Briefing Note
West Sussex Pension Fund Letter of Variation

For Council on 23 March 2023

At the 23 February 2023 Council meeting, Members noted:

- The West Sussex Pension Fund - Funding Strategy Statement
- Information on early retirement due to ill-health
- The Valuation Report for Hurstpierpoint & Sayers Common Parish Council; and
- The Pooling Agreement changes and request for variation letter to be signed.

The detail behind these points is set out in Annex A. After consideration, Members asked a series of question and the responses received are set out below:

Parish Council Question	Response from WS Pension Fund
Has the risk of the strains been transferred to the Parish Council or was it always the Parish Council's responsibility?	*The risk of strain costs has always been the Parish Council's responsibility.*
Was the WS Pension Fund previously paying for the Insurance cover for strains?	*No.*
What would the implications be if the Letter of Variation isn't signed?	*The Parish Council would no longer be a member of the Small Scheduled Bodies Pool but would still be bound by the Funding Strategy Statement.*
Is the Fund receiving commission on the sale of insurance cover from Legal and General?	*No, the insurance premium rate has been obtained by West Sussex County Council ("the Administering Authority") and all employers in West Sussex Pension Fund ("the Fund") have access to the insurance at this rate. By obtaining the premium rate quotation, this should not be interpreted as the Administering Authority recommending or endorsing Legal & General's Ill Health Liability Insurance product to employers in the Fund. It is each employer's responsibility to determine the suitability (or otherwise) of the insurance and to decide whether or not to proceed with taking out the cover.*

The Clerk also checked with the Parsh Council's current insurers Aviva, to see whether the current policy would cover ill-health retirement costs. BHIB responded *"We can't comment on the Local Government Pension Scheme but are pleased to confirm that Personal Accident cover is included within your above policy. Key Persons cover is also provided and you will find the endorsement as follows on page 16 of the attached policy schedule".*

RECOMMENDATION: Council is asked to note the answers to the questions raised at the last Council meeting (Minute C22/23.139: West Sussex Pension Fund) and AGREE to sign the letter of variation.

ANNEX A

Report from 24 February 2023 Council Meeting:

1. The Funding Strategy Statement

The WS Pension Fund prepares a strategy to ensure that the money in the fund can cover all of the expected costs now and in the future. It receives income from employee pension contributions (set nationally either 5.8% and 6.8%for us) employer contributions (set by the Pension Fund currently 20.2%) and manages a large investment portfolio.
The Fund aims to be at least 66% confident that we have the funds to meet our liabilities over the next 20 years. We are judged as having a 88% confidence rating.
The Fund has assets of £5,501million. Liabilities of £4,402million and a surplus of £1,099million or a 125% funding level.

2. Early Retirement due to Ill Health

In some circumstances members are entitled to early payment of their retirement benefits (redundancy or ill-health). These are known as strains on the Fund: i.e.

> If made **redundant**, over 55's can retire on full pension benefits if they have "qualifying service". However, this "earlier than expected" cost has to be funded by the Parish Council.
> If retired on **ill-health** at any age before normal retirement age, the employee can receive full retirement benefits, but the Fund will charge the employer back for these additional costs through the employer contribution rates.

No allowances are made by the WS Pension Fund within these contributions for early retirement of members. As a result, employers are required to pay an upfront sum to the Fund if this occurs.
A limited allowance has been included in the contributions for retirement on ill-health grounds but any extra strain would need to be funded by the Parish Council either through additional employers contributions or through an upfront lump sum payment if the Parish Council prefers.
Employers can take out insurance to protect themselves from these additional "strains". More later.

3. Valuation Report for Hurstpierpoint & Sayers Common parish Council

Every 4 years the Pension Fund undertakes a valuation (dated 9/1/23 undertaken by Hymans Robertson Actuary) which shows the DRAFT summary results of the valuation, to be confirmed on 31 March 2023.

The purpose of the valuation is to tell us what our contribution rates need to be as an employer from 1 April 2023 to 31 March 2026 (3 years). We pay these contributions to the WS Pension Fund.

Contributions: The contributions rate has been 20.2% and will now be 19.2% from 1 April 2023 with a target to reduce this to 18.2% from 1 April 2024.

