

# ACADEMIES POOLING POLICY

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Hertfordshire Pensions Fund

Local Government Pension Scheme



# CONTENTS

	<b>Page</b>
<b>Introduction</b>	<b>3</b>
<b>The Pooling Arrangement</b>	<b>4</b>
<b>Monitoring and Risk Management</b>	<b>9</b>
<b>Outsourcing Services Involving TUPE Transfer of Staff</b>	<b>11</b>
<b>The Pooling Policy</b>	<b>13</b>
<b>Contacts and Further Information</b>	<b>14</b>

## INTRODUCTION

This document provides details of the Hertfordshire Pension Fund (Pension Fund) pooling arrangement (“Academies Pool”) for Hertfordshire academies, free schools, university technical colleges and studio schools in relation to the Local Government Pension Scheme (“LGPS”).

Pooling arrangements provide a mechanism for grouping together Scheme employers that have similar characteristics for the purposes of setting a common contribution rate. The main objectives of pooling arrangements are to share pensions’ risks when calculating contribution rates – this pooling helps provide stability in employer contribution rates across the pool and between valuations. Pooling arrangements can also protect individual Scheme employers from large fluctuations in contribution rates in the longer term. This is not a mechanism that will necessarily reduce contribution rates.

Scheme employers must be aware that the contribution rate they pay as part of the pooling arrangement may be more or less than an individual contribution rate that would have been calculated for the Scheme employer if they had not participated in the pool. Certain membership events may also require additional lump sum contributions to be made by individual members which is discussed in “Monitoring and Risk Management”.

The Schools Pool was introduced as part of the 2013 Valuation of the Pension Fund. As well as providing a way to greater stability of contribution rates for those in the Pool, it also met the aims of the Secretaries of State for Education and Communities and Local Government in reducing any disparity in contribution rates between maintained schools and academies in local areas. In 2019, the Schools Pool was disbanded as a result of concerns about possible divergence in the characteristics of those within the pool and the smaller Academies Pool was created.

The Fund’s pooling arrangements are reviewed at each Valuation of the Pension Fund. This document provides information about the management and operation of the pooling arrangement and defines the group of bodies that are eligible to join.

# THE POOLING ARRANGEMENT

## Eligibility

Hertfordshire academies, free schools, university technical colleges and studio schools (“Pool Members”) are eligible to participate in this pooling arrangement.

## Aims

The main aims of the pooling arrangement are to:

- manage volatility in employer contribution rates between Valuations;
- provide a means of grouping employers with similar characteristics for the purpose of setting employer contribution rates. The pool will smooth out the impact of membership experience (e.g. salary growth, withdrawal experience, pensioner mortality) on employer contributions.

## Review of the Pooling Policy

This pooling arrangement was originally implemented as part of the 2013 Valuation and is reviewed at each Valuation of the Pension Fund. At each revision Pool Members are given the opportunity to opt out of the pooling arrangement and eligible bodies are given the opportunity to join.

The work carried out as part of each Valuation exercise will include:

- confirming the eligible schools that wish to participate in the Academies Pool;
- reviewing individual Pool Members’ funding levels to determine if there have been any events that have increased pensions liabilities (“strain costs”) beyond the factors used in the previous Valuation;
- confirming the funding position of any eligible bodies that wish to join the Academies Pool;

- calculating the revised pooled employer contribution rate that will be effective for a three year period following the Valuation; for the 2019 Valuation rates will be effective from 1 April 2020 to 31 March 2023.

Events that increase the pension liabilities (strain costs) within the pooling arrangement adversely impact on the pooled employer contribution rate. Additional payments may, therefore, be required from the individual Pool Members that have incurred these “strain costs” in order to protect the pooled contribution rate. See the “Monitoring and Risk Management” section for further information.

An initial valuation of the opening funding position is required whenever a maintained school transfers to academy status. This is because these bodies become an individual scheme employer under the LGPS regulations; this also enables individual tracking of their funding position to facilitate financial reporting and financial accounting requirements. Where this is required, then actuarial fees will be chargeable. The fees are currently in the region of £750 and these will be recharged to the relevant eligible body.

### **Pooled Employer Contribution Rate**

The pooled employer contribution rate is calculated by the actuary as part of each Valuation exercise. This sets the pooled contribution rate for a three year period. For the 2019 Valuation, this will set the pooled contribution rate for the period from 1 April 2020 to 31 March 2023.

It is intended that the pooled employer contribution rate will be calculated allowing for a stabilisation mechanism. This mechanism is considered appropriate for certain scheme employers that will remain within the Pension Fund over a long period of time and have a strong covenant. The Academies Pool is considered to have a strong covenant since it is government funded for the statutory delivery of education and the Fund is protected by a Department for Education guarantee that covers academies’ LGPS obligations. Further details on the stabilisation mechanism are included in the Pension Fund’s Funding

Strategy Statement accessible from the links in the “Contacts and Further Information” section of this document.

