SOUTH YORKSHIRE
PENSIONS AUTHORITY

Transferee Admission Body

Information

Contents

Introduction

The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) protects employees if the business in which they are employed changes hands. Its effect is to move employees, and any liabilities associated with them, from the old employer to the new employer by operation of law.

Pension provision does not form part of TUPE. However, from October 2007, contracting authorities have to comply with section 101 of the Local Government Act 2003 in relation to the pension provision for their transferring staff. The requirement is that the pension provision going forward must be the same as, broadly comparable to, or better than they had (or had the right to acquire) prior to transfer.

In order to satisfy the pensions' requirement, the contractor has two options:

- To offer their own pension scheme, which must be certified by the Government Actuary's Department (GAD) as being "broadly comparable" to the Local Government Pension Scheme (LGPS)
- To apply for Admission Body Status (ABS) within the LGPS

This guide gives details of the ABS process plus a general overview of what it means to be an employer within the LGPS. It is intended for use by contractors or sub-contractors who may be considering joining the LGPS as a Transferee Admission Body. It is also applicable for organisations that are providing a public service and have had approval from the Secretary of State for the purposes of admission to the Scheme.

GAD Approved Scheme

Should the contractor decide to offer its own pension arrangement to the transferred staff then it must satisfy the outsourcing local authority that it holds a GAD certificate of Broad Comparability.

There are two alternative approaches to providing Broad Comparability, namely “Passport” and “Individual Certification”.

A Passport would indicate that the pension benefits which the contractor intends to offer to transferring staff have been analysed in detail and were considered to be broadly comparable for a wide range of staff who may potentially transfer from the public sector. This passport may then be used to bid on other public contracts and show compliance with one strand of Fair Deal (i.e. satisfy one of the requirements in the guidance note issued by HM Treasury “Fair Deal for Staff Pensions: Procurement of Bulk Transfer Arrangements and Related Issues).

An Individual Certification would be similar to a Passport but testing takes place only for a specific transfer, for the specific staff involved. If the individual assessment indicates that the proposals offered are broadly comparable for the staff concerned, than a broad comparability certificate would be issued, valid only for that particular transfer. It can be a simpler way to achieve broad comparability as analysis is restricted to a small group.

Given the changes to the LGPS effective from April 2008, All GAD Certificates of Broad Comparability for the LGPS **issued before 26 April 2007 cease to have validity** for any transfer of staff covered by LGPS in England and Wales taking effect after that date.

GAD have stated that they expect the majority of contractors will need to make changes to their schemes in order to continue to meet the broadly comparable test.

Although there will be no requirement to mirror the differing accrual (and other) bases applying for service before and after April 2008 in the LGPS, contractors should be aware that GAD will take account of new LGPS basis from 1 April 2008 (i.e. 60ths accrual with cash by commutation and earning related member contribution rates) as part of the assessment.

Further, on 6 October 2008 GAD issued a note entitled “LGPS Broad Comparability – clarification of definition of minimum pension age”. GAD expect a copy of the note to be appended to all LGPS Passport Certificates issued prior to 6 October 2008 when they are submitted by contractors in the bidding process.

On 6 April 2009, GAD issued a Press Release entitled, “Changes to revaluation in deferment and validity of certificates of Broad Comparability”. The Pensions Act 2008 permits occupational pension schemes to limit the revaluation of deferred benefits to 2.5% per year over the period of deferment for benefits that accrued after 5 April 2009. GAD’s release reminded both contractors and public sector contracting authorities that where changes are made to a contractor’s broadly comparable pension scheme before the GAD certificate expires, a new certificate may be required for employees who are to transfer from the public sector. GAD stated that where a contractor reduces the cap on revaluation of deferred benefits below the level described in its current GAD certificate, that certificate would be withdrawn by GAD. GAD would then undertake a reassessment of the broad comparability of the benefits package as a whole. GAD believe it is unlikely that contractors will be able to compensate members with other benefits of a sufficient value where the revaluation of deferred benefits are reduced to the minimum level.

It is therefore recommended that any contractor seeking to offer their own pension provision instead of seeking ABS should contact GAD in the first instance to ensure their passport certificate is valid.

