WMPF Pass Through FAQ

Introduced as part of the 2019 Funding Strategy Statement (FSS), and subsequently revised as part of the 2019 Actuarial Valuation (for which there was an extension consultation), the Fund introduced the new default arrangement which altered the Fund's policy for accepting new admission body applications with effect from 1st April 2019, known as '**pass through**'.

Pass through is deemed a risk sharing mechanism in that the Fund will not obtain an actuarial assessment upon application or termination of an admission agreement, instead the scheme employer providing the guarantee will assume full responsibility for the contractors' assets and liabilities in the Fund. The introduction of the pass through arrangement also aligns to the principles introduced by the New Fair Deal consultation.

Please note that these FAQ's consist of questions regularly asked by our employer base in addition to those considered to be 'topical' by the Fund.

<u>General questions</u>

1. What is pass through?

2. How does pass through affect a scheme employer's funding position?

3. If pass through is elected, should cap and collar be included in the contract and who decides this?

4. Under a pass-through arrangement, can the LA agree a different primary contribution rate (formerly known as 'FSR' – future service rate) for the contractor?

5. Under a pass-through arrangement, if a contractor has a closed scheme what impact does this have on the primary rate?

6. Does the Fund intend to make pass through arrangements mandatory?

7. What are the benefits of pass through?

8. How would the Fund know who is the guarantor for the contractor?

<u>Funding and accounting</u>

9. Does pass through result in a shift of risk to the letting employers?

10. Do the assets and liabilities remain on the guarantor's balance sheet?

11. How can the guarantor obtain the required information held by the Fund in respect of the contractor's assets and liabilities in relation to the WMPF to enable this to be recorded as part of the accounting report, along with the contractor's membership of the WMPF?

12. What happens to the assets and liabilities on termination of an admission agreement?

13. What contribution rate should the contractor apply if a scheme employer has made an agreement to prepay an element of their certified contributions by making lump sum payments at the start of each year to obtain an actuarially equivalent discount, or if phased rates have been agreed?

14. What will happen when the scheme employer has already paid the primary contribution rate in advance and the members TUPE to a contractor? Will this result in a double payment of primary contributions for the affected members?

15. Who is responsible for the payment of early retirement costings (ERCs) under pass through arrangements?

16. Where does the responsibility of the risks associated with contribution increases lie under pass through?

17. Could ill-health liabilities increase under pass through?

Process

18. What is a 'bond' and is it always required?

19. How will I know the value for the Bond if no there is no actuarial valuation carried out?

20. Will the Fund still carry out a risk assessment for the contractor?

21. When will the contractor be informed of the rate to pay?

22. What happens if a member transfers to another organisation before the admission agreement is signed?

23. How far back can agreements be backdated?

1. What is pass through?
- Pass through is the new (default Fund) arrangement whereby all new contractors applying for admitted body status pay the same primary contribution rate as the guarantor employer; The Fund will not obtain an actuarial assessment of the employer rate upon application/a calculation upon termination of an admission agreement, instead the scheme employer providing the guarantee will assume full responsibility for the contractors assets and liabilities in the Fund.

  The contribution rates for all employers will be reviewed at each subsequent actuarial valuation in accordance with Regulation 62 of the LGPS Regulations.

2. How does pass through affect a scheme employer's funding position?
- A small group of transferring members is likely to have little effect on a Scheme Employer's (guarantor's) funding position. Whilst pass-through is the Fund's default position, a Scheme Employer may request a 'standard admission agreement' (non-pass though) and this is most likely to be in the scenario of contracts consisting of a large staff transfer* or longer duration contracts.

  *The Fund is unable to comment on what constitutes as a small/large contract as we would not know the details of the contract, however, this can be considered based on several variables from contract pricing, duration and number of members involved etc. Any thresholds to be adhered to must be set clearly by you as the employer and communicated to the Fund.

3. If pass through is elected, should cap and collar be included in the contract and who decides this?
- It is the scheme employers' decision if a cap and collar arrangement should be included in the contract, the contractor will still pay the scheme employers primary rate, any recharge is a matter between the contractor and the scheme employer.

4. Under a pass-through arrangement, can the LA agree a different primary contribution rate (formerly known as 'FSR' – future service rate) for the contractor?
- No, but under cap and collar the scheme employer could agree a rate the contractor ultimately pays, for example, the contractor could receive a rebate from the scheme employer for any payment made by them to the Fund over an agreed capped rate. This is a matter between the Scheme employer and the contractor.

5. Under a pass-through arrangement, if a contractor has a closed scheme what impact does this have on the primary rate?
- No effect as the contractor pays the scheme employers primary contribution rate

6. Does the Fund intend to make pass through arrangements mandatory?
- At this stage, the Fund has no intention to make pass through mandatory however, pass through is the Fund's default position.

7. What are the benefits of pass through?
- An organisation applying for a contract can be made aware of the employer contribution rate (FSR) from the outset, meaning this can be quoted at the tender stage.
  Unless a bond is required by the scheme employer, the fees will be reduced as actuarial calculations will not be required.

8. How would the Fund know who is the guarantor for the contractor?

- The guarantor is automatically the outsourcing scheme employer (the scheme employer must be a WMPF employer as listed in schedule 2 of the LGPS Regulations 2013). If an academy awards a contract, the Trust would be the guarantor; if a maintained school awards a contract, the relevant Local Authority would be listed as the guarantor.