Pool Members’ assets and liabilities will continue to be tracked individually and so Pool Members will still have differing funding levels that reflect the experience of their membership, contributions and investment returns.

In adopting an employer contribution rate that is both “stabilised” and “pooled”, Pool Members must acknowledge that they may be paying a rate that is more or less than the employer contribution rate that would have been payable if the employer contribution rate had been determined on an individual employer basis. This will have an impact on an individual Pool Member’s underlying funding and accounting positions; this underlying position will also apply for a Pool Member if they choose to leave the Academies Pool.

Where the funding level of an individual Pool Member is particularly low, then they may wish to consider making additional payments to the Pension Fund to improve their funding/balance sheet position. Making such payments may be of particular interest to academies, free schools, university technical colleges and studio schools that are required to have an annual valuation of their pension liabilities included in their annual report and accounts. This annual accounting valuation is carried out on different actuarial assumptions than those used in the less frequent funding valuation; the accounting position may, therefore, be quite different from the funding position and may also be quite volatile from year to year.

The actual pooled employer contribution rate will be confirmed in December 2019 once detailed actuarial calculations have been carried out. The actual pooled rate will be based on the confirmed members of the Academies Pool as at 31 March 2019.

In the event that an eligible body chooses not to participate in the Academies Pool, then they will be treated as a stand-alone employer at the Valuation and an individual employer contribution rate will be set as part of the Valuation exercise.

## Joining and Leaving the Academies Pool

Admission to and exit from the Academies Pool will only be allowed at each Valuation. This will avoid volatility in the Academies Pool between valuations, in the event that significant numbers of Pool Members elect to leave. Pool Members that leave the Academies Pool for any reason will only be allowed to re-enter under exceptional circumstances.

Pool Members will be required to abide by the terms and conditions of participation in the pooling arrangement. See the “Pooling Policy” section to this document for further details.

Schools transferring to academy status in between Valuations will not be allowed to join the Academies Pool until the next Valuation cycle. They will, however, be allowed to pay the Academies Pool employer contribution rate until the next Valuation.

On leaving the Academies Pool, the Pool Member will become an individual employer within the Pension Fund and will have an individual employer contribution rate calculated. Their funding level at this point will depend on their own underlying position based on their assets and their liabilities; this will, in turn, be affected by the contributions they have paid throughout their participation in the Academies Pool. These may have been more or less than would have been payable if the contributions had been determined on an individual employer basis. This funding level will be available as the underlying funding position of the Pool Members are tracked on an individual basis.

In the event of the insolvency of any member of the Academies Pool, the Administering Authority would first seek payment of the cessation amount from relevant Trusts; in the event that payment is not forthcoming from a Trust, then payment will be sought from the Department for Education under their guarantee issued in July 2013.

Where a Pool Member no longer has active members (i.e. members that are paying contributions to the LGPS), they will be required to leave the Academies pool. The default process thereafter is that an actuarial valuation will be carried out to determine their funding position and if they are in deficit the actuary will determine the monetary amount to be paid to the Fund.

If a Pool Member experiences any change in legal status, financial position or membership profile that would have an impact on their strength of covenant, increase pensions liabilities or adversely impact their funding level in any way, then the Pension Fund reserve the right to revisit their continued participation in the Academies Pool.

## MONITORING AND RISK MANAGEMENT

At each Valuation, the Pension Fund will monitor the development of the Academies Pool and the Pool Members within it – the purpose of this monitoring is to protect the Pool Members from the risk that extra costs arise as a result of a decision made by an individual Pool Member and these increase the pool liabilities and so have an impact on the pooled contribution rate paid by all Pool Members.

Monitoring exercises may be undertaken using various elements of the Pool Members' financial and membership data. Elements could include the following:

- review of the Pool Members' payroll to determine if there has been significant salary growth.
- early retirements granted at the discretion of the Pool Member that may be the result of redundancy, efficiency, compassionate grounds, flexible retirement, etc.
- transfer in requests authorised by the Pool Member that are received 12 months after an employee commences membership in the LGPS.

The underlying funding position of each Pool Member will continue to be tracked. In the event of the deterioration of a Pool Member's funding level from one of these events, it may be deemed appropriate for them to make additional "strain" contributions into the Fund in order to protect their individual funding position; this would serve to also protect the pool's funding position and so the pooled contribution rate.

These "strain" costs are associated with events which have not been anticipated in the actuarial assessment of the pooled contribution rate at the last Valuation. Where deemed necessary and appropriate, these "strain" costs will be assessed by the actuary and be payable as a lump sum by the Pool Member. Strain costs related to:

- significant salary growth will be payable in the year specified in the Rates and Adjustment Certificate that is produced as part of the Valuation;
- early retirement strain costs will be payable within a year of the Pool Member being notified of the strain cost; and

To manage the costs of ill health retirements, Pool Members may benefit from pursuing external insurance from Legal & General.