The Local Government Pension Scheme

Definition

The Local Government Pension Scheme (LGPS) is a Statutory, Contracted Out, Final Salary, Defined Benefit, Occupational, pension scheme. It is governed by the LGPS (Benefits, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008 which together make up the legislative framework for administering the scheme. Throughout the industry the aforementioned statutory instruments are referred to collectively as the “LGPS Regulations” and within the LGPS itself as “the Regulations”.

Whilst the scheme is a national pension scheme, it is administered locally and comprises 89 local funds in England and Wales, which broadly speaking operate on a county-wide basis. The LGPS in this area constitutes the South Yorkshire Pension Fund (SYPF), which is administered by South Yorkshire Pensions Authority (SYPA).

Pension Contributions

The employee contribution rate is determined by the rate of whole-time equivalent pay in accordance with a table comprising seven tiers as contained with the Regulations.

The employer contribution rate is set by the Actuary and is reviewed triennially as part of the Valuation process (although circumstances could lead to a bespoke review outside of the Valuation process).

Defined Benefit

Because the LGPS is a Defined Benefit scheme, benefits are guaranteed and comprise an annual pension and contingent survivor and dependant benefits. A Pension Commencement Lump Sum is available to all members via commutation of annual pension at retirement. More details about the benefit structure can be found at the LGPS website: www.lgps.org.uk

Contracted Out

The LGPS is Contracted Out of the State Second Pension (S2P), formerly known as the State Earnings Related Pension Scheme (SERPS). As a result of this National Insurance Contributions (NICs) are deducted at the Contracted Out rate (NI Table D and E). In order to satisfy Contracting Out requirements basic LGPS benefits must be at least equal to those offered by S2P.

South Yorkshire Pensions Authority

Definition:

SYPA is a scheme administrator for the LGPS, administering the South Yorkshire Pension Fund on behalf of over one hundred and fifty employing authorities throughout the area. The major employers within the Fund are the four local authorities; Barnsley MBC, Doncaster MBC, Rotherham MBC and Sheffield City Council.

SYPA is a statutory organisation and is funded out of the Fund. The Authority itself consists of 12 elected members, each being a councillor from one of the four local authorities within the county.

The Clerk and Treasurer is the chief officer within the organisation. He is responsible to the Authority

Departments:

Broadly speaking, the organisation is split into two overarching sections: one dealing with Scheme Administration, the other with Fund Investment.

Scheme Administration:

The Assistant Treasurer heads the Scheme Administration unit and is the designated officer with executive powers relating to Scheme administration. The unit is departmentalised as follows:

Member Services:

The Member Services Unit deals with the “day to day” administration of the Scheme, calculating benefits and maintaining the organisations membership database.

The Member Services Unit is divided into five teams with each scheme employer allocated to one of the teams.

Make a note of your Member Services Contacts here:

Team Manager: ______________________________

Telephone number: ______________________________

Email address: ______________________________ @sypa.org.uk

Other contacts: ______________________________

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Technical Team:

The Technical Team offers technical support throughout the Unit and also to employers within the Fund. The team also has responsibility for overseeing the establishment of new employers within the Fund.

Technical Team Manager: Gerald Potts
01226 772937
gpotts@sypa.org.uk

Technical Officer: John Hensby
01226 772919
jhensby@sypa.org.uk

I.T:

The Information Technology section provide I.T support for the whole organisation and are responsible for the maintenance of the Authority's website: **www.sypensions.org.uk**

District Offices:

SYPA has a satellite office within each of the four South Yorkshire local authorities. The District Offices provide the link between the local authorities and HQ, providing and vetting data from the local authority. They also provide weekly advisory sessions for the use of any Fund member.

Barnsley District Office:

Doncaster District Office:

Rotherham District Office:

Sheffield District Office:

Payroll & Admin:

Ensures, amongst other things, that the Funds' pensioner members are paid each month. The section also provides general administration duties in support of the organisation.

Communications:

The section has responsibility for communication news and information to all of the Funds stakeholders including Scheme members and employers.

Charter Mark:

SYPA has obtained the prestigious Charter Mark for its commitment to customer service. Charter Mark submissions involve a detailed application against sixty three set criteria and an on-site visit from an independent assessor. It ensures the Pensions Authority can:

- Set standards and perform well
- Actively engage with customers, partners and staff
- Be fair and accessible to everyone and promote choice
- Continuously develop and improve
- Use resources effectively and imaginatively
- Contribute to improving opportunities and quality of life in the communities it serves.

