

# Pension issues to consider when outsourcing

**Nick Percival**  
**Employer Liaison Officer**

# How will this webinar work?

Cambridgeshire  
Pension Fund

Northamptonshire  
Pension Fund

The screenshot shows a Zoom meeting interface. On the left, a presentation slide is displayed with the following text: "Pension issues to consider when outsourcing" in purple, and "Nick Percival, Employer Liaison Officer" in blue. The slide header includes "Cambridgeshire Pension Fund" and "Northamptonshire Pension Fund". On the right, a "Meeting chat" window is open, showing a notification: "Mio Yewman joined the meeting." Below the chat is a text input field labeled "Type a new message" and a row of icons for emojis, GIFs, and other features. At the bottom of the Zoom window, a control bar contains icons for mute, video, screen share, and chat. The chat icon is circled in red. A red arrow points from the chat icon in the control bar to the "Type a new message" input field in the chat window.



# Agenda

- Background
- Timescales
- Tender Document
- Costs
- Admission Process
- Key Decisions
- Ideal Process



# Background

- Why worry about Pensions?

## Best Value Authorities Staff Transfers (Pensions) Direction 2007

- Applies to Local Authorities and schools (Best Value Authorities) - mandatory
- LGPS or Broadly Comparable Scheme

## Fair Deal

- Applies to academies - guidance
- LGPS only

- ***Obligations continue through all subsequent transfers***

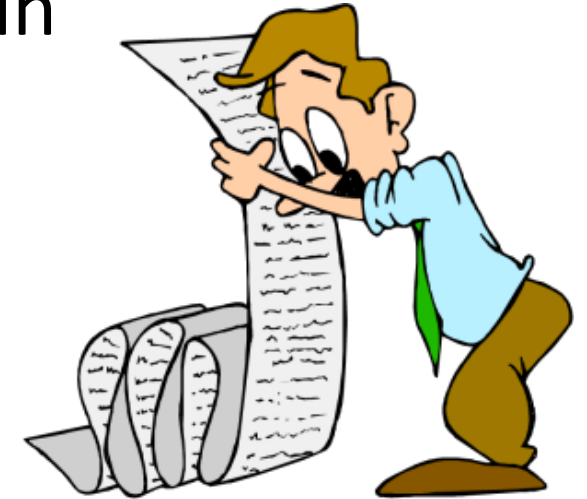
# Timescales

- When should you contact Pensions Service?
  - Once commercial contract has been agreed
  - When preferred bidder is known
  - As soon as you are aware of a potential outsourcing
- ***Discussions about pensions early in the procurement process are essential***
  - Need to build costs into business plan
  - Prospective bidders will not be able to make an informed bid without Pension costs
  - Failure to consult pensions can lead to delays and complications



# Tender Document

- What Pensions information should be included in the tender document?
  - Requirement to secure Pension rights
  - Contribution rate
  - Bond requirements
  - One off and ongoing costs
- Tender document should create a level playing field
- Pension Information Memorandum
  - Contribution Rate
  - Initial asset allocation
  - Risk Assessment to inform Bond/Guarantor decisions



# Pensions Information Memorandum

## Initial Level of Indemnity

The minimum level of indemnity that must be provided by the winning bidder on its admission to the Fund is set out below:

Assessment of potential indemnity	Open
Surplus/(deficit) at commencement	-
<b>Redundancy portion of the indemnity (£000)</b>	
Amount in respect of potential redundancy costs	107
<b>Market related portion of the indemnity (£000)</b>	
Indemnity to cover deficit at end of year 1 with likelihood of 90%	307
<b>Total indemnity (£000)</b>	
<b>Total indemnity</b>	<b>414</b>

Assessment of potential indemnity	Closed
Surplus/(deficit) at commencement	-
<b>Redundancy portion of the indemnity (£000)</b>	
Amount in respect of potential redundancy costs	107
<b>Market related portion of the indemnity (£000)</b>	
Indemnity to cover deficit at end of year 1 with likelihood of 90%	303
<b>Total indemnity (£000)</b>	
<b>Total indemnity</b>	<b>411</b>

## 8 Results

### Initial Asset Allocation

The opening funding position of the winning bidder's portion of the Fund on the Fund's ongoing funding basis is set out below:

Initial asset allocation 1 April 2018	
<b>Liabilities (£000)</b>	
Active	1,276
Deferred	-
Pensioner	-
<b>Total liabilities (£000)</b>	<b>1,276</b>
<b>Initial funding level</b>	<b>100%</b>
<b>Asset allocation (£000)</b>	<b>1,276</b>
<b>Surplus/(deficit) (£000)</b>	<b>-</b>

