

## *Pension Bulletin No. 12*

# New cessation and admission agreement arrangements

### Key Points:

- The Regulations relating to cessations and admission agreements are changing with effect from 1 October 2012
- All employers ceasing participation in the LGPS will now be subject to a cessation valuation
- There are new arrangements relating to risk assessments for bonds/indemnities in connection with admission agreements
- An admission body may now formally be able to obtain a guarantee in place of a bond
- Separate commercial contracts/arrangements will now require separate admission agreements

### Further Details:

#### **The Local Government Pension Scheme (Miscellaneous) Regulations 2012**

On 1 August 2012 the above Regulations were laid before Parliament, with the main provisions coming into effect from 1 October 2012.

The Miscellaneous Regulations are wide ranging and cover many areas of the Local Government Pension Scheme. This Pension Bulletin specifically examines the new provisions relating to cessations and admission agreements.

#### **Cessation valuations for all employers**

With effect from 1 October 2012, the Miscellaneous Regulations grant new powers for an administering authority to obtain a revised actuarial valuation to identify additional employer contributions due following the cessation of any class of scheme employer. Previously cessation valuations were only applicable to admission bodies.

Furthermore, an actuarial assessment can now also be obtained where in the opinion of an administering authority an employer is likely to cease to be a scheme employer.

With many scheme employers repaying significant funding deficits over spread periods of up to 20 years, it is vital that cessations are properly planned. A cessation will often result in significant cash sums being required from an outgoing scheme employer; proper financial planning will avoid any last minute surprises.

If you are planning withdrawal from the Pension Fund it is suggested you contact the Employers Team to discuss your plans, in complete confidence, at the earliest opportunity.

### **Admission agreements**

In order to provide pension protection to staff transferring to an alternative service provider, ongoing access to the LGPS can be achieved by the new provider obtaining admitted body status through an admission agreement.

The Miscellaneous Regulations also made considerable changes in relation to new admission agreements entered into from the 1st October 2012.

It will now be a requirement for all admission bodies to undertake an assessment, taking account of actuarial advice, of the level of risk arising on premature termination by reason of insolvency, winding up or liquidation. This assessment must be undertaken to the satisfaction of the administering authority.

Where the level of risk is such as to require it, the admission body must enter into an indemnity or bond in an approved form.

This is a change from the present situation where bonds only apply to certain types of admission bodies (transferee admission bodies, not community admission bodies) and the responsibility for the bond assessment rests with the ceding scheme employer.

Alternatively, if a bond is not desirable the admission body may instead secure a guarantee in a form satisfactory to the administering authority. The guarantee must be from one of the following:

- A person who funds the admission body in whole or part,
- A person who either owns or controls the admission body, or
- The Secretary of State in certain circumstances.

This option is of benefit in situations where a guarantee arrangement is preferable to a bond, for example to avoid bond costs leading to inflated contract prices.

Note that it is envisaged that the administering authority will continue to monitor covenant (bond/indemnity/guarantee) arrangements and arrange risk reviews with the Fund Actuary on behalf of admission bodies.

A further clarification is that where a scheme employer enters into separate contracts or arrangements with a provider and that provider seeks admitted body status, each contract or arrangement must be subject to a separate admission agreement.

Professional advice on the admission agreement process can be obtained, as at present, by contacting the Employers Team.

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