Bedfordshire Pension Fund

Admissions Policy

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1. Entry conditions and requirements for admission Bedfordshire Pension Fund

Bodies that will be considered for Entry

Background

Bedford Borough Council (as administering authority) is responsible for deciding which applications to become admission bodies within Bedfordshire Pension Fund should be declined or accepted. Clearly an overriding requirement is that the body meets the entry requirements outlined within the Local Government Pension Scheme (LGPS) Regulations. Beyond that the administering authority can:

- for **Community Admission Bodies (CABs)**, which are eligible under LGPS Regulations 2013 Schedule 2 Part 3 1(a) to (c), have complete flexibility in deciding whether or not to accept applications. It is therefore appropriate for the administering authority to determine what entry criteria exists for employers to become admission bodies within Bedfordshire Pension Fund; and
- for **Transferee Admission Bodies (TABs**), which are eligible under LGPS Regulations 2013 Schedule 2 Part 3 1(d), the administering authority, has no discretion and must admit a contractor if the contractor and the awarding authority agree to meet the requirements of the LGPS Regulations;
- for **Directed Admission Bodies (DABs)**, which are eligible under LGPS Regulations 2013 Schedule 2 Part 3 1(e), and whose approval maybe subject to conditions by the Secretary of State, have limited flexibility in deciding whether or not to accept such an application.

Policy

The overarching principle is that Bedfordshire Pension Fund will only enter into an admission agreement with a body that:

- provides services linked to one of the scheme employers in Bedfordshire Pension Fund where such an arrangement is beneficial to the relevant scheme employer. The interests of the body must be closely aligned to the work of the scheme employer and meet the requirements in relation to CABs as outlined above; or

- provides services on behalf of one of the scheme employers in one of the ways prescribed for TABs as described above.

Bedfordshire Pension Fund will enter into an admission agreement that is ‘open’ or ‘closed’ to new employees.

Bond/Indemnity or Guarantor Requirements for Entry

Background

It is important to minimise the risk that the potential admission body might place on Bedfordshire Pension Fund and the other employers in Bedfordshire Pension Fund before it is agreed they can enter the Fund. This risk relates to the costs of liabilities (i.e. underfunding) not yet paid for at the point of termination of the admission agreement. Termination can be for a number of reasons, including the natural end of a contract, a takeover or a body going into liquidation.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation in order to ascertain the final payment due relating to any deficit. Where the admission body is unable to meet the outstanding payment, the payment must be collected from:

- any insurer or person providing an indemnity or bond on behalf of that body (this might include a guarantor, such as a sponsoring employer, a parent company or central government department),

Where that is not possible:

- in the case of a TAB, from the awarding authority for that TAB
- in the case of a CAB, from each other employing authority within the fund
- The outstanding deficit at the point of termination may largely already exist due to adverse experience but could be increased by additional liabilities resulting from the termination. The risks relating to the potential of a deficit arising at the point of termination include:
- redundancy early retirements, on premature termination of the contract;

- current funding strain (this will be zero at outset if the contractor commences on a fully funded position);
- underperformance of the Fund's investments compared to the benchmark set;
- lower gilt yields than at the outset (i.e. the risk that the future return available from government bonds falls, leading to a higher value being placed on the liabilities and hence under funding on premature termination);
- greater than expected salary increases over the term of the contract;
- the cost of ceasing participation in Bedfordshire Pension Fund (e.g. termination costs covering the need for a cessation valuation and all of the necessary additional administration costs); and
- unpaid contributions.

The LGPS Regulations do include some requirements to reduce these risks, including:

- the need for the admission body (or the administering authority on behalf of the admission body) to the satisfaction of the administering authority, to carry out a risk assessment on the premature termination of the provision of the services carried out by the admission body by reason of insolvency, winding up or liquidation and, where they consider it necessary taking into consideration the results of that assessment, require the admission body to put in place a bond, a parent company guarantee or indemnity to cover the level of risk identified
- where a CAB's entry criteria relates to them receiving funding from a scheme employer and that funding is less than 50% of the total funding it receives from all sources, that scheme employer must agree to act as a guarantor in relation to any deficit on termination. As the potential deficit relating to the above risks can fluctuate, often on a daily basis, there is no guarantee that any bond or indemnity pay-out will be sufficient to secure 100% funding of the departing employer's liabilities in Bedfordshire Pension Fund. Consequently, any remaining shortfall would fall on the guarantor, awarding authority or on all other employers in Bedfordshire Pension Fund.

