPS Regulations.

In 2009 Communities for Local Government (CLG) issued guidance which stated that applications from contractors should not be declined if the contractor and awarding authority agree to meet the requirements of the LGPS Regulations.

Policy
The overlying principle is that the London Borough of Redbridge will only enter into an admission agreement with a body that meets the criteria as set out in the Regulations for Admission Bodies. These type of Admission Bodies are defined in Part 3, Schedule 2 "provides or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement".

Bond/Indemnity or Guarantor requirements for entry

Introduction

It is important to minimise the risk that the potential admission body might place on the Redbridge Pension Fund and the other employers in the Fund before it is agreed they can enter the Fund. This risk relates to the costs of liabilities not yet paid for at the point of termination of the admission agreement (i.e. underfunding). Termination can be for a number of reasons, ranging from the natural end of a contract or a body going into liquidation.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation in order to ascertain the final payment due relating to any deficit.

Where the admission body is unable to meet the outstanding payment, the payment must be paid by:

- Any insurer or person providing an indemnity or bond on behalf of that body or a guarantor, such as the sponsoring employer or a parent company.
- Where this is not possible the awarding body will be responsible for the deficit.

The outstanding deficit at the point of termination may largely already exist due to adverse experience but could be increased by additional liabilities resulting from the termination. The risks relating to the potential of a deficit arising at the point of termination include:

- Redundancy early retirements on premature termination of the contract;
- Current funding strain – generally at the start of the admission, the contractor commences on a fully funded position;
- Investment underperformance;
- Lower gilt yields (the lower the return available from Government bonds increases the value placed on the liabilities);
- Salary increases over the contract period higher than had been anticipated.

Other financial issues to consider would include:

- Any unpaid contributions;
- The cost of cessation, including the actuarial costs associated with producing the cessation valuation.

The LGPS Regulations do include some requirements to reduce these risks, including:

- The need, to carry out a risk assessment to the satisfaction of the Administration Authority and the awarding body where appropriate on the premature termination of the provision of the services carried out by the admission body by reason or insolvency, winding up or liquidation and, where considered necessary take into account the results of that assessment, require the admission body to put in place a bond, indemnity or parent company guarantee to cover the level of risk identified.

Policy

The Administration Authority will arrange for the Fund's Actuary to provide a risk assessment to ensure that the Fund is not exposed to any undue risk. The cost will be payable by the Admission Body. The Redbridge Pension Fund will require any potential admission body to provide:

- *a bond, indemnity or parent company guarantee to the value identified by the Actuary to cover the risk of redundancy and 98% of market volatility.*

Where a bond or indemnity is provided, a separate bond agreement will be required. The bond or indemnity must be re-evaluated and periodically reviewed.

In order to protect the Pension Fund and the other employers in the scheme, the Pension Fund reserves the right to consider pre-funding for termination by way of increasing the employer contribution rate by actuarial assessed assumptions.

In order to further mitigate the risk to the Pension Fund and employers from the cost associated with ill-health retirements, any potential admission body will be required to provide ill-health insurance cover. Such cover is available with a reputable insurance company via the Authority.

Risk Sharing

Introduction

Some awarding bodies and contractors enter into risk sharing arrangements as part of the provision of broadly comparable pension benefits. This could include:

- Fixed employer contribution rates (often higher than the certified rate to reduce the risk of a residual deficit at termination)
- Ceilings and floors to the employer contribution rate to limit the exposure of contribution rate increases
- The awarding body contributing to any deficit on termination
- The awarding body being responsible for certain elements of the employer contribution rate such as investment returns or ill-health retirement
- Waiving the requirement to provide a bond or indemnity
- Pooling the new admission body with the scheme employer.

These arrangements do not change the **true cost** of pension benefits but merely change who is responsible for accounting for them.

Policy

The Redbridge Pension Fund does not participate in risk sharing arrangements and therefore the Admission Agreement will be written on this basis. Any arrangements between the employer and the admission body concerning risk sharing will be a separate agreement that does not include the Pension Fund. Accordingly the admission body will be required to pay the *certified employer contribution rate and any other contributions required e.g. early retirement strain costs regardless of any risk sharing arrangements that are in place.*

The Redbridge Pension Fund, however, will accept a termination deficit payment from the awarding body rather than the admission body. This would be if the awarding body and admission body has entered into a separate agreement outside of the Admission Agreement where such a risk sharing arrangement is in place.

It is acknowledged that, although the Redbridge Pension Fund will seek to ensure that a bond or indemnity is provided to protect the Fund against early termination, it is the awarding body's decision as to whether such a bond or indemnity is required as ultimately the awarding body is the guarantor for the pension costs.

Approval process for becoming an admission body

Introduction

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether a body should be allowed to enter into an admission agreement.

