

# POLICY ON CONTRIBUTION REVIEWS

April 2023

Hertfordshire Pension Fund  
Local Government Pension Scheme



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<u>Effective date of policy</u>	
<u>Date approved</u>	
Next review	

# 1. Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

## 1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be

reviewed. **1.2 Background**

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

## 1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board

## 2. Statement of Principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.
- An additional level of security or guarantee may be sought by the fund, in certain circumstances.

## 3. Policy

### 3.1 Circumstances for Review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation.
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation.
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation.
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation.
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);



- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant changes to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

## **3.2 Employer requests**

### **3.2.1 Contribution reviews**

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The Administering Authority will endeavour to complete any review within 3 months of request subject to receipt of satisfactory evidence and will monitor any change in an employer's circumstances on a regular basis following any change in contribution rate and may require further information from the employer to support this monitoring process.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### **3.2.2 Deferment of Employer Contributions**

The fund recognises that employers, from time-to-time may face challenges in respect of meeting employer pension costs over the shorter term due to short term cashflow and revenue issues. This section sets out the fund's policy on granting flexibility in respect of the payment of employer contributions during such a period.

The fund is restricted by the LGPS Regulations in granting flexibility as there are limited circumstances where contribution rates certified in the Rates and Adjustments Certificate can be amended. In addition, the Regulations require that employer contributions in line

with the Rates and Adjustments Certificate must be paid within each 12 month period. As a result, the fund is not able to consider reducing contributions or granting contribution holidays to employers. However, the fund is able to consider the deferral (or temporary reduction) of employer contributions whereby an employer is able to delay payment of employer contributions at the full rate that are owed to the fund.

The fund will only consider deferral where an employer makes a formal request. All other circumstances will be considered as late payments to the fund and handled in accordance with the fund's administration policy. In making a request for deferral, the fund requires:

- A clear business case and rationale for the request, including evidence that the employer will likely be able to meet the deferred contributions at the end of the deferment period;
- Evidence of support for the application from the employer's guarantor authority;
- Assurances that other financial obligations, such as dividend payments, will also be suspended during the period of deferral; and
- Evidence the employer is seeking relief from other creditors, including any other pension arrangements, to ensure the Fund is being treated consistently.

Failure to provide the above will result in the Fund being unable to provide a deferral of contributions.

In addition, late payment interest at 3.8% per annum will apply after 2 months of nonpayment of a contribution that would ordinarily be paid monthly by the employer.

The request and accompanying evidence will be considered on a case-by-case basis and, if successful, would be approved by the Section 151 officer with responsibility for the Fund, after the Fund has taken covenant, legal and actuarial advice. The Fund will also consult with any associated employer that is providing a guarantee to the employer seeking deferral. The Fund will respond to a request for contribution deferment as quickly as possible and usually within a 21 day period. Employer contributions must be remitted as usual during the period that a deferment request is being considered.

Where a request for deferral is not approved in the first instance, the Fund may require additional evidence or security to reconsider the request. There is no explicit appeals process for contribution deferment requests. If an employer feels they have been treated unfairly by the Fund, they may refer to the Fund's standard complaints and IDR processes.

Where a request for deferral is accepted, employers will be able to defer contributions for up to 3 months. Following the 3-month period, 1 month extensions may be granted on request subject to submission of updated evidence of the employer's financial position. Extensions cannot go beyond 31 March 2022 for payments due in the year to 31 March 2022, 31 March 2023 for payments due in the year to 31 March 2023 and so on for any future years at which point annual employer contributions are due in full. Where contributions due are not received in full by 31 March in any given year, the Fund has a

statutory obligation to report the failure to make employer contributions to the Pensions Regulator. It should be noted that employee contributions must be remitted as usual during the period of deferment.

### **3.3 Other Employers**

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- Whether the employer is in a contribution rate pool.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund. The

administering authority will consult with other fund employers as necessary.

### **3.4 Other Employers**

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

### **3.5 Documentation**

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.

Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

## **4. Related Policies**

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".