The Pensions Authority first secured the Charter Mark award in 2004. It is retained for three years with annual surveillance visits to ensure the award criteria are still being met. At the end of the three years a fresh application has to be made and a full review takes place. The Authority succesfully retained the award in 2007.

Website:

www.sypensions.org.uk

The SYPA website has been designed primarily for scheme members.

EPIC:

Every Scheme employer has bespoke login details which allow access to the Employer Pensions Information Centre (EPIC). Log-in credentials, and full demonstration, are provided upon entry to the Scheme.

Once established, the employer may choose which, and how many, of its administration staff has access to the site, i.e. Human Resources and/or Payroll.

Contained within the secure area is a copy of all correspondence sent out both globally and specific to the employer. Statistical reports (for example Scheme membership numbers, retirement situation breakdown, etc) are also available for inspection.

There is also access to SYPA's LGPS Portal which is a reference tool in relation to the Scheme Regulations, and is used as the main reference tool for the Authority's staff.

SYPA actively seeks Information Technology solutions. Data transfer and electronic interfacing are high priority developments and new Scheme employers will be actively encouraged to utilise these facilities.

Admission Body Status

Summary

The LGPS Regulations allow for contractors to join the scheme by virtue of entering into an Admissions Agreement with the outsourcing employer and the Administering Authority (South Yorkshire Pensions Authority). Under the terms of the Regulations, the contractor is referred to as a Transferee Admission Body (TAB) and the outsourcing employer is referred to as the Scheme Employer. These terms are replicated throughout SYPA's standard Admission Agreements.

It is not uncommon for the contractor to take the decision to sub-contract some of the work. In such circumstances it is important to be aware that **SYPA will require a separate Admission Agreement in respect of *each* and *every* sub-contract.**

Appended to this pack is a flowchart showing the full ABS process (Appendix 1).

The rest of this section is concerned with the ABS process:

Outsourcing Scheme Employer Responsibilities

The Scheme Employer has the responsibility of ensuring that the whole process is undertaken in a timeframe that allows for the continued Scheme membership of the transferred staff, without them suffering a break in pensionable membership. **There can be no backdating of Admission Agreements.** If an Admission Agreement is not in place prior to the TUPE transfer then the transferring staff will lose membership of the LGPS (including the associated death and retirement benefit protection) in relation to the period until an Agreement is effective.

The Scheme Employer may decide to obtain an estimated employer contribution rate and bond amount for inclusion in the tender. This allows bidders to factor in such potential costs in their bid. This would be subject to change should the subsequent successful bidder decide to sub-contract some of the work. Because SYPA will require bespoke Admission Agreements in respect of each sub contractor the employer contribution rate and bond amount will be invalid.

Apart from the initial decision to outsource, the Scheme Employer has several other decisions to make throughout the process, which may impact on the contractor's liabilities and responsibilities:

Past Service Funding Liability

The Scheme Employer must decide whether it wishes to retain any past service funding deficit in respect of the transferring staff or whether it wishes to transfer the liability to the Transferee Admission Body, and if so, on what basis (i.e. partial or full). The template Admission Agreement reflects the common practice of Scheme Employers retaining past service funding deficits.

Method of Funding Protection

It is likely that the Scheme Employer will have commissioned a risk assessment from the Fund's Actuary as part of the outsourcing process. Contained within that report will be a liability, expressed as a monetary value, placed upon the Fund in the event that the Transferee Admission Body is wound up or liquidated leaving statutory redundancy early retirement benefits payable in respect of any transferred staff over the age of 55 (age 50 where transitional protections apply until 2010).

Given that any liability as mentioned above would ultimately revert to the outsourcing Scheme Employer, it is they who must decide whether they will require the Transferee Admission Body to obtain a bond in order to protect the Fund (and ultimately themselves). If the decision is taken to require a bond they then must also determine the level of such indemnity. Common practice is that they will decide upon the level stipulated in the Actuary's report.

In coming to their decision, the Scheme Employer will assess the impact upon the event of the Transferee Admission Body being wound up or liquidated. If, in all likelihood they would simply re-employ the transferred staff then they may deem the risk so assessed as to not require a bond to be in place. Indeed the demographics of the workforce may also be a factor in their decision.