To minimise the risks further, LGPS funds often put in place further requirements or processes, such as looking for a guarantor or a bond or indemnity. In some circumstances, particularly in the case of CABs, it may not be necessary to put a bond or indemnity in place. Instead a body closely linked to the admission body may agree to act as guarantor, meaning that it will become liable for any pension costs should the admission body fail or cease to exist.

Policy

Bedfordshire Pension Fund will require any potential admission body to provide:

- CABs – a bond, a parent company guarantee, a guarantor considered by Bedfordshire Pension Fund and found to be strong, secure and financially durable (generally only a local authority or central government department) or an indemnity the Fund considers to have equivalent strength.
- TABs – a preference for a bond, a parent company guarantee or indemnity to be provided by the TAB but this is not a mandatory requirement as the awarding authority is in effect a guarantor already under the terms of the LGPS Regulations.

The awarding authority will be required to confirm the approach it wishes to take. In all circumstances where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis.

Risk Sharing

Background

It is becoming commonplace for awarding authorities and contractors to enter into risk sharing arrangements as part of the provision of broadly comparable pension benefits. This can take many forms, for example:

- fixed employer contribution rates (often higher than the certified rate),
- ceilings and floors to the employer contribution rate,
- the awarding authority paying all or a proportion of any deficit on termination,
- certain elements of the employer contribution rate being the responsibility of the awarding authority (e.g. past service, investment returns, ill-health retirement),
- waiving the requirement to provide a bond or indemnity

- pooling the new admission body with the scheme employer.
- These arrangements do not change the true cost of pension benefits; they only change who is responsible for them.

Policy

In order to avoid the pension fund becoming involved in any disputes relating to risk sharing and to protect the other participating employers Bedfordshire Pension Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a contractor. Accordingly, any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of the agreement as if no such risk sharing was in place and as if they were any other employer within Bedfordshire Pension Fund. It will then be the responsibility of the awarding authority and the TAB to put in place separate arrangements to allow the risk sharing to be implemented (e.g. via the contract payments). Accordingly, the T AB will be required to pay the certified employer contribution rate to the fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place. The only exceptions to this are:

Bedfordshire Pension Fund will be willing to accept payment of any deficit on termination from the awarding authority, rather than the TAB.

The potential for the bodies to agree to a pooling arrangement as outlined later in this policy.

It is also acknowledged that, though Bedfordshire Pension Fund will encourage the provision of a bond or indemnity to provide cover on the early termination of the TAB, it is the awarding authority's decision as to whether such a bond or indemnity is required (as they are ultimately a guarantor for all pension costs).

Approval Process for becoming an Admission Body

Background

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether a body should be allowed to enter into an admission agreement.

Policy

The Officers of Bedfordshire Pension Fund will be responsible for ensuring all bodies meet the criteria set out above, having regard to the appropriate legal and actuarial advice. Bedfordshire Pension Fund has a standard admission agreement drawn up on advice from Bedfordshire Pension Fund actuary and legal advisor. The terms will generally be standard and non-negotiable and include commencement, transfer, payment and termination clauses to protect the other beneficiaries and participants in Bedfordshire Pension Fund.

All applications will be acceptable if the officers of Bedfordshire Pension Fund are satisfied the criteria are met and the standard terms of the admission agreement are accepted. All applications meeting these criteria will be reported to the Pensions Committee for information.

Any applications departing from these criteria and/or the standard terms of the admission agreement will be reported to the Pensions Committee for agreement, and may be refused.

2. Financial aspects on entry

Allocation of Assets

Background

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the contract period. The assets that are notionally allocated for TABs are usually set equal to 100% of the value of the past service liabilities of any transferring employees. For CABs, there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted. There is provision for assets to be held in a separate admission body pension fund (rather than the main Bedfordshire Pension Fund) but it is not essential to do so.

