

PARISH AND TOWN COUNCILS POOLING POLICY

September 2019

Hertfordshire Pension Fund

Local Government Pension Scheme

CONTENTS

	Page
Introduction	3
The Pooling Arrangement	4
Monitoring and Risk Management	8
Outsourcing Services Involving TUPE Transfer of Staff	10
The Pooling Agreement	13
Contacts and Further Information	15

INTRODUCTION

This document provides details of the Hertfordshire Pension Fund (Pension Fund) pooling arrangement for parish and town councils 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 in order to maintain 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 also 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 pooling arrangement is reviewed and revised 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 Scheme employers that are eligible to join.

THE POOLING ARRANGEMENT

Eligibility

All Parish and Town Councils in Hertfordshire 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 to share membership experience and smooth out the effects of costly but relatively rare events such as deaths in service for the purpose of setting employer contribution rates;
- minimise the risk of cross subsidy between Pool Members.

Review of the Pooling Policy

The pooling arrangement for Parish and Town Councils was implemented as part of the 2013 Valuation and is reviewed and revised 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 Parish and Town Councils are given the opportunity to join.

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

- confirming the eligible Parish and Town Councils that wish to participate in the pooling arrangement;
- 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; and
- 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 avoid cross subsidy within the pool and to protect the pooled contribution rate. See the "Monitoring and Risk Management" section for further information.

Pooled Employer Contribution Rate

The pooled employer contribution rate will be 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

To support budget setting for Parish and Town Councils, the actuary will be able to provide an estimated rate for the first year following each Valuation; when the Valuation work is completed the actuary will be able to provide the new contribution rate that will apply for years 2 and 3. This may mean that the year 1 contribution rate will be different than for years 2 and 3.

The results of the 2019 actuarial valuation will be published in December 2019. The pooled employer contribution rate will be reassessed at each subsequent Valuation.

Pool Members' assets and liabilities will continue to be tracked individually for accounting purposes and for each Valuation so that their individual funding position can be monitored in the event that a Pool Member subsequently leaves the Parish and Town Councils Pool or ceases in the Pension Fund.

Pool Members will have differing funding levels that reflect the experience of their own assets and liabilities including the profile and experience of their membership, contributions and investment returns. In paying a pooled contribution rate, 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. Pool Members may wish to consider making additional payments to the Pension Fund to improve their funding/balance sheet position, particularly where their funding level is lower than that of the rest of the pool.

In the event that a Parish or Town Council chooses not to participate in the pooling arrangement then a separate actuarial valuation will be undertaken to establish an

individual employer contribution rate as part of the 2019 formal valuation. The results of the actuarial valuation will be published in December 2019.

Joining and Leaving the Parish and Town Councils Pool

Admission to and exit from the Parish and Town Council Pool will only be allowed at each Valuation. In the event that a pool member's last active member leaves, then their participation in the pool will be reviewed. This will avoid volatility in the Pool between valuations in the event that significant numbers of Pool Members elect to leave. Pool Members that leave the Parish and Town Council Pool 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 Agreement" section to this document for further details.

If a Pool Member no longer has active members (i.e., members that are paying employee contributions to the LGPS) but would like to remain in the Fund to allow future employees to join, then an actuarial valuation will be carried out to determine a monetary amount to be paid on an ongoing basis to offset the deficit. Once the employer has an active member, an individual employer contribution rate will be calculated for that employer. The actuarial fees for this will be rechargeable to the eligible Council in accordance with the Pension Fund's Charging Policy. The Council will then have the opportunity to opt back into the Parish and Town Council Pool at the next Actuarial Valuation of the Fund.

If a Pool Member chooses to close scheme participation to new employees, then an actuarial valuation will be carried out to determine the individual employer contribution rate and that employer would no longer be a Member of the Pool. This will protect the remaining Pool Members from the change of employer characteristics which apply after closure. The actuarial fees for this will be rechargeable to the eligible Council in accordance with the Pension Fund's Charging Policy. The Council will then be required to

inform the Fund of their expected time horizon in the Fund and may be required to review their indemnity arrangements.

If a Pool Member becomes insolvent and is unable to meet their pension liabilities (orphaned liabilities), then the Pension Fund will first seek to recover these from any guarantor or indemnity in place for that Pool Member. Where this is not possible, then these liabilities will fall proportionately to all remaining Pool Members. Should a Pool Member subsequently opt to leave the Parish and Town Councils Pool they will still retain responsibility for their share of orphaned liabilities.

If a Pool Member experiences a change in status, their financial position or membership profile, then the Pension Fund will consider the impact of the Pool Member's continued participation in the Parish and Town Councils Pool.

Pool Members may choose to leave the Parish and Town Councils Pool at each Valuation. On leaving the Parish and Town Councils Pool, the Pool Member will become an individual employer within the Pension Fund for the purpose of setting employer contribution rates. Their funding level and individually assessed contribution rate at this point will depend on their own assets and liabilities based on their individually tracked position since joining the Pension Fund and will be affected by the contributions they have paid throughout their participation in the pooling arrangement. These contributions may have been more or less than would have been payable if the contributions had been determined on an individual employer basis.