In any event, the Regulations stipulate that the Scheme Employer must keep under review the level of risk and as such they may vary the amount of bond required at periods recommended by the Actuary or indeed seek to have one in place where they had previously decided against.

See the section under Bond Agreements for details of who may act as bondsman.

Collection of Employee Data

It is the Scheme Employer's responsibility to provide, to SYPA, up-to-date and data cleansed data in respect of the transferring staff. The information required is:

- Name
- National Insurance Number
- Date of birth
- Sex
- Classification of whole-time or part-time
- Weekly contractual hours of employment
- Whole-time equivalent hours (if part-time)
- Contractual weeks of employment
- Actual Pensionable Pay
- Date employment commenced

SYPA have a standard template for use in this exercise.

The Agreements

SYPA has a library of template Agreements for use in establishing Admission Bodies within the South Yorkshire Pension Fund.

Admission Agreement

The Admission Agreement is a tripartite agreement between the Transferee Admission Body, the Scheme Employer and SYPA. Many of the clauses within the Agreement will be statutory provisions prescribed by the Regulations, others will be bespoke additions requested by either Scheme Employer or Transferee Admission Body and agreed by all parties.

The Agreement allows for the smooth transition of continued Scheme membership for the original batch of transferred staff, provided the Agreement is effective as at the TUPE transfer date. **There can be no backdating of Admission Agreements.** It is therefore important that enough time is allocated prior to the TUPE transfer to allow for the completion of the Admission Agreement (and potentially for the Bond Agreement).

The Agreement also gives the Transferee Admission Body control over which future employees it chooses to nominate for Scheme membership, usually with the caveat of approval from the Scheme Employer.

Open Agreements:

An open Admission Agreement is one that allows future employees of the Transferee Admission Body to join the Scheme (subject to nomination by the Transferee Admission Body) **provided they are employed wholly or mainly on the contract tasks.** It is important to stress that only employees working on the contract tasks have eligibility to join the Scheme.

Closed Agreements:

A closed Admission Agreement precludes future employees from joining the Scheme, and caters only for the continued membership of the original batch of TUPE transferees.

When taking such decisions, the Admission Body needs to have regard to the *Code of Practice on Workforce Matters in Best Value Authority Service Contracts* in relation to operating a two-tier workforce going forward. The Code decrees that the service provider will offer “reasonable pension arrangements” to new recruits to an outsourced workforce.

The Admission Agreements will make reference to the level of Fund protection required by the Scheme Employer. If no bond is required, the Agreement will confirm that the Scheme Employer has undertaken an assessment of the risk and has determined that no bond is required at the outset. Conversely, if a bond is required then the Admission Agreement will make reference to the fact that a Bond Agreement is in place and that the Admission Agreement is ineffective without such. In both scenarios the Admission Agreement will allow for further review of the funding situation by the Scheme Employer.

Bond Agreement

The Bond Agreement is between a third party bondsman acting as surety and the Transferee Admission Body and is drawn in favour of SYPA (i.e. for the comfort of the Fund).

The Regulations stipulate who may act as bondsman, namely:

(a) a person who has permission under Part 4 of the Financial Services and Markets Act 2000 to accept deposits or to effect and carry out contracts of general insurance;

(b) an EAA firm of the kind mentioned in paragraph (5)(b) and (d) of Schedule 3 to that Act, which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule) to accept deposits or to effect and carry out contracts of general insurance; or

(c) a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

Bond Amount:

It is for the Scheme Employer to determine both the requirement for a bond and, if required, the level of indemnity, following actuarial advice.

As part of the outsourcing process, the Scheme Employer will commission the Funds Actuary to provide a risk assessment included in which will be a recommended level of bond.

Termination

As part of the triennial Valuation process the Actuary will have assessed the (notional share of) assets and liabilities bespoke to the Transferee Admission Body and the employer contribution rate applied throughout its membership of the Fund will have been set accordingly in order that (notional) assets match liabilities.

Over and above this, it is expected that the Scheme Employer (or indeed the Transferee Admission Body) will contact SYPA to inform that a contract is coming towards cessation. This will allow the Actuary to assess the employer contribution rate, as a separate exercise to the triennial Valuation, to take into account the drawing in of the contract and allow for a “smoothing” of the rate. The Actuary would expect such notification around fourteen months prior to the contract termination.

