**Appendix A**


## Shropshire County Pension Fund

# Employer Events Policy

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## Contents

# 1. Introduction

This Employer Events Framework policy document has been prepared by Shropshire Council acting in its capacity of Administering Authority of the Shropshire County Pension Fund ("the Fund"). All terms and definitions are as set out in the Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations").

The purpose of this document is to describe the various "life stages" of an employer that participates in the Fund. It summarises the events and possible outcomes from those events right through until it withdraws from the Fund. Whilst the Administering Authority reserves the right to treat each case on its merits, this document sets out its primary policy position.

All key staff at current and prospective employers should review this policy document and appraise themselves as regards their own employer's position, including the potential financial and operational implications.

Any questions or queries arising from this policy should, in the first instance, be directed to:

Debbie Sharp

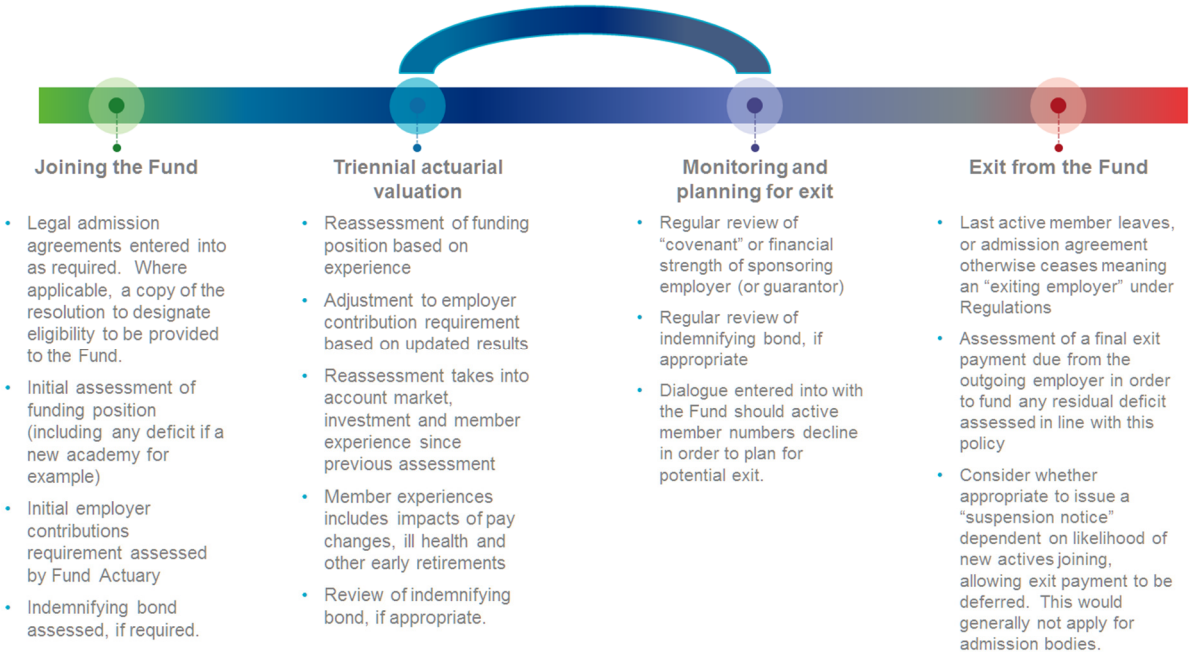
Pensions Administration Manager

debbie.sharp@shropshire.gov.uk

## 2. An LGPS employer's lifetime

In order to provide some context to this Employer Events Framework, set out below are the major stages of an employer's lifetime within the Local Government Pension Scheme.

Senior staff at each employer should familiarise themselves with these high level stages. Depending on the specific circumstances applying to an employer at each stage, there will be associated operational and financial implications as regards its interests with the pension fund.




Depending on the lifetime of the employer, they may go through a number of triennial valuations and subsequent monitoring activities before reaching a final event that would trigger their exit from the Fund.

The remainder of this policy paper discusses each of the stages noted above, and sets out some detail of these stages and the Fund's primary policy position and approach. The Administering Authority however, reserves the right to treat each case on its merits which may involve alternatives where justified.

# 3. Joining the Fund

**Scheme Employers**
All Scheme Employers (as defined under Schedule 2 Part 1 of the Regulations) are entitled to join the Fund under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

Other Scheme Employers (specifically those defined under Schedule 2 Part 2 of the Regulations) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. A copy of this resolution will be required by the Administering Authority at the outset, and any subsequent amendments to the resolution should also be provided.