### Initial Employer Contribution Rates

The minimum level of employer contributions to be paid by the winning bidder until 31 March 2020 (or the end of the Contract if sooner) are detailed below:

Certified contribution rates (Open)			
Year ending	Primary rate (% pay)	Secondary rate (% pay)	Total rate (% pay)
31 March 2019	29.9%	5.0%	34.9%
31 March 2020	29.9%	5.0%	34.9%

Certified contribution rates (Closed)			
Year ending	Primary rate (% pay)	Secondary rate (% pay)	Total rate (% pay)
31 March 2019	33.1%	10.7%	43.8%
31 March 2020	33.1%	10.7%	43.8%

The Primary Contribution Rate includes an allowance of 0.6% of pensionable pay in respect of administration expenses.

# Cost of Procurement

- Pensions Information Memorandum - Cost: £2,250 to £3,000.
  - Estimated Contribution Rate
  - Risk Assessment to inform Bond/Guarantor decisions
- Admission Process - Cost: £4,000- £6,050
  - dependent on number of options that need calculating
- Guarantor Liability
- **We will provide a quote for each specific case**





# Costs (Potential Bidder)

- Employer contribution rate
  - Initial rate provided but may go up in the future
- Potential strain costs
  - Redundancy
- Bond Premium – depends on the contractor
- Risk Assessment/Bond Renewal - £550 to £2,050
- Accounting costs – if FRS/IAS accounting reports needed
- Exit Valuation
- Possible exit payment



# Admission process

Once preferred bidder established:

- Negotiate/Decide specific pension arrangements
- Provide Membership data and details of above to Employer Services team
- Actuarial Assessment
- Estimated 'Schedule of Results' and interim contribution rate
- Admission agreement signed prior to transfer date
- New employer starts paying contributions
- Final 'Schedule of results' and contribution rate

# Risk sharing

Letting Authority	Admission Body
Actuarial assumptions	Excessive pay increases
Mortality rates	Redundancies
Inflation	Early retirement costs
Regulatory change	Employer discretions
Discount rates	Increasing member benefits
Investment return	Ill health retirements

# Risk sharing options – Standard Admission

- Pension risk with contractor
  - Full admission
  - Assets and liabilities transfer to contractor
  - Deficit/Surplus paid by or to the contractor at exit
  - + Maximum protection for Letting Authority
  - Higher contract price
  - May not attract bidders
- Standard default position

# Standard admission

## - Bond/guarantor requirements

- If the admission body ceases any deficit must be paid
  - What happens if the admission body can't pay?
- Contractors/Traditional Outsourcing
  - Letting authority pays
  - Recommend a bond be put in place to protect the letting authority
  - Bond can be a sticking point may need waiver from the person with the relevant authority within your organisation, (for the councils, S.151 officer)
- ***Provisions to be kept under periodic review***

# Risk sharing options – Pass Through

- Pension risk with the letting authority
  - Pass through agreement
  - Liabilities remain with the letting authority
  - Deficit/Surplus covered by the letting authority
  - + Cheaper contract price
  - + Cheaper on boarding costs
  - All pension risk with the letting authority
- For small short term contracts or where risk sharing is prescribed in commercial agreement
- Ensure treatment of surplus is explicitly addressed in commercial agreement

# Academies/Trusts – Pass Through

- Department of Education (DfE) approval is required!
- DfE guarantee covers liabilities should the Trust close
- Liabilities are not a fixed amount
- Currently, Guarantee extends to staff who have previously been directly employed by the Trust
- For new requests for pass-through approvals you should contact the ESFA through the [general enquiry form](#), as this will allow your request for approval to be allocated correctly.
- Without DfE approval, a standard admission is the default option

# Contribution Rates

- Set by Scheme Actuary with consideration of:
  - Transferring liabilities
  - Length of contract
  - Strength of employer covenant
  - Open or Closed agreement
- Exceptional Circumstances
  - Pass Through Agreements
  - Pooling
- Reviewed every three years
  - May be reviewed more regularly



