

Advanced payment of employer pension contributions

1. Introduction

Employer contributions are made up of two elements; primary contributions and secondary contributions. Primary contributions are certified by the Actuary as a percentage of pensionable pay and are the amount required to pay for benefits being built up by employees who are currently paying into the scheme. Secondary contributions are amounts certified in addition to the primary contributions and are usually related to the recovery of a pension deficit. Secondary contributions are usually certified as a monetary amount.

The Administering Authority will allow any employer apart from those in the Academies Group to pre-pay secondary contributions¹. In addition, any employer who is not part of a group can choose to pre-pay their primary contributions.

2. Options for pre-payments

The following two pre-payment options are available:

- payment annually in advance each year, or
- payment triennially in advance (i.e. one payment on 1 April for all 3 years).

If an employer is electing to pre-pay annually, they can make the election each year (by 31 January), for the following year beginning 1 April.

Pre-payments will receive a discount if the employer meets the following conditions:

- notify the Administering Authority of their intention to pre-pay by 31 January
- pay the full amount of their advanced payment to the Pension Fund's bank account on 1 April
- if paying primary contributions in advance, include actual pensionable pay on each monthly remittance form.
- if paying primary contributions triennially in advance, make a payment on 1 April in years 2 and 3 to cover the administration charge as described below

3. Discounts applied

The Fund's Actuary has confirmed that the following discounts will apply (based on the discount rate for the secure scheduled bodies group) for employer contributions paid in advance for the triennial valuation period 2020/21 to 2022/23.

1-year advanced payment	3-year advanced payment
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¹ Employers in the Academies Group pay a common primary contribution rate and a share of the Group's deficit based on their proportion of the Group's liabilities. No discount can therefore be attributed to an individual employer within the Academies Group.

Year 1 discount	Year 1 discount	Year 2 discount	Year 3 discount
2.1%	2.1%	6.3%	10.2%
(amount due x0.979)	(amount due x0.979)	(amount due x0.937)	(amount due x0.898)

4. Pre-payment of secondary contributions

The Fund's Actuary will certify annual amounts of secondary contributions due for each of the years covered by the Rates and Adjustments certificate. An employer can choose to pay the total amount certified for the three years as a one-off payment on 1 April 2020, or each annual amount on 1 April each year.

5. Pre-payment of primary contributions – estimated annual pensionable payroll

Primary contributions are certified as a percentage of pensionable pay. Therefore if an employer chooses to pay primary contributions in advance, an estimated payroll figure needs to be used to calculate the amount of the pre-payment. The estimated 2020/21 pensionable pay will be based on a roll forward of the 2018/19 actual pensionable payroll provided in the annual return. The roll forward will use the Fund Actuary's observed pay growth of 2.8% pa from the 2019 Valuation (applied twice, once for 2019/20 pay and again for 2020/21 pay).

If the employer believes that this approach will result in a materially different figure for 2020/21 pensionable pay to their own estimate, they should raise this with the Administering Authority before 31 January to agree a different figure. The Administering Authority reserves the right to specify the amount of estimated pensionable pay on which advanced contributions payments are made.

6. Pre-payment of primary contributions - 'True-up' arrangements

Following the end of each financial year the Administering Authority will 'true-up' the primary employer pension contributions due (less the discount applied) based on actual pensionable pay against the payment made in advance, to ensure that the employer has paid the correct amount of contributions. The Administering Authority will provide the calculation of the employer's 'true-up' within 10 working days of receipt of the employer's March remittance of pensionable pay.

If the amount of contributions paid in advance are greater than the actual contributions due (i.e. the employer has paid too much) they will not be issued a refund. The amount of overpayment will count towards the total assets the Pension Fund has accumulated for the employer that the Fund's Actuary will use to calculate the employer's funding level and future contributions for the next Actuarial Valuation.

If the amount of contributions paid in advance are less than the actual contributions due (i.e. the employer has paid too little) the employer will need to make an additional contribution. The amount of additional contribution will be subject to an interest charge at the 1 year discount rate (2.1%) to reflect that the Pension Fund has not received a return on the shortfall of contributions in that year. Any additional contribution necessary after the 'true-up' will be due within 14 days following the Administering Authority sending the employer their 'true-up' calculation.

7. Pre-payment of triennial primary contributions - year 2 and year 3 administration charge

To adhere to the LGPS Regulations all employers must contribute at least an amount in each scheme year equivalent to the administration charge. For employers choosing to pay triennially in advance their advanced payment will not include the Pension Fund's charge for administration (0.3% of payroll each year) in year 2 and 3. The administration charge will be due for payment on 1 April in year 2 and 3 and will receive a 1 year discount of 2.1% and will also be subject to the 'true-up' process described above.

Example 1 - Contributions paid annually in advance	
2018/19 pensionable payroll	£10,000,000
Up-lift to 2020/21 pensionable payroll (x2.8% x2.8%)	£10,567,840
Primary contribution rate (18.5%)	£1,955,050
Application of year 1 discount (x0.979)	£1,913,409
'True-up'	
Actual 2020/21 pensionable pay	£10,700,000
Primary contribution rate (18.5%)	£1,979,500
Less credit for undiscounted value of contribution paid	£1,955,050
Underpayment (+ve)/overpayment (-ve)	£24,450
Underpayment due from employer, plus interest (+2.1%)	£24,970

Example 2 - Contributions paid triennially in advance				
2018/19 pensionable payroll	£10,000,000			
Up-lift to 2019/20 pensionable payroll (x2.8%)	£10,280,000			
		Year 1	Year 2	Year 3
Uplift in pensionable payroll (x3.1% each year 2021/22 onwards - Actuary's assumption)	£10,567,840	£10,895,443	£11,233,202	
Primary contribution rate (18.5% year 1, 18.2% years 2 and 3 less 0.3% administration charge)	£1,955,050	£1,982,971	£2,044,443	
Discount	0.979	0.937	0.898	
Discounted contribution	£1,913,409	£1,858,941	£1,835,793	
	a	b	c	
Triennial discounted contribution (a+b+c)	£5,608,142			
Administration charge (0.3%)	£0	£32,686	£33,700	
Administration charge (0.3%) discounted at 0.979	-	£32,033	£33,026	
'True-up'				
Actual pensionable pay	£10,700,000	£10,900,000	£11,200,000	
Primary contribution rate (18.5%)	£1,979,500	£2,016,500	£2,072,000	
Less credit for undiscount value of contribution paid (inc admin charge)	£1,955,050	£2,015,657	£2,078,142	
Underpayment (+ve)/overpayment (-ve)	£24,450	£843	-£6,142	
Underpayment due from employer, plus interest (+2.1%)	£24,970	£861	*	
*not refunded to the employer, retained by the Pension Fund and credited to the employer's funding level and future contribution rate at the next Actuarial Valuation				

8. Making your pre-payment election

Appendix 2

Please email pensions.finance@hants.gov.uk by 31 January to let us know that you wish to take up the pre-payment option and confirm whether this is in relation to primary and/or secondary contributions and whether it is for a triennial payment for the period 2020/21 to 2022/23 or an annual payment for 2020/21.

Pension Services will issue a pre-payment calculation to you by 28 February which will show the employer contribution due on 1 April (and the year 2 and 3 administration charge if applicable).

You will be sent a standard remittance form by 31 March for completion of your monthly employee contribution payments, and notification of actual pensionable pay (if paying primary contributions in advance).

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