It therefore follows that in a theoretical world there will be neither a surplus nor a deficit upon the Transferee Admission Body’s termination from the Fund.

However, circumstances can dictate that this is not always the case in the real world. Take for example the earlier than anticipated termination of the contract in circumstances which did not allow for the smoothing of the employer contribution rate or indeed, even with the “smoothing” in operation, financial experiences do not meet actuarial assumptions, then it is possible that a deficit, or surplus, exists upon termination.

Any deficit will be recovered by SYPA from the Transferee Admission Body via capital injection.

Any arrangement between the outsourcing Scheme Employer and the Transferee Admission Body (contractor) to cater for this situation must be dealt with via the contract **and not via** the Admission Agreement. For the avoidance of doubt, SYPA will seek to recoup any termination deficit directly from the Transferee Admission Body.

SYPA will seek to return any funding surplus, wherever possible, under direction of the Actuary.

Employer Responsibilities

Submission of Data

It is critical the employer undertakes to ensure that it keeps SYPA up-to-date with employee data required to ensure that the Authority's database is accurate. Failure to do so could lead to inaccuracies during the Annual Pension Forecast exercise, and ultimately incorrect payment of retirement benefits. In addition, inaccurate data could lead to an inaccurate employer contribution rate being levied at the triennial valuation process.

SYPA has an extensive library of forms for use in the submission of data. However the preferred method of notification is via direct electronic interfacing. This can be accessed via the Authority's website.

SYPA operates as a paperless office. Any documents received are scanned upon arrival and are accessed via computerised Document Image software.

In addition to the 'day to day' submission of data, the employer has the statutory responsibility of paying over the collected employee and employer pension contributions (together with Advice of Payments return) each month. All employers have a statutory duty to pay over contributions by the 19th of the following month, otherwise the Fund will charge interest for late payment.

As part of the year-end contribution reconciliation process, an annual data cleansing exercise will be undertaken.

Every employer is expected to sign up to the Service Level Agreement to ensure that the above is carried out as required.

Employer Decisions and Policies

Membership of the Scheme will lead to employers having to make key decisions which will affect their employees' pension entitlement. Likewise, the Regulations require each employer to formulate, keep under review, and publish policies as to the exercise of discretions awarded under the Scheme. A Transferee Admission Body usually adopts the policies of the outsourcing employer at the outset of the contract. Under the terms of the Admission Agreement, the Transferee Admission Body must consult and obtain the written consent of the Scheme Employer before reviewing or amending any policies. Examples of the decisions, policies, and employer discretions, are detailed below:

- To whom to offer membership of the LGPS (Designated/Resolution Bodies)
- Which employees to nominate for membership (Admission Bodies)
- Whether to operate an "open" or "closed" arrangement (Admission Bodies)
- Whether to extend the 12 month option period for aggregation of deferred benefits
- Determine rate of employees contribution (in accordance with regulation 3 of the Benefit Regulations)
- Specify in an employees contract what other payments or benefits, other than those specified in regulation 4(1)(a) of the Benefit Regulations and not otherwise precluded by regulation 4(2) or (3) are to be pensionable
- Whether to allow a late application by member to pay optional contributions for a period of unpaid child related leave, strike, or unpaid leave of absence beyond 30 days
- Whether to augment membership of an active member (max 10 years)
  – written policy required under the Regulations
- Whether to grant additional pension to a member (max £5000 p.a.)
  – written policy required under the Regulations

- Whether, how much, and in what circumstances to contribute to a shared cost AVC scheme
- Allow late application to convert scheme AVC's into membership credit i.e. allow application more than 30 days after cessation of active membership
- No right to return of contributions due to offence of a fraudulent character or grave misconduct unless employer directs a total or partial refund is to be made
- Employer may deduct contributions from an employee's pay or reserve forces pay
- Whether to extend the normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS
- Whether to consent to Flexible Retirement requests
  – written policy required under the Regulations
- Whether to waive, in whole or in part, actuarial reduction on benefits on or after age 55 (50 with transitional protections) paid on flexible retirement
- Decide which tier (as directed by Independent Medical Practitioner) ill health retiree falls into
- Whether to grant application for early payment of benefits from age 55 (50 with transitional protections until 2010) and before age 60
  – written policy required under the Regulations
- Whether to waive, on compassionate grounds, the actuarial reduction to benefits paid early

Actuary's Role & Funding Issues

The LGPS is a funded pension arrangement. In theory the Fund should represent equally, in asset terms, the amount required in order to satisfy the whole of its liabilities.