9. Does pass through result in a shift of risk to the letting employers?

- Under the standard admission agreement, a new contractor is fully funded at commencement; any deficit in respect of the transferring members would be retained by the scheme employer. Under pass through arrangements there is no change to the way unfunded liabilities are held by the scheme employer. Dependant on the contract agreements there may be an increased risk due to reasons such as an increase in members pay but this is something that should be agreed through the contract discussions.

10. Do the assets and liabilities remain on the guarantor's balance sheet?

- It is our understanding that the assets and liabilities should be recorded on the guarantor's IAS19/FRS102 accounting disclosure report however, auditor advice needs to be sought. Essentially, your auditors will prescribe how items are to be recorded.

11. How can the guarantor obtain the required information held by the Fund in respect of the contractor's assets and liabilities in relation to the WMPF to enable this to be recorded as part of the accounting report, along with the contractor's membership of the WMPF?

- The Fund can supply this information if the relevant employer has given authority. This may have been given on the 'how to become an employer questionnaire' or by a signed email/letter of authority sent to the Fund

12. What happens to the assets and liabilities on termination of an admission agreement?

<u>Non-pass through (no guarantor)</u>

- Exit calculation carried out on a least risk basis
- If there is a deficit, employer is obliged to make the exit payment to Fund
- If there is a surplus, an exit credit may be payable to the contractor in line with the Fund's FSS
- Deferred, pensioner and residual assets allocated to orphan pool

<u>Non-pass through (guarantor)</u>

- Exit calculation carried out on a least risk basis
- If there is a deficit, no exit payment is required from the employer
- Nil actuarial certificate issued
- If there is a surplus, an exit credit may be payable to the contractor in line with the Fund's FSS and an actuarial certificate will be produced
- Deferred/pensioner liabilities and residual assets allocated to guarantor

Pass through (guarantor required)

- No exit debt/surplus payment payable from/to contractor
- Nil certificate issued
- Deferred/pensioner liabilities remain with guarantor

13. What contribution rate should the contractor apply if a scheme employer has made an agreement to prepay an element of their certified contributions by making lump sum payments at the start of each year to obtain an actuarially equivalent discount, or if phased rates have been agreed?

- The contractor should apply the scheme employers' contribution rate calculated during the most recent Actuarial Valuation prior to any adjustment for discount (i.e. the rate stated in the rates and Adjustment Certificate under 'primary rate % pay). The Fund will refer the contractor to the rates and adjustment certificate upon application for admission body status though information can be found on the website.

14. What will happen when the scheme employer has already paid the primary contribution rate in advance and the members TUPE to a contractor? Will this result in a double payment of primary contributions for the affected members?

- At this stage the contractor will be expected to make payments as per normal and statutory expectations. Any possible duplicate payments would be reflected as positive experience at the next Actuarial Valuation.

15. Who is responsible for the payment of early retirement costings (ERCs) under pass through arrangements?

- Responsibility for payment of any strain costs, incurred as a result of an event taking place during the lifetime of the contract, will be payable by the contractor.

16. Where does the responsibility of the risks associated with contribution increases lie under pass through?

- Contribution increases, as a result of salary increases, would be a matter for discussion between the scheme employer and the contractor and as such the Fund will not become involved in any discussions of this nature.

17. Could ill-health liabilities increase under pass through?

- As part of the 2019 Actuarial Valuation and in line with the 2020 Funding Strategy Statement, effective from 1st April 2020, the Fund implemented a 'captive insurance arrangement' whereby an 'ill health reserve' is retained within the Fund to cover such strain costs, thus ill-health liabilities will not increase as a result of pass through arrangements.

Note: This arrangement involves all participating employers with active members of 1,000 or less.

18. What is a 'bond' and is it always required?

- Under the 2013 LGPS Regulations, the scheme employer may request that the contractor obtain a bond to protect them if the contractor ceases to exist and there is a deficit. Under a pass through arrangement the assets and liabilities will always be the responsibility of the scheme employer whether the employer terminates early or on cessation of the contract.

  Bond requirements are at the discretion of the scheme employer. The scheme employer may wish to consider this on a case by case basis to ensure all relevant risk is considered.

19. How will I know the value for the Bond if no there is no actuarial valuation carried out?

- A full valuation can be sought from the Fund actuary in which they will determine the recommended bond value however, a fee would be payable by the scheme employer. If the bond request was made once the contract had been awarded to the contractor, the cost of this would be invoiced to the contractor and may have an impact on processing timescales.

20. Will the Fund still carry out a risk assessment for the contractor?

- Yes, the Fund will carry out an initial employer risk assessment upon joining the Scheme (via an independent Credit Agency) and an annual Covenant review will remain in place for all contractors.

21. When will the contractor be informed of the rate to pay?

- The Fund would prefer for you to include these details at the tender stage; however, the Fund will also confirm this information upon application by the contractor for admission body status.

22. What happens if a member transfers to another organisation before the admission agreement is signed?

- If a member joins a contractor whilst there is no legally signed admission agreement, the member would not be considered as a 'contributing member' and would not be covered for Death in Service benefits.

  Following receipt of the signed/sealed admission agreement, the admission agreement can be backdated so there are no missing periods of membership for those transferring members.

23. How far back can agreements be backdated?

- There is currently no limit to how far back admission agreements can be backdated however, it is the Funds preference to be made aware of any potential backdating situation as soon as possible and for the agreements to be finalised and sealed in a timely manner to prevent any delays to member accruing benefits. The Fund's Pension Administration Strategy (PAS) sets out the expectations regarding the notification of a new admission agreement or TUPE situation. Wherever possible this should ideally be three months prior to the date the contract commences or the TUPE takes effect in all cases.