Position: It also gives us an update on our position i.e.:(on page 4 it shows) we have:

- 5 employees
- 3 deferred pensions (leavers, not yet claiming their pension)
- 3 retirees claiming their pension

The Parish Council only joined the fund in 2014. Overall the valuation shows we are 88% likely to meet the costs of our obligations.

4. Pooling Agreement Changes – Variation Letter to be signed

Town and Parish Council are classed together in a pooling agreement to keep the contributions less volatile. There are 53 contributing employers and 19 that have ceased. But each employer remains responsible for their own funding position.

The changes to the Regulations coming into force relate to an employee's ill health retirement and the three tiers were shown on the table presented to Council on 23 February.

These early retirement costs are the responsibility of the Parish Council who could claim against their insurance, if they have any.

One example shows a 45 year old man, with 10 years of service, earning £25,000 retiring on ill-health grounds 20 years before he would normally retire. The pension costs work out at £16,000 a year x 20 years equals a cost of £320,000.

We are being asked to sign the letter to agree to the change in terms.

5. Leaving the Scheme

There are also obligations on the Parish Council if it ceases to have employees contributing to the fund but still has obligations to its retirees. We would be required to paying off any outstanding amounts in a lump sum (or we may be allowed a payment plan). Any surplus would be returned to the Parish Council.

6. Insurance

An informal quote from Legal & General, subject to the review on 31 March 2023 is a premium of £2,148 pa.

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For queries in relation to this letter contact:
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[NAME & ADDRESS] Our Ref: SA801.701.CH1

[DATE]

To Whom It May Concern:

Letter of Variation to the West Sussex Pension Fund Pooling Agreement (the "Agreement")

RECITALS

A. This letter is supplemental to the Pooling Agreement made between West Sussex County Council and [INSERT NAME] (the **"Agreement"**).

B. The parties wish to vary the Agreement as specified below.

VARIATION

The Parties agree the following amendments to the Agreement:

a)	SCHEDULE Terms of the Small Scheduled Bodies Pool:	The entire text of the Schedule – Terms of the Small Scheduled Bodies Pool is deleted in its entirety and replaced with the revised Schedule annexed to this Variation Letter at Appendix A.

The changes in the current schedule at the bottom of this letter, compared to the previous schedule are:

Previous Schedule	New Schedule
3.1.4.1 a Member who is an active member of the Scheme has his employment with the Small Scheduled Body terminated on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of his current employment and not immediately capable of undertaking any gainful employment; then the Small Scheduled Body shall make a claim against the Small Scheduled Body's insurance cover, if applicable, and pay the amount recovered (or, if less, an amount equal to the additional costs of payment of such benefits, as calculated by the Actuary) to the Administering Authority	3.1.3.4 the immediate payment of benefits under Regulation 35(3 & 4) of the 2013 Regulations whereby a Member who is an active member of the Scheme has his employment with the Small Scheduled Body terminated on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of his current employment and not immediately capable of undertaking any gainful employment
3.1.4.2 a Member who became a deferred member of the Scheme on leaving his employment with the	3.1.3.5 the immediate payment of benefits under Regulation 38(1) of the 2013 Regulations whereby a

Small Scheduled Body receives payment of his benefits immediately on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of that employment and unlikely to be capable of undertaking gainful employment before normal pension age, or for at least three years, whichever is the sooner; then the Small Scheduled Body shall make a claim against the Small Scheduled Body's insurance cover, if applicable, and pay the amount recovered (or, if less, an amount equal to the additional costs of payment of such benefits, as calculated by the Actuary) to the Administering Authority	Member who became a deferred member of the Scheme on leaving his employment with the Small Scheduled Body receives payment of his benefits immediately on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of that employment and unlikely to be capable of undertaking gainful employment before normal pension age, or for at least three years, whichever is the sooner
3.1.5 in the event that insurance cover as referred to in clause 3.1.4 is in place but is not sufficient to cover the costs in full the Administering Authority will: 3.1.5.1 charge the Small Scheduled Body an additional payment in respect of any extra charge on the Fund; or 3.1.5.2 require the Actuary to adjust the Small Scheduled Body's rates and adjustments certificate to take account of this.	Paragraphs removed.

Apart from the changes set out in this letter the parties agree the Agreement will remain on the same terms and conditions as set out in the Agreement.