It is a statutory requirement that the scheme administrator appoint an actuary to advise on financial questions involving probabilities relating to mortality and other contingencies.

Risk Assessment

It is a regulatory requirement that the Scheme Employer undertakes an assessment of risk arising on premature termination of the provision of service or assets by reason of the insolvency, winding up or liquidation of the Transferee Admission Body, in cases where the Scheme Employer has taken the original decision to outsource the service. The Actuary will be commissioned **via SYPA** with the associated fee recharged to the Scheme Employer upon completion of the work.

Where the Transferee Admission Body has entered the ABS process not as a result of an outsourcing exercise (for example where they are providing a public service and have been approved by the Secretary of State for the purposes of admission to the Scheme) then it is they who must commission the risk assessment. However, given that the Regulations go on to say that the risk assessment must be carried out to the satisfaction of the administering authority, it would seem logical for SYPA to commission the Fund's Actuary, and recharge the Transferee Admission Body accordingly.

Bond Calculation and Review (ABS process)

The Actuary will offer the choice of having a full risk assessment report. The Scheme Employer must take the decision as to whether they wish to commission such work. A Bond value is the amount estimated by the Actuary to cover the liability placed upon the Fund in the event that the Transferee Admission Body fails to provide the function or service it is contracted to provide as a result of it winding up, becoming insolvent or being liquidated.

The liability stems from the fact that, under the provisions of the Regulations, any scheme member over the age of 55 (50 with transitional protections until 2010) who has their post made redundant has a statutory entitlement to immediate, unreduced, benefits.

The outsourcing Scheme Employer (under guidance from the Actuary) will determine the frequency of review in respect of any Bond. As part of the review the Actuary will reassess the liabilities and determine whether an adjustment is required to the indemnity. If required, the Transferee Admission Body **will** need to revise the Bond.

New Employer Contribution Rate

Based upon the demographics of the new employer's workforce the Actuary will calculate a bespoke employer contribution rate for membership "going forward". This will either be on a fully funded basis or be inherent of a past service funding deficit, dependant upon the decision taken by the outsourcing scheme employer. Unless the Actuary stipulates to the contrary, the assumptions used during the previous Valuation exercise will be adopted.

In normal circumstances the contribution rate will be applicable until the next Valuation, at which time it will be reviewed as part of the triennial Valuation process. However, circumstances may lead to a bespoke review. For example, if the employer were to exceed the built in allowance for ill health and early retirements (see page 18).

Retirement and Strain Costs

The basic funding principle within the LGPS is to assume that all members will retire at age 65. However, the Scheme rules allow for voluntary retirement at any age over 60 with any additional liability recovered by actuarial reductions to member benefits (subject to certain transitional protections in relation to scheme members with membership prior to 1 April 2008).

Beyond this, the Scheme also allows for early retirement at any age due to permanent incapacity (possibly with enhanced benefits dependant upon the medical condition) and also for the employer to consent to the early release of benefits before age 60. The costs associated with these types of retirements are set against an actuarial allowance and are covered in greater detail below.

Redundancy and 'business efficiency' retirements entitle the Scheme member to the immediate payment of unreduced benefits. Because of this, it is likely that strain costs will be placed upon the Fund. Given that these retirements are as a result of employer decisions, any strain upon the Fund must be met by the employer (via capital injection).

Flexible Retirements may also lead to strain costs which, like the above, will be recharged to the Employer.

The Regulations also allow for an employer to augment additional membership in respect of a pensionable employee. The cost of taking such action must be met by capital injection into the Fund.

Allowance for 'ill health and early retirements'

In addition to the employer contribution rate, the Actuary will determine an “allowance” (in cash terms representing Fund strain costs) in respect of 'ill health retirements' and 'early retirements with employer consent'. The allowance will be calculated using the pensionable workforce demographics and will be based upon the method and assumptions from the last Valuation.