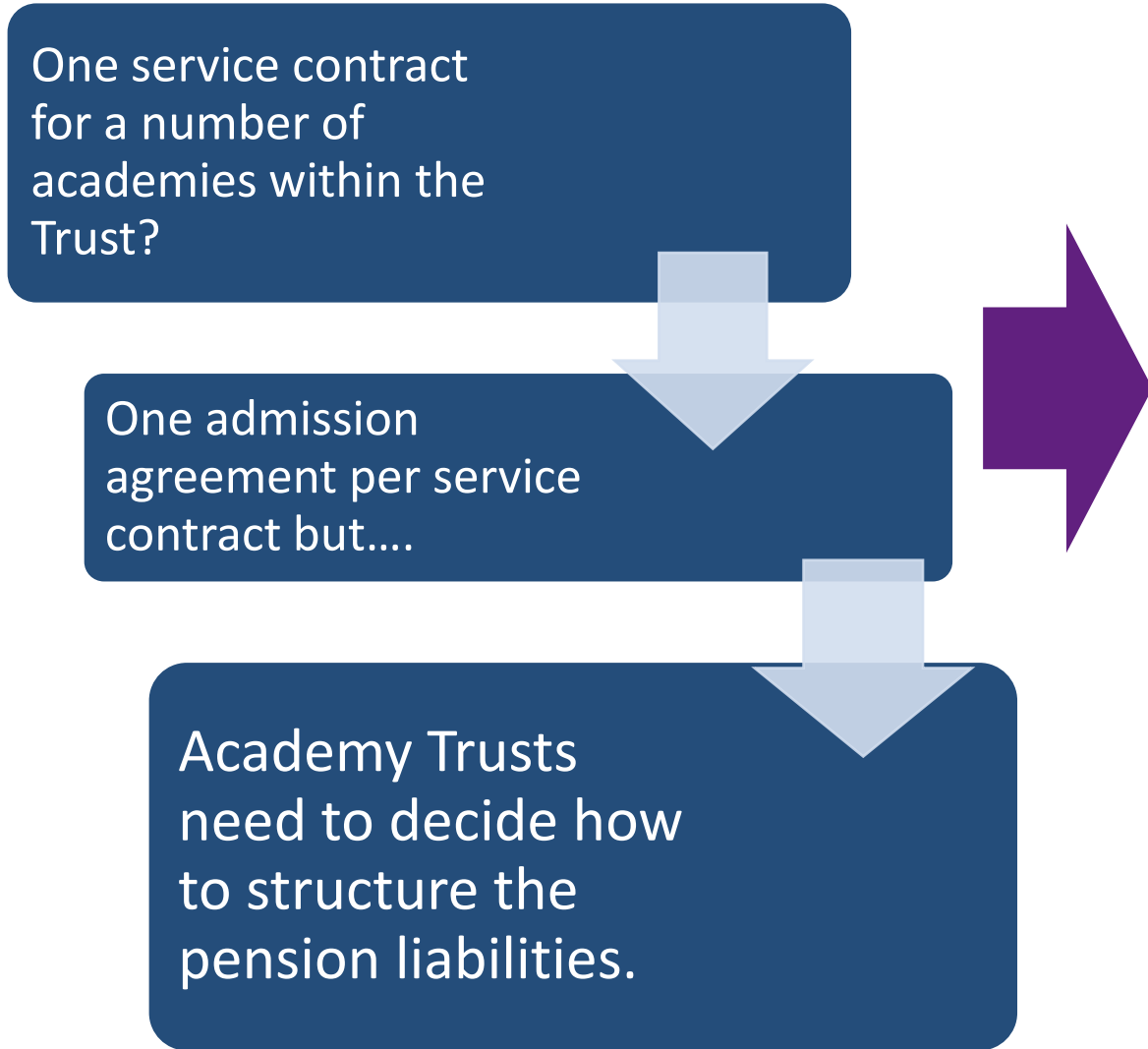


# Key Decisions

- Use LGPS or broadly comparable scheme
- Risk sharing arrangements
- Open or closed admission
  
- Type of admission
- Bond or guarantor



# Extra consideration for Academy Trusts



## Option 1: Assets and liabilities held in one academy

**Pros:** Simple set up, all assets and liabilities in one place and only one actuarial assessment needed.

**Cons** Cross subsidy of liabilities across academies. Could be complicated if any of the academies under the contract leave the Trust.  
**Does member stay with Trust or follow academy?**  
 Actuarial assessment needed if member follows the academy.

## Option 2: Assets and liabilities held in each academy.

**Pros:** No cross subsidy and easy to track costs per academy. Assets and liabilities follow the member/academy. No assessment needed if an academy leaves the Trust.

**Cons** Separate actuarial assessments may be needed.

## Ideal process

- Contact us at earliest opportunity
- Request Pension information memorandum to inform business plan/tender doc
- Include full costs in tender document (inc. bond requirements)
- Inform us once you have a preferred bidder
- Start admission process (e.g. decide on risk sharing, asset allocation, bond/guarantor, open/closed)
- Admission agreement signed before transfer date

# Contact details

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