**Academy conversions**
Where a school has elected to convert to Academy status, the Fund's policy is for the new Academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools. Full details of how this is assessed are set out in a later section of this document, as is the treatment offered to Academies within Multi-Academy Trusts (MATs).

**Admission bodies**
An admission body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund.

Admission bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)

- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but essentially they are "not for profit" organisations (formerly known as Community Admission Bodies).

If its application is accepted by the Administering Authority, it will then enter into an "admission agreement". The admission agreement sets out the conditions of participation of the admission body, in accordance with the Regulations, including which employees (or categories of employees) are eligible to become members of the Fund.

Any specific arrangements outside the normal regulations agreed between the letting authority and the new entity will be covered in the commercial agreement. This includes but is not limited to cases where pension costs are shared, or indeed fully passed back to the original employer. The Administering Authority must be informed at the outset of any specific arrangements entered into. This may result in increased/more detailed requirements when providing member data to the Administering Authority.

**Indemnifying bonds and/or guarantors**

All admission bodies will be required, in accordance with Regulations, to provide an indemnifying bond from an appropriate third party. This bond must be actuarially assessed to the satisfaction of the Administering Authority, and kept under regular review.

In circumstances where a scheme employer within the Fund has formally agreed to act as guarantor to an admission body, the Regulations allow for a bond not to be put in place. The Fund's primary position on this is that a bond should still be put in place in order to better protect all employers within the Fund (including the guarantor). The Fund's view is that the frequency of the review of any bond amount should be:

| GUARANTEE ARRANGEMENT | FREQUENCY OF BOND REVIEW |
|---|---|
| Admission body with no guarantor | Annual reassessment |
| Admission body with a guarantor | Triennial reassessment (carried out as part of the valuation) |

**Initial funding calculations**

Essentially there are two main approaches used for new employers depending on their specific circumstances:

- Fully funded at the start: the value of the liabilities of the transferring group of members is assessed and the assets that are notionally reallocated within the Fund from the original employer to the new employer body are equal to this amount, meaning no initial surplus or deficit.

- Partially funded at the start: where the assets notionally reallocated are less than the value of the liabilities transferring. The method of assessment for this initial deficit can vary depending on the specifics of each case.

(As noted earlier, bespoke commercial arrangements can also be entered into between the new entity and the letting authority which may be different to these and must be communicated to the Administering Authority.)

It is most common for admission bodies to join the Fund on a "fully funded" basis. There can be exceptions to this where an outsourcing body has structured the commercial arrangements such that the new body takes on a deficit. Academies will also normally take on a deficit at inception, and their treatment is set out in a later section.

**Initial contribution rate assessment**

The initial contribution rate assessment will be an actuarial calculation of the future service pension cost that applies appropriate to the members transferring to the new entity. This assessment will take account of:

- The pay levels of the transferring group (and so the implied employee contribution rate)
- The timing the benefits are expected to fall due (depending on any applicable transitional protections for certain members)
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit is ultimately transferred and the period over which it is expected to repay that deficit.

**Risk assessment**

The Regulations require that an actuarial risk assessment is carried out to the satisfaction of the Administering Authority. It is this assessment that would inform the required indemnifying bond that is discussed in an earlier section.

As a minimum, the Fund would require any bond amount to cover any assessed funding deficit as at the time the risk assessment is performed. Added to this would be any potential early retirement strain costs that could arise on the premature (or normal) termination of the body. These would arise on the grounds that on redundancy, certain members could be eligible for the immediate payment of benefits on an unreduced basis.

It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

## Academy deficit assessment

As noted above, for new academies the approach taken will be that a deficit will be transferred to the new academy, unless a formal decision to the contrary is made by the local authority.

The Fund's policy is for this transferring deficit to be calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the asset share of the new academy is not less than zero.

The details below show an illustrative example of an academy conversion:

| **Original Council position** ***(including the school before conversion to Academy)*** | |
|---|---|
| Overall assets (£k) | 750,000 |
| Overall liabilities (£k) | 900,000 |
| Overall deficit (£k) | 150,000 |
| Funding level | 83% |
| Overall payroll (£k p.a.) | 90,000 |
| Deficit contribution (£k p.a.) (payable for 22 years) | 7,000 |
| Deficit contribution expressed as a % of pay | 7.8% |

| **Split of payroll between Council and new academy** | |
|---|---|
| Payroll being transferred to new academy (£k p.a.): | 5,000 |
| Residual payroll (£k p.a.): | 85,000 |

| **Split of deficit and deficit contributions between Council and new academy** | |
|---|---|
| Deficit contributions payable (£k p.a.): | |
| - in respect of all remaining staff prior to transfer (7.8% of £5m) | 390 |
| - in respect of remaining staff prior to transfer (7.8% of £85m) | 6,610 |
| Total post conversion *(same total as pre-conversion)* | 7,000 |
| Implied deficit transferred (390 / 7,000 x 150,000) (£k): | 8,400 |
| Implied residual deficit (6,610 / 7,000 x 150,000) (£k): | 141,600 |
| Total deficit *(unchanged pre and post conversion)* (£k) | 150,000 |