The allowance will represent the period until the next Valuation. If it is exceeded the Actuary will be informed and will recommend a course of action, which is likely to be either capital injection into the Fund or an increase in employer contribution rate.

It should be noted that, whilst 'early retirements with employer consent' are within the employers' control, 'ill health' retirements are not. The employer's decision to award 'ill health retirement' benefits will be based solely on medical grounds following an assessment by independent medical practitioner. This is therefore an uncontrollable risk for the employer, but given that the allowance is based upon demographic assumptions, it would take a higher than normal occurrence of ill health retirements in order to incur any additional cost to the employer.

It is possible for the Actuary to set a zero allowance for employers with a small workforce. In such circumstances a single ill health retirement could potentially lead to a significant pension liability which, in turn, could mean a major capital injection into the Fund or increase to employer contribution rate.

Valuation

The Fund is valued every three years, on the following cycle:

Valuation as at 31 March 2007, revised employer contribution rates applied from 1 April 2008.

Valuation as at 31 March 2010, revised employer contribution rates applied from 1 April 2011

And so on.

In conclusion to the Valuation exercise, the Actuary produces a report together with the mandatory Rates and Adjustments Certificate. South Yorkshire Pension Fund Actuarial Valuation Reports are available via the Authority's website. SYPA set the contribution rates following the Valuation report.

Funding Strategy Statement

The Regulations provide the statutory framework from which SYPA (as a Scheme Administrator) is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Authority must have regard to :-

  the guidance issued by CIPFA for this purpose; and

  their own Statement of Investment Principles (SIP) for the Fund published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The purpose of the FSS is to establish a clear and transparent Fund-specific strategy which will identify how employers' pension liabilities are best met going forward, to take a prudent longer-term view of funding those liabilities and to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible.

The FSS is available for inspection via the Authority's website.

Cost Sharing Exercise

A cost sharing mechanism is to be established by 31 March 2009 detailing the manner in which the costs of the LGPS will be met after 31 March 2010. Put simply, cost sharing means sharing the cost risks between employers and scheme members thereby promoting a partnership of joint action to control those risks.

FRS17

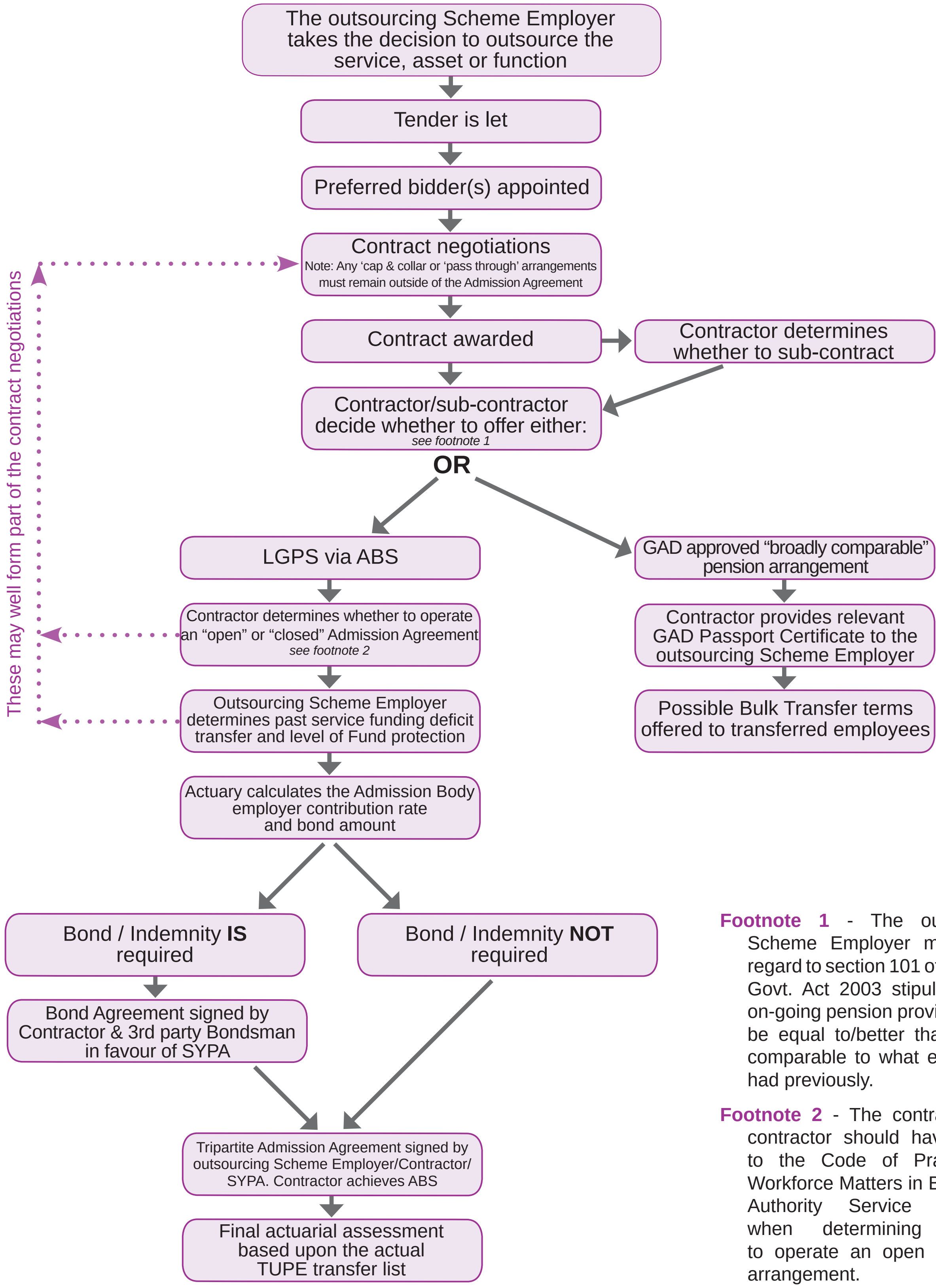
SYPA undertake bulk FRS17 disclosure exercises, available to all the Funds employers, leading to reduced actuarial fees due to economies of scale.