Policy

The allocation of assets at the commencement of an admission agreement will be as follows (unless a pooling arrangement is entered into as described later in this policy):

- TABs – 100% of the value of the past service liabilities of any transferring employees;
- CABs – to be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer.

In both cases, the assets will be calculated using Bedfordshire Pension Fund's ongoing funding basis as set out in the Bedfordshire Pension Fund Funding Strategy Statement.

This asset share will be tracked during the period of the admission agreement and adjusted at each formal triennial valuation to take account of the admission body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed. This 'analysis of experience' approach allows for all of the main contributors to the surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment;
- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects the actual experience in Bedfordshire Pension Fund.

The assets will remain within the main Bedfordshire Pension Fund (i.e. no separate admission body fund will be set up).

Matched Investment Strategy

Background

Providing the flexibility of ensuring a matched investment strategy is followed, should reduce the risk of under-funding due to market movements, as the assets and liabilities would move in the same way. However, implementing, monitoring and managing separate investment strategies for each employer would be extremely labour intensive, and accordingly there will be circumstances where the potential benefits are outweighed by the additional work involved.

Policy

The investment strategy is set for Bedfordshire Pension Fund as a whole, not for each employer's notional share of the Bedfordshire Pension Fund.

Contribution Rates and Other Costs

Background

At the beginning of each admission agreement, it will be necessary to determine the employer contribution rate payable by the TAB or CAB. There will also be circumstances where additional costs arise, such as legal costs and/or actuarial costs.

Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service;
- whether the admission agreement is open or closed;
- whether the admission agreement is fixed term or not, and the period of any fixed term contract;
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place;
- the investment strategy (for example, higher contributions would be required at commencement if a lower risk investment strategy were adopted).

In addition, the admission body will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits; lump sums in relation to any award of additional benefits;
- reimbursement of the administering authority's or other bodies costs due to poor administration by the admission body.

The admission body may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

Bedfordshire Pension Fund may arrange for ill-health Insurance to be available to meet those admission body liabilities.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

Bedfordshire Pension Fund may require any actuarial, legal, administration and other justifiable costs to be paid by the admission body. In the case of a TAB it may be agreed that these costs are paid for by the awarding authority (or shared between or amongst the TAB and awarding authority).

Bedfordshire Pension Fund will communicate the financial implications of a transfer to the awarding authority, which may require the revision of the contribution rate payable by the awarding authority after the transfer occurs. Bedfordshire Pension Fund reserves the right to require payment by the awarding authority of a lump sum contribution to cover any deficit in respect of transferees.

3. Ongoing monitoring of admission bodies

Background

It is important that monitoring of an admission body is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all employers within Bedfordshire Pension Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the admission body to notify changes in their circumstances;
- Regular assessment of the value of any security put in place by the employer;
- Periodic assessment of the financial health of the employer;
- Checks to see whether an employer has failed to notify Bedfordshire Pension Fund of relevant changes (e.g. closure to new entrants).

Policy

During the period of the admission agreement, the level of risk in relation to any bonds or indemnities in place will be reassessed on an annual basis and the relevant admission bodies will be required to renew their bond or indemnity appropriately.

Contribution rates will be reviewed at formal valuations. In addition, Bedfordshire Pension Fund reserves the right to review contribution rates for admission bodies annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Furthermore, Bedfordshire Pension Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to it have increased more than had been allowed for at the preceding triennial valuation, Bedfordshire Pension Fund may review the employer contribution rate (i.e. outside of the formal triennial valuation cycle).

4. Cessation terms and requirements

Termination requirements

Background

One of the greatest risks to Bedfordshire Pension Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Previous sections of this policy are drafted with a view to safeguarding against this risk.

However, it is also important that the Fund has the flexibility to terminate an admission agreement at an appropriate point to protect the other employers in the fund and to allow it to levy a termination payment.