The final table below shows how this may result in wide ranging funding levels, depending on the profile of the transferring members following the conversion. Transferring groups of older members, and/or those with

long service will, on average, have higher liabilities. As noted earlier, deficits will be limited such that the asset share of the new academy is not less than zero.

**Assets, liabilities, funding levels and deficit contributions for the new academy**

| Low liability example | £k | High liability example | £k |
|---|---|---|---|
| Liabilities transferred | 9,000 | Liabilities transferred | 20,000 |
| Deficit transferred | 8,400 | Deficit transferred | 8,400 |
| Assets | 600 | Assets | 11,600 |
| Funding level | 7% | Funding level | 58% |
| Deficit contributions (£k p.a.) | 390 | Deficit contributions (£k p.a.) | 390 |

## Multi Academy Trusts

Multi Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the group.

In cases where numerous academies are operated by the same managing Trust, the Fund's initial position is to maintain separate records for each of the constituent academies. This means that each constituent academy may have varying contribution requirements according to their own circumstances/membership. Any new academies joining an existing MAT in this case would have their own funding position and contribution requirements assessed separately.

However, if desired, the Fund would be willing to allow a decision to combine. This would be a one-off and irrevocable choice of the MAT as at commencement. If a combined basis decision were to be made, for the purposes of the pension fund, the MAT (including all constituent academies) would be treated as a single combined employer. This decision would have implications for all future actuarial calculations for the MAT; an overall funding position and the same "average" contribution requirement would to apply to all constituent academies. It also means pension fund accounting under FRS101 / FRS102 / IAS19 could only be produced for the entire body. Any new academies joining an existing MAT in the Fund would contribute at the grouped employer contribution rate already established for the MAT. This would be next

reviewed at the triennial valuation (see next section), taking experience into account including any new deficit taken on when new academies join.

## 4. Triennial actuarial valuation

In accordance with the Regulations, every three years the Administering Authority is required to have a full actuarial valuation carried out by its appointed Fund Actuary. Not only is this required by law, it also serves as a critically important governance tool when running the pension fund.

The Fund Actuary is required to assess the financial health of the Fund as a whole by quantifying the value of the liabilities of the Fund (i.e. benefits due to be paid in the future) compared to the assets held (the ratio of its assets to liabilities is often referred to as the solvency level). The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

This assessment is repeated for each separate employer within the Fund and the employer contributions (primary and secondary rates) are adjusted appropriately to achieve that long-term objective in accordance with the Fund's Funding Strategy Statement (FSS). The Regulations also require that employer contributions are set in order to achieve long-term cost efficiency, meaning that they must not be set at a level that is likely to give rise to additional costs in the future.

**Factors that influence the actuarial valuation results**

A number of factors affect the valuation results emerging and these include but are not limited to those listed below. Employers should familiarise themselves with this section noting that decisions taken by them and/or the members can have an impact on the valuation results emerging:

| REGULATORY / GOVERNANCE | MARKET / ECONOMIC | MEMBERSHIP EVENTS AND EXPERIENCE |
|---|---|---|
| Scheme design changes | Observed and expected levels of CPI inflation | Observed mortality experience and any changes to future life expectancies (and rate of improvement) |

| REGULATORY / GOVERNANCE | MARKET / ECONOMIC | MEMBERSHIP EVENTS AND EXPERIENCE |
|---|---|---|
| Cost Management adjustments as a result of experience analysis performed by the Government Actuary's Department (GAD) | Investment returns delivered from assets held by the Fund | Take-up of the 50:50 scheme |
| Underlying changes to pensions landscape (e.g. changes to State Pension Age) | Expected future investment returns to be delivered by Fund assets | Incidence of any ill health or early retirement benefits (including on redundancy terms) |
| | | Salary growth experience vs assumption |
| | | Aggregation of any previously accrued benefits |
| | | Take-up of tax-free cash option |

The triennial actuarial valuation is a process that means the employer contribution requirements can and do change from time to time. Employers should be aware that the contribution requirements are not fixed.