If a Pool Member chooses to exit the Pension Fund the Actuary will calculate a cessation valuation to determine the Pool Member's funding position, in accordance with the LGPS regulations. If there is a deficit funding position, then payment of this would be required in accordance with the Pension Fund's Funding Strategy Statement and Cessation Policy. Once payment is made this would extinguish all liabilities to the Pension Fund.

MONITORING AND RISK MANAGEMENT

At each valuation, the Pension Fund will monitor the development of the Parish and Town Councils Pool and the Pool Members within it – the purpose of this monitoring is to protect individual Pool Members from the risk of cross subsidy. The risk is 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.

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 costs associated with these events will not have been anticipated in the Valuation. These events will increase the pool liabilities and so have an adverse impact on the pooled contribution rate. In order to avoid cross subsidy in the Parish and Town Councils Pool and protect the pooled contribution rate, additional payments may be required from the individual Pool Members that have caused these "strains" on the Pension Fund.

Where considered necessary, the lump sum required in respect of these "strain" costs will be assessed by the actuary. Strain costs for:

- salary growth will be payable in the year that the revised certified employer contribution rate comes into effect following the Valuation; and
- early retirement strain costs will be payable within the year the costs were incurred.

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 designated bodies of the LGPS, Parish and Town Councils 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.

TUPE transferred staff must either be offered continued access to the LGPS or be provided with a broadly comparable pension scheme that is certified by the Government Actuary's Department (GAD). Pensions arrangements for TUPE transferred staff must be considered in any tendering exercise and be clarified in tendering documents so that all bidders can ensure that their bids take account of the longer term costs of pensions liabilities and costs associated with administering the scheme, such as actuarial fees for financial reporting and funding valuations.

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 an Admission Agreement as an Admission Body (AB). The Admission Agreement sets out terms and conditions for admission to the Pension Fund and the surety arrangements for the pension liabilities related to the AB.

In general, indemnity arrangements are put in place to ensure that any unpaid pensions' liabilities relating to an AB do not impact on all Scheme employers in the Pension Fund. Where the indemnity is insufficient to cover the cost of outstanding liabilities of the AB at cessation of a contract then the liabilities will fall back to the originating Scheme employer.

To reduce the risk of the Parish and Town Councils Pool (and all Pool Members) being adversely affected by an individual Pool Members' outsourcing decision, then conditions

will apply to the admission of a contractor providing an outsourced function for a Pool Member.

Conditions for admission of contractors for outsourced functions

These arrangements seek to:

- ensure that individual Pool Members bear the costs of liabilities and actuarial fees related to an associated contractor;
- reduce the risk of cross subsidy within the Parish and Town Councils Pool;
- safeguard the funding level of the Parish and Town Councils Pool as a whole;
- minimise the costs associated with admission to the Pension Fund.

Contractors will be admitted to the Pension Fund as an AB and will be required to enter into an Admission Agreement. The Admission Agreement will be a “closed” agreement which means that only staff that were TUPE transferred will be eligible for continued access to the LGPS. The administrative and actuarial costs associated with admission and continued participation in the Pension Fund will be chargeable to the originating Scheme employer or contractor dependent on the agreement between the two parties. At the end of the contract, the assets and liabilities relating to the AB will be transferred back to the originating Scheme employer.

To minimise actuarial fees, the employer contribution rate payable by the AB will be the prevailing employer contribution rate of the Parish and Town Councils Pool. This rate will be fixed throughout the duration of the contract.

The contractor will be required to provide a financial bond for the actuarially assessed value. The bond will be re-valued over time and, at a minimum, at each Valuation. In the event that the value of the bond changes following a valuation, then a new financial bond must be provided by the contractor.

At the end of the outsourcing contract a cessation valuation will be carried out and the contractor will be required to pay any outstanding liabilities. Payment of the cessation

valuation will extinguish the contractor's liabilities with the Pension Fund. In the event that the contractor becomes insolvent and cannot pay any cessation valuation, then the financial bond will be called upon. Where the financial bond is not sufficient to meet the liabilities then the originating Scheme employer associated with the contractor will be required to meet the costs. This will be payable in the year of cessation.

THE POOLING AGREEMENT

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

Pooling Agreement Terms and Condition

Pool Members are required to:

- remain in the Parish and Town Councils Pool until the end of each Valuation cycle. The first opportunity to opt to leave the Pool after the 2019 valuation will be 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;
- make additional contributions to the Pension Fund in the event that their funding position has deteriorated as a result of pay award or reduced payroll;
- 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 may affect its participation in the Parish and Town Councils Pool or the Pension Fund;
- pay any outstanding liabilities for an AB that provides outsourced services, in the event that they default on payment of contributions or the cessation valuation at the end of the contract. This will be limited to liabilities in excess of the value of the financial bond provided by the AB. Payment will become due in the year of any such event; and
- 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 and Agreement as appropriate to ensure that the pooling arrangements remain beneficial to all Pool Members. The Pooling Policy and Agreement will be reviewed at each Valuation.

CONTACTS AND FURTHER INFORMATION

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

Email: pensions.team@hertfordshire.gov.uk

An individual response will be provided to queries. In addition, the Pension Fund will collate general queries raised by parish and town councils into a Frequently Asked Questions document for publication on the Pension Fund's website.

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>