Policy

Bedfordshire Pension Fund will take legal advice on the appropriate termination requirements to be included in admission agreements and these will be incorporated into all admission agreements. These will include the option for an admission agreement to be terminated by Bedfordshire Pension Fund in any of, but not limited to, the following circumstances:

- Where the admission body is not paying monies in a timely manner;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

Future Cessations

Background

When an admission agreement ceases, the employer's assets should equal its liabilities on an appropriate basis. The LGPS regulations have provisions that deal with admission bodies which have a time limited admission agreement or it is known that the admission body is going to leave the Bedfordshire Pension Fund at some date in the future. This could be in the lead up to a natural end of a contract or at the first indication that a body is going to cease to exist/contract be terminated prematurely.

In these circumstances, the Administering Authority may seek to increase or reduce the admission body's contributions to Bedfordshire Pension Fund in the period leading up to cessation to target a position where the employer's assets are equal to its liabilities on an appropriate basis. To a limited degree, this can also reduce any overfunding. It had not previously been allowable under the LGPS Regulations to refund a surplus to an admission body. Amendments to the LGPS Regulations effective from 14 May 2018 makes provision for employers to receive an exit credit

for any surplus assets in a Fund upon ceasing to be a Scheme employer. Bedfordshire Pension Fund may take appropriate legal and actuarial advice to determine when and to whom an exit credit may be payable.

Policy

A provisional cessation valuation will be carried out on premature termination of an admission body as soon as Bedfordshire Pension Fund become aware of the likely termination unless it is likely to take place in the immediate future.

Ongoing annual provisional cessation valuations will be carried out in the run up to the natural end of an admission agreement at least for the final two years of the agreement. Additional provisional cessation valuations may be carried out on the advice of the Fund Actuary.

Basis of Termination Valuation

Background

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing Bedfordshire Pension Fund with benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much Bedfordshire Pension Fund should hold now to meet the future expected benefit payments. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out basis.

Policy

Bedfordshire Pension Fund's general principle on the cessation of an admission body is to assume a "clean break" on termination, i.e. the departing employer's liability to make further contributions to Bedfordshire Pension Fund is extinguished on payment of the termination deficit calculated on an appropriate basis; Bedfordshire Pension Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits in accordance with the Funding Strategy statement.

a) TABs - The length of the contract for a TAB will usually be pre-determined and may be specified in the admission agreement.

- Employers at the natural end of a contract, once the contract of a TAB is complete or the employer has completed the services it was contracted to carry out (and no plans for extending the contract are in place), the employer will leave the Bedfordshire Pension Fund. Under these circumstances, it is usual for the remaining active employees to transfer back to the employer or into a second (or later) generation contractor. In this scenario, Bedfordshire Pension Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority. The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. Where a lower risk investment strategy has been adopted (an example of where it could be justified is a contract nearing the end and an employer wanting more certainty of the outcome), the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the employer.
- Employers that leave the scheme prior to the natural end of an admission agreement – Under these circumstances, it will need to be established whether the current active membership will transfer to another LGPS employer or contractor and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners. Under a TAB agreement, these liabilities would usually fall back to the awarding authority

and ideally this should be written into the admission agreement or supporting documents. Employers falling under this category will be considered on a case by case basis since there may be circumstances where the transfer agreement between the awarding authority and the TAB (to which Bedfordshire Pension Fund is a party) dictate a different approach.

b) CABs - Admission agreements for CABs are typically open-ended rather than time limited.

   It is now a condition of admission that CABs will be "sponsored" by another scheme employer or another public body to provide an indemnity acceptable to the Fund. The sponsor (or guarantor) generally assumes responsibility for the assets and liabilities in Bedfordshire Pension Fund which are attributable to the CAB in the event that they cannot be met by the CAB. CAB employers may leave the Bedfordshire Pension Fund under any of the scenarios detailed for TAB employers above. Where there is a guarantor, as required by this Admissions Policy, the cessation valuation will normally be calculated using an ongoing valuation basis. If for some reason Bedfordshire Pension Fund is not able to recover the full amount of the final deficit then together with any future deficit arising in respect of the membership the cost will be the responsibility of all the employers in the Bedfordshire Pension Fund. In some circumstances, e.g. where employees are transferring to another LGPS employer (which will usually be the guarantor) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date.

