APPENDIX B

Hertfordshire Pension Fund
Local Government Pension Scheme
Indemnity Policy

Introduction

On 1 October 2012, The Local Government Pension Scheme (Miscellaneous) Regulations 2012 ("Miscellaneous Regulations") came into force which updated the admission arrangements for transferee and community admission bodies ("TABs / "CABs") to the LGPS as set out in Local Government Pension Scheme (Administration) Regulations 2008 ("Administration Regulations")

Where a TAB or CAB is to be admitted to a pension fund to enable staff to access the Local Government Pension Scheme ("LGPS"), then administering authorities are required to carry out a risk assessment. The assessment will determine the level of risk relating to potential liabilities for the TAB or CAB arising from participation in the LGPS pension fund. A TAB or CAB is required to cover the level of risk identified either by the provision of a guarantor or financial bond.

The Hertfordshire Pension Fund ("Pension Fund") has required such indemnities for TABs for a number of years. This is to protect the Pension Fund and to mitigate the risk of the liabilities of one scheme employer impacting on all other participating scheme employers. However, under the Miscellaneous Regulations indemnities are now required by statute and extend to CABs.

Scheme Employer Liabilities

For existing scheme employers that outsource services where there will be a transfer of staff eligible for admission to the LGPS, then these staff must have either continued access to the LGPS or be provided access to a comparable pension scheme approved by the Government Actuary Department.

Where admission to the Pension Fund is proposed then under the Administration Regulations, the outsourcing scheme employer is ultimately responsible for any liabilities attributable to a TAB. In the first instance, the Pension Fund will seek payment of liabilities from the TAB however, where these remain unpaid then the Pension Fund will seek payment from the outsourcing scheme employer. These liabilities may relate to unpaid contributions and any actuarial assessment of liabilities at termination of the contract for outsourced services and subsequent termination of the admission agreement to the Pension Fund. Under the regulations, responsibility for any deferred or pensioner members of the transferee admission body on termination of the admission agreement will also fall to the ceding employer.

Applicability

This Indemnity Policy is applicable to all Transferee ("TAB") and Community ("CAB") admitted bodies.

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Risk Assessments
As part of the admission arrangements to the Pension Fund for TABs and CABs, a risk assessment will be carried out by the Pension Fund in conjunction with the Pension Fund's actuary. TABs and CABs will be required to provide either a guarantor or a financial bond to cover the assessed financial risk.

The level of risk will be kept under review and, at a minimum, an actuarial review will be carried out at each Triennial Valuation. However, a review may be carried out at any point in the event of any significant change to the liabilities of the TAB or CAB.

The costs associated with the risk assessment will fall to the TAB or CAB.

Guarantees
Where a guarantee is agreed in place of a financial bond, the Pension Fund will determine the suitability of the proposed guarantor. In general terms, the guarantor must be provided by:

- a person who funds the admission body;
- a person who owns or controls the functions of the admission body; or
- the Secretary of State (in the case of an admission body which is established under an enactment which enable the Secretary of State to make financial provision for that admission body).

Guarantor Responsibilities
A guarantor takes responsibility for the assets and liabilities of the Pension Fund which are attributable to the TAB or CAB.

In the event that liabilities of the TAB or CAB remain unpaid, then the Pension Fund will seek payment from the guarantor.

Financial Bond
A financial bond will insure against future potential liabilities. The Pension Fund will instruct the Pension Fund's actuary to carry out a risk assessment. This will provide a bond value for a number of risks as discussed below. The Administration Regulations lay out certain conditions on the type of financial institution that bonds can be held with The TAB or CAB must provide the Pension Fund with details of their proposed bondsman for approval in advance of a bond being entered into.

For CABs, the Pension Fund will require a bond for the highest value to cover the majority of the assessed risk.

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For TABs, the ceding employer and transferee admitted body are responsible for agreeing the most appropriate level of bond, depending on how the risks involved in participating in the Fund are to be shared. Responsibility for any risks not included in the bond value will fall to the ceding employer.

Where a bond is required, the contractor is responsible for the costs associated with accessing and maintaining a bond.

Bond Calculation

A bond calculation is made up of two components:

1. A redundancy portion to reflect the funding strain arising from the early payment of liabilities that will arise as a result of redundancy;

2. A market related portion to reflect the likelihood of a funding shortfall relating to movements in the value of assets and liabilities. A range of outcomes are modelled, based on assumptions about movement. The actuarial calculation indicates the level of bond relative to risk tolerances.

   The table below shows the required bond amount to cover a funding shortfall at three levels of confidence.

Market Related Risk	
Confidence Level	**Bond amount**
Bond amount to cover deficit at end of year with a probability greater than 98%	£1.0m
Bond amount to cover deficit at end of year with a probability 90% to 95%	£0.5m
Bond amount to cover deficit at end of year with a probability 80% to 85%	£0.25m

   The first row shows that there is less than a 2% chance that a bond of £1m would be insufficient to meet the expected shortfall on termination over the next year (or in other words, in 98% of cases the bond of £1m should be sufficient to cover market-related risks).

   However, if the employer only provides a bond for £0.25m there is a much higher chance (15-20%) of this being insufficient; or in other words, in 80-85% of cases the bond of £0.25m should be sufficient.