Glossary

ABS	means Admitted Body Status a mechanism for allowing private contractors to join the Fund
Actuary	means the actuary appointed to the Fund
Admission Agreement	means the tripartite agreement that exists between the Scheme Employer, the Transferee Admission Body and SYPA allowing the Transferee Admission Body to participate in the Fund
Bond	means the level of indemnity required by the Scheme Employer from the Transferee Admission Body to protect the Fund against liabilities incurred from its winding up or liquidation
Bond Agreement	means the agreement that exists between the Bondsman and the Transferee Admission Body in the favour of SYPA, where the Bondsman acts as surety
Bondsman	means the financial institution bound by the Bond Agreement acting as surety against the liabilities incurred by the Transferee Admission Body
Fund	means the South Yorkshire Pension Fund as administered by SYPA
GAD	means the Government Actuary's Department
GAD Passport	means a certificate verifying that a contractors own pension arrangement is "broadly comparable" to the LGPS
LGPS	means the Local Government Pension Scheme
Regulations	means collectively the LGPS (Benefit, Membership and Contributions) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations 2008.

Scheme	means the Local Government Pension Scheme as construed by membership of the South Yorkshire Pension Fund
Scheme Employer	means the contracting employer who has taken the decision to outsource a service or function
Secretary of State	means the Secretary of State for Communities and Local Government, who's portfolio includes responsibility for the LGPS
SYPA	means South Yorkshire Pensions Authority in the context of the administering authority for the Fund
Transferee Admission Body	means the contractor or sub-contractor who has entered the Scheme via Admission Agreement
TUPE	means the Transfer of Undertakings (Protection of Employment) Regulations 2006
TUPE Transfer	means the transfer of services from the Scheme Employer to the Transferee Admission Body
TUPE Transfer Date	means the legal effective date of the TUPE Transfer
Valuation	means the statutory triennial valuation of the Fund undertaken by the Actuary at the behest of SYPA

Appendix 1- Flowchart showing the Transferee ABS process



Footnote 1 - The outsourcing Scheme Employer must have regard to section 101 of the Local Govt. Act 2003 stipulating that on-going pension provision must be equal to/better than/broadly comparable to what employees had previously.

Footnote 2 - The contractor/sub-contractor should have regard to the Code of Practice on Workforce Matters in Best Value Authority Service Contracts when determining whether to operate an open or closed arrangement.

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