The administering authority reserves the right to use different funding assumptions if they are deemed to be appropriate, subject to advice from the fund actuary.

Payment of Cessation Deficit

Background

When the fund actuary carries out a cessation valuation, he or she is also required to certify the contributions due to Bedfordshire Pension Fund. The LGPS regulations do not specify whether or not this payment should be paid as a lump sum or whether it is paid in instalments.

There is, however, a provision that clarifies what should happen if it is not possible to recover the cessation payment (for example, due to the admission body going into liquidation and no assets being available). In the first instance Bedfordshire Pension Fund will attempt to recover any outstanding payment from any bond or indemnity. If there is a guarantor, this would be a second port of call for the monies. Thereafter Bedfordshire Pension Fund may claim those monies from:

- In the case of a TAB, the awarding authority, and
- In the case of a CAB, all other employers in Bedfordshire Pension Fund.

Policy

Bedfordshire Pension Fund policy will be to collect this cessation payment by way of a lump sum where it is the admission body that is making the payment. For exceptional cases, the administering authority may allow an alternative payment plan subject to adequate security being provided to cover the cessation debt to Bedfordshire Pension Fund. In these cases Bedfordshire Pension Fund will:

a. Find out about the employer in a spirit of due diligence.

b. Seek to work with the employer where affordability is an issue.

c. Minimise exposure to the Fund.

d. Require legal agreement on securities.

e. Seek assurance on the time period to be agreed.

Where this is not the case, any outstanding payment once any bond, indemnity or alternative guarantor has been exhausted may be recovered as follows:

For TABs the outstanding payment will be paid via an increase to the awarding authority's ongoing contribution rate, calculated by spreading the outstanding payment over the awarding authority's pensionable payroll (over a spreading period to be determined by the Fund). The fund reserves the right to require payment by immediate lump sum;

For CABs, where the deficit is to be spread amongst all the employers in the fund, the rates and adjustments certificate will be adjusted to allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised). Where a scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as outlined for a TAB (above).

If an exit credit is payable to an exiting employer, Bedfordshire Pension Fund must pay the amount payable to the employer within three months of the date on which the employer ceases to be a Scheme employer, or such longer time as Bedfordshire Pension Fund and the exiting employer may agree.

5. Calculation of bulk transfer

Background

Bulk transfer payments can be calculated in a number of ways including:

- Share of fund – the notional share of assets attributable to the transferring employees. This approach therefore means any deficit (or potentially surplus) is included in the bulk transfer payment;
- Fully funded – the payment relates to the calculation of liabilities for the transferring employees on a fully funded basis. Accordingly, any deficit or surplus remains with the transferring employer;
- Deduction for remaining liabilities – the transfer payment could be reduced to ensure any remaining liabilities relating to the employer (i.e. in relation to deferred and pensioner members) are fully funded on a termination basis. This is appropriate where there will be no further opportunity to collect employer contributions from a transferring employer.

Policy

Payments of bulk transfers from Bedfordshire Pension Fund will be carried out in line with the following:

- Where the bulk transfer is to a broadly comparable scheme by virtue of a local authority or public sector outsourcing services to a contractor under the Office of the Deputy Prime Minister (ODPM) Code of Practice on Workforce Matters and/or Fair Deal Guidance the transfer payment will represent the full value of the transferring liabilities on the ongoing funding basis, irrespective of the funding level of the transferring authority either at the point the transfer payment is made or, more likely, at the next valuation[1]. In exceptions circumstances, the bulk transfer may be adjusted to reflect specific issues of the transferring employer. The transfer terms in these situations will be non-negotiable;
- In all other circumstances the bulk transfer will be considered on the merits of the case. Generally this will result in a share of fund bulk transfer being

[1] The approach will depend on the significance of the transfer in the context of the transferring authority's funding position and the perceived financial standing of the transferring authority.

paid. However, where the transferring employer is leaving Bedfordshire Pension Fund after the transfer date (for example because it no longer has any active scheme members or its admission agreement is ceasing), the bulk transfer value paid from Bedfordshire Pension Fund should be equivalent to the employer's share of the assets in Bedfordshire Pension Fund less an amount withheld to ensure non-transferring liabilities (any deferred or pensioner members) are fully funded on a termination basis on the transfer date (assuming the transfer date and termination date are the same);