Please acknowledge your acceptance to the Variation by signing a copy of this letter and return to Tracey Jeffryes, West Sussex County Council Pension Fund at the following email address: tracey.jeffryes@westsussex.gov by no later than 20 April 2023.

Yours sincerely,

Signed for and on behalf of [INSERT NAME OF ORGANISATION]:

Signature:_____ Print name:_____

Date: _____

Appendix A

Terms of the Small Scheduled Bodies Pool

1. **Interpretation**

1.1 The following expressions in this Schedule have the following meanings:

"2013 Regulations"	the Local Government Pension Scheme Regulations 2013 (SI 2013/2346).
"Actuary"	an actuary appointed by the Administering Authority.
"Administering Authority"	West Sussex County Council.
"Fund"	West Sussex County Council Pension Fund.
"Member"	an employee who joins the Scheme as an active member and who remains an active member or subsequently becomes a deferred member or a pensioner member. Where applicable, this term shall also include a Member's spouse, civil partner, nominated partner, eligible child or dependant whether actual or prospective.
"Pool"	Small Scheduled Bodies Pool
"Regulations"	the 2013 Regulations and the Transitional Regulations.
"Scheme"	the Local Government Pension Scheme established by the Regulations made by the Secretary of State under sections 7 and 12 of the Superannuation Act 1972.
"Transitional Regulations"	the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI 2014/525).

2. **Terms of entry into the Pool**

2.1 A body within the meaning of Part 1 or 2 of Schedule 2 to the Regulations (the "**Small Scheduled Body**") may apply to join the Pool. The Administering Authority shall have absolute discretion as to whether to admit the Small Scheduled Body to the Pool.

2.2 If the Administering Authority agrees to admit the Small Scheduled Body to the Pool, then on the expiry of such notice given in accordance with this Schedule the Small Scheduled Body will be admitted to the Pool with immediate effect.

2.3 The Administering Authority may in its absolute discretion allow a Small Scheduled Body to be admitted to the Pool with effect from a different date to that set out in **clause 2.2** of this Schedule.

2.4 New bodies are admitted to the Pool at the absolute discretion of the Administering Authority, therefore the consent of the other bodies already participating in the Pool will not be required to admit a new body. You will be able to see the Employers listed in the pool at each valuation through the information provided by the Actuary.

3. **The Pooling Arrangements**

3.1 Subject to the provisions set out in **clauses 4, 5** and **6** of this Schedule the Pool will operate in accordance with the following arrangements:

3.1.1 the Small Scheduled Body's rates and adjustments certificate (and any future revisions of that certificate) shall be assessed by the Actuary as if the Small Scheduled Body and all other employing authorities participating in the Pool were a single body. This will reflect both the cost of future accrual (the primary contribution rate) and any amount required to reflect the individual circumstances of the pool, (secondary contribution rate);

3.1.2 the Small Scheduled Body shall restrict increases to the pensionable pay of any Members to the higher of *the pay awards agreed by National Joint Council for Local Government Services (or any successor body for local government pay negotiations)* **and** the assumptions set out in the latest actuarial valuation unless the Administering Authority agrees otherwise in writing. In the event that the Small Scheduled Body awards pensionable pay increases in excess of this level then the Small Scheduled Body shall be responsible for the increased liabilities and the Administering Authority shall either:

3.1.2.1 charge the Small Scheduled Body an additional payment in respect of any extra charge on the Fund; or

3.1.2.2 require the Actuary to adjust the Small Scheduled Body's rates and adjustments certificate to take account of this;

3.1.3 the Administering Authority shall charge the Small Scheduled Body an additional payment in respect of any extra charge on the Fund to take account of any increased liabilities as a result of:

3.1.3.1 the immediate payment of benefits when the Small Scheduled Body dismisses any Member who is an active member of the Scheme by reason of redundancy or business efficiency or where such a Member's employment is terminated by mutual consent on the grounds of business efficiency;

3.1.3.2 the immediate payment of benefits with the Small Scheduled Body's consent under Regulation 30(6) of the 2013 Regulations including the costs of the Small Scheduled Body waiving any reduction of benefits under Regulation 30(8) of the 2013 Regulations; or