Policy

The Redbridge Pension Fund is responsible for ensuring any bodies meet the above criteria, having regard to the appropriate legal and actuarial advice.

The Redbridge Pension Fund admission agreements will generally be standard and non-negotiable having been prepared following the advice from the Fund's actuary and legal advisers. The agreement will set out the terms and conditions including commencement, transfer, payment and termination clauses to protect the other beneficiaries and participants in the Redbridge Pension Fund.

Any applications departing from these criteria and/or the standard terms of the admission agreement will be considered but may be declined.

2. FINANCIAL CONSIDERATIONS

Allocation of assets

Introduction

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and the employer contribution rate will be set with the objective of achieving solvency at the end of the contract period. The assets that are notionally allocated for Admission Bodies are usually set equal to the value of the past service liabilities of the transferring employees, i.e. the Admitted Body will start 100% funded.

Policy

The allocation of assets at the commencement of an admission agreement will be as follows (unless entering a pooling arrangement):

- *Admission Body – 100% of the value of the past service liabilities of any transferring employees*

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

The Administering Authority does not account for each employer's assets separately. Instead the Fund's Actuary tracks the asset share during the period of the admission agreement and adjusts this at each formal triennial valuation to take account of the admission body's actual experience over the period since the previous valuation (or date of entry if later) against the assumptions made. Employers are allocated assets using this "analysis of experience" approach which allows for all of the main items that contribute to surplus or deficit including:

- *Surplus/Deficit at previous valuation*
- *Changes in assumptions*
- *Investment returns*
- *Contributions paid by the employer against employer's cost of benefits accrued*
- *Any payments of special or additional employer contributions or bulk transfers in/out*
- *Changes to pensionable salaries and pensions in payment*
- *Ill health retirements and early retirements (on grounds of redundancy/efficiency)*
- *Withdrawals*

- *Pensioner mortality*

This approach ensures that the funding position of the employer is assessed regularly and on a basis that reflects its actual experience within the Redbridge Pension Fund.

The assets will remain within the Redbridge Pension Fund.

Contribution rates and other costs

Introduction

At the beginning of each admission agreement, the actuary will determine the employer contribution rate payable by the Admission Body. There will also be occasions when additional costs are incurred, such as actuarial fees.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement taking into consideration various factors including:

- *Any past service*
- *Whether the admission agreement is open or closed to new participants*
- *Whether the admission agreement is for a fixed period, and if so for how long*
- *The employer covenant and those of its guarantor (where appropriate) and/or any bond or indemnity to be put in place*
- *The investment strategy*

In addition the admission body will be required to pay additional payments which could include:

- *Lump sums in relation to any early retirements or early payment of pension benefits*
- *Reimbursement of the administering authorities or other bodies costs due to poor administration by the admission body.*
- *Actuarial, legal, administration and other justifiable costs to be paid by the admission body.*

The Redbridge Pension Fund will communicate the implications of a transfer to the awarding body and may require the revision of the contribution rate payable by the awarding body after the transfer occurs. The Redbridge Pension Fund reserves the right to require payment by the awarding body of a lump sum contribution to cover any deficit in respect of transferees.

3. ONGOING MONITORING OF ADMISSION BODIES

Introduction

It is important that monitoring of an admission body is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Redbridge Pension Fund. This can be carried out in a number of ways including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as salary increases;
- Requirements of the admission body to notify changes in circumstances;
- Regular assessment of the value of any security put in place by the employer;
- Checks to identify if an employer has failed to notify the Redbridge Pension Fund of any relevant changes.

Policy

During the period of the admission agreement, the level of risk in relation to any bond or indemnity in place will be reassessed periodically and the relevant admission body will be required to renew their bond or indemnity accordingly. Contribution rates will be reviewed at formal valuations. In addition, the Redbridge Pension Fund reserves the right to review contribution rates for admission bodies more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

The Redbridge Pension Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. The Redbridge Pension Fund may review the employer contribution rate if it appears that the liabilities relating to an employer have increased more than had been allowed for at the preceding triennial valuation.

4. CESSATION TERMS AND REQUIREMENTS

TERMINATION REQUIREMENTS

INTRODUCTION

One of the greatest risks to the Redbridge Pension Fund and the participating employers is that an employer ceases to exist and any outstanding deficit remains which the employer cannot pay and for which there is no provision such as a bond or indemnity to cover or the bond is insufficient to cover the debt. It is therefore important to put in place safeguarding measures to protect the Fund. However it is also important to enable the Fund to have the flexibility to terminate an Admission Agreement at an appropriate point to protect the other employers in the Fund which allows the Fund to levy a termination payment.