- The share of Bedfordshire Pension Fund assets attributed to the transferring liabilities will be calculated by reference to the funding position of the transferring employer rather than Bedfordshire Pension Fund as a whole.
- Whilst the calculation of the value of the liabilities is largely irrelevant where the transfer payment is based on a share of the fund (since the higher the liabilities the lower the funding level, and vice versa, with the transfer value being unchanged), for simplicity, clarity and ease of demonstrating compliance with the regulations (which specify that the transfer payment should be based on the liabilities, before being adjusted), the bulk transfer will be calculated using the assumptions adopted for the most recent funding valuation, adjusted for market conditions at the transfer date, to place a value on the transferring liabilities. The funding level adjustment would then be based on the employer's ongoing funding position on the transfer date.
- Other than in extreme circumstances, for example where the transferring employer would then be left with a significant surplus relative to the remaining liabilities on a termination basis, should the employer's notional ongoing funding position be in surplus, such surplus will not be transferred as part of a bulk transfer.
- Any shortfall between the bulk transfer payable by Bedfordshire Pension Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Bedfordshire Pension Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme. This will be particularly important where the transferring employer's participation in Bedfordshire Pension Fund is ending and the bulk transfer payment is being reduced to accommodate a cessation valuation in respect of the remaining deferred and pensioner

liabilities.

- Although there is no physical payment to or from Bedfordshire Pension Fund, transfers between employers within Bedfordshire Pension Fund should be treated in the same way as external transfers, particularly for outsourcings to private contractors to ensure a level playing field between those offering a broadly comparable scheme and those proposing to seek admitted body status. This is to ensure that the level of security offered to the remaining employers in Bedfordshire Pension Fund is not diminished by reason of the transfer.

Adjustment to Transfer Payment to Payment Date

Background

In the normal course of events payment of a bulk transfer value will occur well after the actual transfer of employment. There are a number of reasons for this:

- it often takes some time for the transferring and receiving scheme administrators to agree the membership information relating to the employees involved;
- there can be delays in agreeing the actuarial basis for the calculations, particularly where the employer(s) concerned do not engage in the process;
- even once the data and basis have been agreed, the scheme members involved are typically given 3 months to make an election to transfer their accrued benefits. Regulation 82(1) specifically refers to the actuary of the paying scheme being able to adjust the transfer amount for the period between the transfer date and payment date. There are a number of possible approaches to the adjustment of the bulk transfer amount between the transfer date and the payment date.

Policy

Bearing in mind the overriding principle of minimising the risk to Bedfordshire Pension Fund of paying out more in the bulk transfer than Bedfordshire Pension Fund holds in assets which are attributable to the transferring liabilities, the most appropriate adjustment would be to use the actual returns achieved on Bedfordshire Pension Fund's assets over the appropriate period. There are a number of practical difficulties associated with this, not least the fact that Bedfordshire Pension Fund returns are typically only available on a quarterly basis and there is a lag between the quarter end and the availability of the return information. As a result, an approximation is usually required. For Bedfordshire Pension Fund this will typically take the form of applying index returns based on the assumed asset mix as set out in the Investment Strategy Statement (ISS), or based on actual assets held should these be significantly different from the ISS.

Where the bulk transfer is between the employers in Bedfordshire Pension Fund, the notional transfer of assets is assumed to occur on the transfer date so there is no need to specify an adjustment to the bulk transfer value in respect of the period between the transfer date and the payment date.

Format of Bulk Transfer

Background

The bulk transfer may be paid either in stocks and shares ('in specie') or in cash.

Policy

The type of payment will be at the discretion of Bedfordshire Pension Fund, to be decided under Day to Day delegation. A deduction to the bulk transfer will be made for any administration, legal and transaction costs incurred by Bedfordshire Pension Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

Impact on Transferring Authority's Funding

Background

Where a bulk transfer is paid that is not calculated on a share of fund approach, this could lead to the transferring authority's share of Bedfordshire Pension Fund to be in deficit (or further in deficit as the case may be) because the transfer payment will usually exceed the notional share of that employer's assets relating to the transferring employees.