# OUTSOURCING SERVICES INVOLVING THE TUPE TRANSFER OF STAFF

## Background

As scheduled bodies of the LGPS, academies have a responsibility to protect the pension rights of staff that are TUPE (Transfer of Undertakings (Protection of Employment) transferred in any outsourcing of functions. The TUPE transfer of staff must comply with the regulations in force at the time of the transfer.

Pensions arrangements for TUPE transferred staff must be considered in any tendering exercise; details of these arrangements should be set out in tendering documents so that all bidders can ensure that their bids take account of all the costs and risks associated with being in the scheme e.g. employer contributions, actuarial fees for financial reporting and funding valuations, etc.

If the successful contractor wishes to provide continued access to the LGPS for the transferred staff, then they must seek admission to the Hertfordshire Pension Fund. The contractor will be required to enter into a 3-way Admission Agreement with the Fund and the academy that is doing the outsourcing, and the academy is required to act as guarantor for this Agreement. The Admission Agreement sets out terms and conditions for admission to the Pension Fund.

To remove the risk of the Academies Pool (and so all Pool Members) being adversely affected by an individual Pool Members' outsourcing decision, then strict conditions will apply to the admission of a contractor providing an outsourced function for a Pool Member. In practice, the Pool Member will stand behind all the LGPS obligations of the contractor.

## Conditions for admission of contractors for outsourced functions

These arrangements seek to:

- ensure that individual Pool Members bear all the costs, risks and actuarial fees relating to the introduction of a contractor into the Pool and Fund;
- protect the rest of the Pool Members from any adverse impact arising from the outsourcing event; and
- minimise the costs associated with any admission to the Pension Fund.

The key elements and conditions of these arrangements are as follows:

- The contractor and academy will both have to sign an Admission Agreement. In the event that an admission agreement is not entered into between the Academy and contractor, then the transferred employees will become deferred members and informed by letter. The contractor and Academy will have failed to comply with TUPE regulations under the law. See Admission Agreement Policy via link below:

<https://yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>

- The employer contribution rate payable by the contractor will be the pooled employer contribution rate of the Academies Pool.
- The contractor will be expected to meet costs associated with early retirement strains; where they don't, these costs will be chargeable to the academy.
- Any administrative and actuarial costs associated with the admission and continued participation in the Pension Fund will be chargeable to the contractor in accordance with the Pension Fund's Charging Policy. Any costs that are not met by the contractor will be then chargeable to the academy.
- At the end of the contract, all the assets and liabilities relating to the contractor will fall back to the originating Pool Member. There will be no exit payment to, or from, the Fund; this treatment at exit should be set out in any contract.
- The contractor will not be required to provide a bond by the Fund. If the academy decides it wants this protection from its chosen contractor, then it is for them to ask for an actuarial assessment, to ensure an appropriate bond is put in place and to ensure that the bond remains at an appropriate level. Typically, such protection would be reassessed at each Valuation by the actuary.

## THE POOLING POLICY

To participate in the Academies Pool, Pool Members will be required to abide by the following Pooling Policy which sets out the terms and conditions of participation in the pooling arrangement.

### Pooling Policy Terms and Conditions

Pool Members are required to:

- remain in the Academies Pool until the end of each Valuation cycle. The next opportunity to leave the Academies Pool will be during the 2022 Valuation;
- pay the employer contribution rate and/or lump sum certified by the actuary on the Rates and Adjustments certificate published with the Valuation Report;
- make additional contributions to the Pension Fund for the full costs of early retirements (including redundancy, efficiency, compassionate, flexible retirement, ill health and employer consent) in the year of retirement;
- be aware that salary awards will have an impact on individual funding positions which will be reflected in accounting disclosures and ongoing funding levels at subsequent valuations;
- pay administrative and actuarial fees incurred as a result of specific work requested by a Pool Member(s) as required under the Pension Fund's Charging Policy;
- notify the Pension Fund immediately of any change in legal status, their financial position or membership profile, that would have an impact on the strength of their covenant or would increase their pensions liabilities;
- be aware of the conditions that will apply to any outsourcings that they undertake and ensure that their outsourcing complies with these arrangements and conditions;
- accept that they are responsible for all the costs, risks and actuarial fees relating to a contractor that they involve in the Fund via an outsourcing;
- abide by the performance standards and targets set out in the Pension Fund's Administration Strategy.

The Administering Authority retains the right to amend the Pooling Policy as appropriate to ensure that the pooling arrangements remain beneficial to all Pool Members. The Pooling Policy will be reviewed at each Valuation.

## **CONTACTS AND FURTHER INFORMATION**

**General queries about the Hertfordshire Pension Fund pooling arrangement should be emailed to:**

Email: [pension.team@hertfordshire.gov.uk](mailto:pension.team@hertfordshire.gov.uk)

**Information and guidance about the Hertfordshire Pension Fund is accessible from the Pension Fund website. This includes all of the Policy and Strategy documents discussed in this briefing note.**

Website:

<http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx>

**Information and guidance on the LGPS for academies is accessible from the Department for Education's website.**

Website: <http://www.education.gov.uk/a00209357/lgps-and-academies>