South Yorkshire Pension Fund Policy on Prepayments

SOUTH YORKSHIRE PENSIONS AUTHORITY

Effective date of policy	1st April 2026
Date approved	
Next review	March 2029

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

The fund's default position is that prepayments will not be supported. Applications to prepay employer contributions will be considered on a case-by-case basis.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- Where prepayments are permitted, to outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective in the long term.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie (then) QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 9 – outlines the contribution rates payable by active members

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the fund. Each case will be treated on its own merits, but in general:

- The administering authority's default position is that prepayment of employer contributions is **not** supported. This is as a result of:
  - the need to receive regular contributions from employers to help match contribution income to benefit payments; and
  - the significant costs incurred investing and disinvesting these contributions over relatively short timescales
- Applications will be considered to prepay employer contributions on a case by case basis, based on individual employer circumstances.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions will therefore only be considered in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.

- Where prepayments are allowed:
  - No discount will be applied given the need to carefully manage the cashflow position of the fund i.e. amounts received in respect of prepaid contributions are unlikely to be invested over the prepayment period.
  - The fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
  - Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
  - Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
  - The Rates & Adjustments (R&A) certificate will be updated on an annual basis to reflect any prepayment agreements in place.
  - Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs, and for ensuring the agreement of their own auditor.
  - Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

3 Policy

3.1 Eligibility and periods covered

The fund's default position is that prepayments will not be supported. The fund will consider requests from employers to pre-pay certified primary and secondary contributions. However, in general, the prepayment of primary contributions is only appropriate for large, secure employers with stable active memberships. Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers, where the fund permits.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, e.g. it would not be possible to prepay employer contributions due in the 2029/30 year until the results of the 2028 valuation are known and a draft R&A certificate covering the 2029 to 2032 period has been prepared.

3.2 Request and timing

If an employer wishes to pre-pay employer contributions, they are required to seek approval from the fund in writing.

This request should be received by the fund within 2 months of the start of the period for which the prepayment is in respect of.

The fund will then consider the request and if successful, provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made as close as possible to the beginning of the appropriate R&A period and by 31 May at the latest.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

3.3 Calculation

If an application to the fund to pre-pay contributions is successful, the fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The fund actuary will determine the value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation). No discounting will be applied.
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The fund actuary will determine the value of scheduled contributions. No discounting will be applied.
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the fund actuary's estimation of payroll for the prepayment period.

3.4 Sufficiency check

Where required, the fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will make no allowance for investment return generated over the period.

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

3.5 Documentation and auditor approval

If an application to the fund to pre-pay contributions is successful, the fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount for each employer where a prepayment agreement exists. The table will also note that no discount has been applied.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The fund will not accept any responsibility for the accounting implications of any prepayment agreement.

3.6 Costs

If an application to the fund to pre-pay contributions is successful, employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3.7 Risks

Employers enter into prepayment agreements on the expectation that the fund will be able to generate higher returns than the employers can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may be lower than that which can be generated by the employer. It is also possible that negative returns will arise, which lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the fund actuary at the next triennial valuation (as per the normal course of events).

4 Related Policies

The fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".