Policy

Bedfordshire Pension Fund will agree with the transferring authority how this additional deficit is to be paid. Though it is likely this will be through adjustments to its employer contribution rate, Bedfordshire Pension Fund may require a lump sum payment or instalments of lump sums to cover this additional deficit, for example where the deficit is a large proportion of the total remaining notional assets and liabilities.

Bulk Transfers In

Background

The majority of bulk transfers into Bedfordshire Pension Fund will be required to adhere to the ODPM Code of Practice on Workforce Matters and/or Fair Deal Guidance in relation to ensuring rights acquired in the LGPS are on a fully protected basis. This means the transfer in service credits will need to be day for day, or equivalent allowing for differences in the pension scheme structures.

While not explicit in the regulations it is typically assumed that the service credits provided in the Bedfordshire Pension Fund should be at least equivalent to those that would have been granted via the traditional cash equivalent transfer value route.

For a transfer into Bedfordshire Pension Fund, it is strictly speaking the responsibility of the ceding scheme's actuary to propose the assumptions used for the transfer value. In response, Bedfordshire Pension Fund would then be required to consider whether the proposed basis puts an equal or greater value on the transferring active scheme members' accrued benefits, when compared to the ongoing valuation basis on updated financial assumptions at the date of transfer.

Policy

Bedfordshire Pension Fund will expect all bulk transfers in to be sufficient to meet the value of the accrued benefits on ongoing valuation assumptions (i.e. Bedfordshire Pension Fund's funding basis) applicable at the transfer date. There may be situations where the transfer amount accepted is less than this, in which case the receiving employer will be required to fund this deficit.

Depending on the strength of covenant of the receiving employer and the significance of the shortfall, any such shortfall will be met by either a lump sum payment or through increases to its ongoing contribution rate at the point the transfer is made or at the next funding valuation. Any deficit payments that Bedfordshire Pension Fund agree to include as part of the ongoing contribution rate will be based on a spreading period not exceeding that set out in Bedfordshire Pension Fund's Funding Strategy Statement. As with bulk transfers out of Bedfordshire Pension Fund, payment of a bulk transfer value will occur well after the actual transfer of employment. This means that, as for transfers out, a timing adjustment is applied to the transfer value calculated as at the transfer date.

As noted previously, the most appropriate adjustment from Bedfordshire Pension Fund's perspective would be to apply actual Bedfordshire Pension Fund returns for the relevant period. It is very unlikely that the ceding scheme would agree to this, even if its investment strategy were similar since this return is dependent on the performance of Bedfordshire Pension Fund's active managers as well as underlying market returns.

The closest match to the Bedfordshire Pension Fund return that is likely to be achievable is index returns based on the broad investment strategy, as measured by appropriate indices). Where the ceding (or paying) scheme has a materially different investment strategy it is unlikely to accept a timing adjustment based on the Bedfordshire Pension Fund's asset allocation. Where the transfer value is likely to be small or immaterial in the context of the receiving employer's existing liabilities and the receiving employer is perceived by Bedfordshire Pension Fund to be financially secure we would suggest that it would not be worthwhile trying to negotiate the most appropriate timing adjustment. Where the transfer is material or there are concerns about the receiving employer's strength of covenant and it is not possible to persuade the ceding scheme to adopt a timing adjustment which even broadly reflects Bedfordshire Pension Fund's investment strategy, any deficit arising because of the timing adjustment falling short of the actual Bedfordshire Pension Fund returns will be calculated and charged to the receiving employer either immediately or at the next formal funding valuation.

Approval process for paying or receiving a bulk transfer

Background

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether to pay or receive a bulk transfer.

Policy

The officers of Bedfordshire Pension Fund will be responsible for ensuring any bulk transfers paid or received are in accordance with this policy, with any decisions regarding any areas of discretion within the policy being made under the Day to Day delegation. The Pensions Committee will be informed of all such bulk transfers. Any bulk transfers departing from this policy will be reported to the Pensions Committee for agreement.