POLICY

The Redbridge Pension Fund will take legal advice on the appropriate termination requirements to be included in admission agreements and these will be incorporated into all admission agreements. These include the option for an admission agreement to be terminated by the Redbridge Pension Fund in any of, but not limited to, the following circumstances:

- *Where the admission body is not paying monies in a timely manner;*
- *Where the admission body is not meeting administrative requirements relating to the provision of information;*
- *Where no further active members exist;*
- *Where the employer is wound up, merged or ceases to exist.*

FUTURE CESSATIONS

INTRODUCTION

When an admission agreement ceases, the objective is to ensure that the employer's liabilities are matched by assets. The LGPS Regulations have provisions that deal with admission bodies which have a time limited admission agreement or it is known that the admission body is going to leave the Redbridge Pension Fund at some date in the future. This could be in the lead up to a natural end of a contract or at the first indication that a body is going to cease to exist or the contract is to be terminated prematurely.

In these circumstances, the Administering Authority may seek to increase or reduce the admission body's contributions to the Redbridge Pension Fund in the period leading up to cessation with the aim of achieving a position whereby the employer's assets are equal to its liabilities. To a limited degree, this approach helps reduce the prospect of an employer over-funding scenario. The Regulations currently do not allow a Fund to refund a funding surplus to an admission body.

POLICY

A provisional cessation valuation will be carried out on premature termination of an admitted body as soon as the Redbridge Pension Fund becomes aware of this likelihood unless the termination is likely to take place in the immediate future.

Ongoing annual provisional cessation valuations may be carried out in the run up to the natural end of an admission agreement during the final two years of the agreement. Additional provision cessation valuations may be carried out on the advice of the Fund's Actuary. The cost of these valuations will be borne by the Admitted Body.

BASIS OF TERMINATION VALUATION

INTRODUCTION

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Redbridge Pension Fund with benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Redbridge Pension Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out basis.

POLICY

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

Once the contract of an Admission Body is complete or the employer has completed the services it was contracted to carry out (and there are no plans to extend the contract), the employer will leave the Redbridge Pension Fund. Under these circumstances, it is normal for the remaining active employees to transfer back to the original employer or to the next generation contractor. In this scenario, the Redbridge Pension Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority. The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. If a member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the exiting employer.

For employers that leave the scheme prior to the natural end of an admission agreement it needs to be established whether the current active members will be transferred to another LGPS employer or new contractor and also who will be responsible for any residual and future *liabilities in respect of deferred pensioners and pensioners. The Admission Agreement should include the arrangements in the event of this situation. Exiting employers in this situation will be considered on an individual basis as there may be circumstances where the transfer agreement between the awarding authority and the Admission Body dictate a different approach.*

The approach used to carry out a provisional or indicative cessation valuation should be the same as the approach used if a body were to cease on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed appropriate.

PAYMENT OF CESSATION DEFICIT

INTRODUCTION

When a cessation valuation is undertaken, the actuary is also required to certify the contributions due to the Redbridge Pension Fund. The LGPS Regulations do not specify whether or not this payment should be paid as a lump sum or whether it is to be paid in instalments.

There is, however, a provision that clarifies what should happen if it is not possible to recover the cessation payment (for example, due to the admission body going into liquidation and no assets being available). In the first instance, the Redbridge Pension Fund will attempt to recover any outstanding payment from any bond or indemnity. The second port of call for the money will be the guarantor. Thereafter the Redbridge Pension Fund may seek to recover the money from the awarding body.

POLICY

The Administrating Authority will seek to recover any outstanding amount by way of a lump sum payable by the Admission Body. Where this is not possible and once recovery from a bond, indemnity or guarantor has been exhausted, then the outstanding payment will be due from the awarding authority. The Fund reserves the right to seek reimbursement as a lump sum payment.

5. CALCULATION OF BULK TRANSFER

INTRODUCTION

Bulk transfer payments can be calculated in a number of ways including:

- Share of Fund – the notional share of assets attributable to the transferring employees. This approach means any deficit (or surplus) is included in the bulk transfer payment.

- Fully Funded – the payment relates to the calculation of liabilities for the transferring employees on a fully funded basis, thereby leaving any deficit (or surplus) with the transferring employer

- Deduction for remaining liabilities – the transfer payment could be reduced to ensure any remaining liabilities relating to the employer (in relation to deferred or pensioner members) are fully funded on a termination basis. This is appropriate where there will not be any opportunity to collect employer contributions from a transferring employer.

POLICY

Payments of bulk transfers from the Redbridge Pension Fund will be considered on the individual case. Generally where the transferring employer is leaving the Redbridge Pension Fund, the bulk transfer value paid from the Redbridge Pension Fund should be equivalent to the employer's share of the assets in the Fund less an amount withheld to ensure non-transferring liabilities (such as for deferred members or pensioners) are fully funded on a termination basis.