3.1.3.3 the immediate payment of benefits under Regulation 30(5) of the 2013 Regulations including the costs of the Small Scheduled Body waiving any reduction of benefits under Regulation 30(8) of the 2013 Regulations;

3.1.3.4 the immediate payment of benefits under Regulation 35(3 & 4) of the 2013 Regulations whereby a Member who is an active member of the Scheme has his employment with the Small Scheduled Body terminated on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of his current employment and not immediately capable of undertaking any gainful employment; or

3.1.3.5 the immediate payment of benefits under Regulation 38(1) of the 2013 Regulations whereby a Member who became a deferred member of the Scheme on leaving his employment with the Small Scheduled Body receives payment of his benefits immediately on grounds of ill-health or infirmity of mind or body which renders him both permanently incapable of discharging efficiently the duties of that employment and unlikely to be capable of undertaking gainful employment before normal pension age, or for at least three years, whichever is the sooner.

4. Exit from the Pool on notice

4.1 Subject to **clause 5** of this Schedule, the Administering Authority may give not less than 3 months' written notice to the Small Scheduled Body to terminate the Small Scheduled Body's participation in the Small Scheduled Bodies Pool.

4.2 Subject to **clause 5** of this Schedule, the Small Scheduled Body may make a request in writing to the Administering Authority to terminate the Small Scheduled Body's participation in the Small Scheduled Bodies Pool. The Administering Authority has absolute discretion as to whether to consent to such request.

4.3 On the expiry of such notice given in accordance with **clause 4.1** of this Schedule or the Administering Authority's consent given in accordance with **clause 4.2** of this Schedule, the Small Scheduled Body will cease to participate in the Pool with effect from 31 March in the year following the next triennial actuarial valuation of the Fund.

4.4 Where the Small Scheduled Body exits the Pool in accordance with **clause 4** of this Schedule, the Small Scheduled Body shall remain a Scheme employer in the Fund (subject to the provisions of the Regulations).

5. Automatic exit from the Pool

5.1 The Small Scheduled Body shall automatically exit the Pool with immediate effect:

5.1.1 on the Scheme Employer ceasing to be a Scheme employer within the meaning of the Regulations; or

5.1.2 on the Small Scheduled Body no longer being open to admitting active Members to the Fund; or

5.1.3 where the Small Scheduled Body breaches any of its obligations under the terms of the Pool.

If the breach is capable of remedy, the Administering Authority shall first give the Small Scheduled Body the opportunity of remedying the breach within such reasonable period as the Administering Authority may specify. **or**

5.2 The Small Scheduled Body exiting from the Pool in accordance with **clause 5.1** of this Schedule is without prejudice to any valuation that may be required as a result of the Small Scheduled Body becoming an exiting employer under Regulation 64(1) of the 2013 Regulations.

6. Consequences of leaving the Pool

6.1 Where the Small Scheduled Body exits from the Pool in accordance with **clauses 4 or 5** of this Schedule the terms of the Pool will cease to apply to the Small Scheduled Body and the Small Scheduled Body shall then be treated by the Administering Authority as a stand-alone employer in the Fund and assessed on that basis for any future rates and adjustment certificate.

6.2 On exiting the Pool the Small Scheduled Body's share of assets and liabilities will be based on its underlying profile, as tracked by the Actuary throughout the period of the body's participation in the Pool as if the body was not a member of the Pool.

6.3 In the event that a Small Scheduled Body ceases to be such a body and therefore ceases to be an employer in both the Pool and the Fund, the Administering Authority will seek to recover any exit payment due under the Regulations from the employer or pay any exit credit due under the Regulations to the employer. In the event that these liabilities cannot be recovered from the Small Scheduled Body, a bond provider, their guarantor or a successor body within the Fund, and a shortfall exists within the Fund, these will normally fall to be met by the Pool as a whole.

6.4 The costs incurred by the Administering Authority of all work commissioned in relation to this **Clause 6** will be charged to and payable by the Small Scheduled Body.

7. Matters of doubt

7.1 The Administering Authority shall have absolute discretion to decide on any matters of doubt arising in relation to the interpretation of the provisions of the terms of the Pool.

7.2 The Administering Authority will make arrangements for the resolution of any disagreements or disputes in relation to the terms of the Pool.