Of course commercial arrangements can be put in place between admission bodies and the original body such that variations are shared, or indeed fully passed back to the original employer (known as "pass through" arrangements). These can be specific to each case, but the fundamental points related to this are:

- It is vital for the Administering Authority to be provided with full details of any bespoke commercial arrangements, and
- pension costs do change for many reasons and employers should be aware of this.

# 5. Monitoring and planning for exit

**Employer monitoring**

The Fund adopts a regular monitoring and review plan to ensure that it can always act proactively to act in the best interests of all pension fund employers. This is illustrated by the policy adopted for bond reviews and their frequency, but also the Fund will be carrying out high level covenant (employer financial strength) assessments.

**Covenant Assessments**

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital. The employers' covenant will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

**Risk Criteria**

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

**Assessing employer covenant**

The employer covenant will be assessed from time to time objectively and its ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach.

In order to accurately monitor employer covenant, it may be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

**Covenant risk management**

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies

5. Contingent assets and/or other security such as escrow accounts.

### Planning for exit

Under the Regulations, the Administering Authority has the power to revisit any previously certified contributions if it becomes of the opinion that a change in circumstances means it is likely to exit from the Fund.

The Administering Authority's opinion of this scenario will be essentially driven by the following considerations and these will be in addition to the scheduled end date of any admission agreement:

| EVENT | COMMENT |
|---|---|
| Notification from the employer of its intention to exit (or if it is expecting to reduce the number of members) | Dialogue will be entered into, and work commenced on managing a future exit payment |
| A more than 50% reduction in the number of active members between accounting period end dates | This would trigger a dialogue between the Administering Authority and the employer to understand the reasons for the change. This may lead to planning for exit work including a review of contribution requirements |
| If there is a reduction of active members to leaving only two* | This would initially trigger a dialogue between the Administering Authority and the employer to understand the underlying position. It is highly likely that planning for exit work would commence including a review of contribution requirements. |

*the Administering Authority would treat each of these cases on its merits e.g. employers with very small numbers to start with would be considered appropriately in that context.

## 6. Exit from the fund

### Termination Policy

When an employer becomes an exiting employer (for example the last active leaving, or an admission agreement terminates for any reason), the employer becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

It is the Fund's policy position that such an actuarial valuation will be commissioned for all cases, unless a decision is taken to the contrary

specific to a particular case. In all cases where this valuation is carried out, regardless of whether the assessment reveals a deficit or a surplus, a termination contribution certificate will be issued by the Fund Actuary.

The following approaches will be used by the Fund Actuary to assess the required exit payment that may be due. The approach will be based on the most recent actuarial valuation assumptions, updated to the cessation date, and adjusted for the specific circumstances. Specific differences in treatment between certain groups of employer (usually admission bodies) are as defined below:

| Employers with no guarantor in the Fund who joined prior to 1 July 2012 | Employers with no guarantor in the Fund who joined after 1 July 2012 | Employers with a guarantor within the Fund |
|---|---|---|
| Using a corporate bond basis, with the discount rate based on the long dated Sterling AA Corporate Bond yield of appropriate duration, and allowing for a more prudent assessment of future mortality trends. | Using a "least risk" funding basis based on government bonds of appropriate duration, and allowing for a more prudent assessment of future mortality trends. | Using an "ongoing" valuation basis so consistent with the funding target assumptions. |

**Managing the exit payment**

The Regulations give power to the Fund to manage the arrangements relating to exit payments. These are:

1. To issue a "suspension notice" for a period up to 3 years, if, in the reasonable opinion of the Administering Authority, the employer is likely to have one or more active members join the Fund within the period of the notice.

2. To mutually agree an instalment repayment plan over a reasonable period into the future.

The Fund will consider these options on a case-by-case basis after entering into a dialogue with an employer. In principle, however, the Fund's general position is:

- for exit payments to be paid immediately and in full as they fall due, and

- any "suspension notice" would only apply for a maximum period as remains to the next triennial valuation. If a suspension notice is applied, any contributions not related to pay (e.g. lump sum payments as set on

the Rates and Adjustments Certificate) will continue to be paid to the Fund as certified.

## 7. Employer costs and charges

All employers that participate within the Fund will be required to make contributions to it in accordance with the underlying Regulations. Specifically, employers will be required to:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all employer future service and deficit contributions, as determined by the Fund Actuary, promptly by the due date
- make additional contributions as required in respect of, for example, augmentation of Fund benefits and early retirement strains, and
- pay any professional fees as determined by the Fund that are incurred on account of actions or events applicable to that employer, and
- pay any fines or sanctions issued to it in accordance with the Fund's Pension Administration Strategy Statement or underlying legislation.