South Yorkshire Pension Authority Policy for granting contractors Admitted Body Status to the South Yorkshire Pension Fund

This policy has been produced by the South Yorkshire Pensions Authority ("the Pensions Authority") as the Administering Authority for the South Yorkshire Pension Fund ("the Fund").

SUMMARY OF GENERAL PRINCIPLES

- Pass through is the default approach for the admission of all new contractors to the Fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts ("the ceding employer").

- The contractor's pension contribution rate is set equal to the Primary contribution rate payable by the ceding employer. This will change from time to time in line with changes to the ceding employer's Primary contribution rate (i.e. following future actuarial valuations).

- The Council retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.

- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.

- Ill health experience will be pooled with the ceding employer and no additional strain payments will be levied on the contractor in respect of ill health retirements.

- The contractor will not be required to obtain an indemnity bond.

- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the ceding employer during the period of participation.

- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the ceding employer) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or ceding employer).

- The terms of the pass though agreement will be documented by way of the admission agreement between the Pensions Authority, the ceding employer, and the contractor.

- All existing admission agreements are unaffected by this Policy.

- The principles outlined above are the default principles which will apply; however, the ceding employer may request the specific details of a particular agreement to differ from the principles outlined above. The Pensions Authority are not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the ceding employer to reach agreement.

1. INTRODUCTION

1.1 Employees outsourced from Local Authorities, or from Independent Schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

1.2 This may be achieved by offering affected employees membership of an alternative broadly comparable scheme, however this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

1.3 For the avoidance of doubt, this policy includes all outsourcings from Local Education Authority funded schools which include members eligible for participation in the LGPS.

2. PASS THROUGH ARRANGEMENTS FOR CONTRACTORS ADMITTED TO THE SOUTH YORKSHIRE PENSION FUND

2.1 Pass through is an arrangement whereby the ceding employer (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract and the risk that the contributions paid may be insufficient to meet the employees' pension benefits at the end of the contract. Examples of risks which could cause the employer contribution rate to fluctuate could include the interest on the surplus / deficit, investment performance, changes to the investment return and inflation assumptions, changes to longevity assumptions, and changes in the membership profile (including, for example, longevity, and salary experience).

2.2 The contractor is responsible for (non-ill health) early retirement strain costs and the cost of any benefit augmentations awarded by the contractor.

2.3 The ceding employer retains responsibility for the cost of ill health retirements.

2.4 The ceding employer is arguably the party best able to manage these risks, which allows for a smooth and structured transition from the ceding employer to contractors, as well as smoother ongoing arrangements.

2.5 All assets and liabilities held in the Fund in respect of outsourced employees will remain the responsibility of the ceding employer. This reflects the sharing of risks between the ceding employer and the contractor i.e. the contractor is only responsible for paying the certified contribution rate and for meeting the cost of any one-off increases to liabilities due to (non-ill health) early retirement and augmentations.

2.6 It is the Pensions Authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions). However, as the ceding employer retaining most of the pension fund risk relating to contractors, these liabilities (and assets) will be included in the ceding employers' FRS102 / IAS19 disclosures.

2.7 Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

2.8 Ceding employers may request terms which differ from those set out in this policy and such request will be considered by the Pensions Authority.

2.9 All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this Policy.

3. OUTSOURCINGS OF EMPLOYEES WHO ARE ACTIVE MEMBERS IN THE FUND

3.1 The Pensions Authority and the Fund Actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 The contribution rate payable by the contractor over the period of participation will be set equal to the Primary Rate payable by the ceding employer from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the ceding employer's future service Primary rate, and not affected by the (generally more volatile) changes in past service funding level.

3.3 The Rates and Adjustment certificate will reflect the rate applicable to each contractor.

3.4 Contractors must pay the Fund the appropriate employer and employee contributions by the 19th day of the following month.

3.5 The ceding employer will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The ceding employer is effectively guaranteeing the contractor's participation in the Fund.

3.6 A cessation valuation is required when a contractor no longer has any active members in the Fund (as per Regulation 64 of the Local Government Pension Scheme Regulations 2013). This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

3.7 Where a pass-through arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the ceding employer. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing and therefore that no cessation debt or exit credit is payable to or from the Fund.

3.8 The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

3.9 However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

Risks	Council	Contractor
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual*		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual*		✓
Price inflation / pension increases that affect past service liabilities	✓	
Price inflation / pension increases that affect future accrual*		✓
Exchange of pension for tax free cash (commutation rate)	✓	
Ill health retirement experience (pooled with the ceding employer)	✓	
Strain costs attributable to granting early retirements not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements)		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package*		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund	✓	
Award of additional pension or augmentation		✓

*These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time, and would feed through into the ceding employer's Primary contribution rate and hence the contractor's contribution rate.

4. Process

4.1 **Initial policy distribution** – The procurement department at each ceding employer that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below from paragraph 4.2 to 4.9 must be adhered to by the ceding employer and (where applicable) the winning bidder.

4.2 **Tender Notification** - The ceding employer must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in **paragraph 3.2**.

4.3 **Initial notification to Pension Team** – The ceding employer must contact the Pensions Authority when a tender (or re-render) of an outsourcing contract is taking place and staff (or former staff) are impacted. The Pensions Authority must be advised prior to the start of the tender and the ceding employer must also confirm that the terms of this Policy have been adhered to.

4.4 **Confirmation of winning bidder** – The ceding employer must immediately advise the Pensions Authority of the winning bidder.

4.5 **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the ceding employer), should request to the Pensions Authority that it wishes to become an admitted body within the Fund.

4.6 **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Pensions Authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the Pension Authority and possibly its legal advisors.

4.7 **Post commercial contract** – Once the commercial contract has been signed, the winning bidder is then able to enter the Fund.

4.8 **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the Lead Finance Officer of the ceding employer, and the Head of Pensions Administration at the South Yorkshire Pensions Authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

4.9 **Admitted body status** – The ceding employer will advise the contractor of its requirements and responsibilities within the Fund.

5. Review

5.1 This policy takes effect for all new admission agreements commencing on or after 1 #### 2022.

5.2 The policy will be reviewed every three years as part of formal actuarial valuations of the Fund (the next is due 31 March 2025) or when relevant changes to the LGPS Regulations take place.