Policy Document

Employer Events Framework

Shropshire County Pension Fund
March 2023

welcome to brighter

Contents

1 Introduction

This Employer Events Framework policy document has been prepared by Shropshire Council acting in its capacity of Administering Authority of the Shropshire County Pension Fund ("the Fund"). All terms and definitions are as set out in the Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations").

The purpose of this document is to describe the various "life stages" of an employer that participates in the Fund. It summarises the events and possible outcomes from those events right through until it withdraws from the Fund. Whilst the Administering Authority reserves the right to treat each case on its merits, this document sets out its primary policy position.

All key staff at current and prospective employers should review this policy document and appraise themselves as regards their own employer's position, including the potential financial and operational implications.

This document is part of the Funding Strategy Statement of the Fund, which can be found on the fund website.

Any questions or queries arising from this policy should, in the first instance, be directed to:

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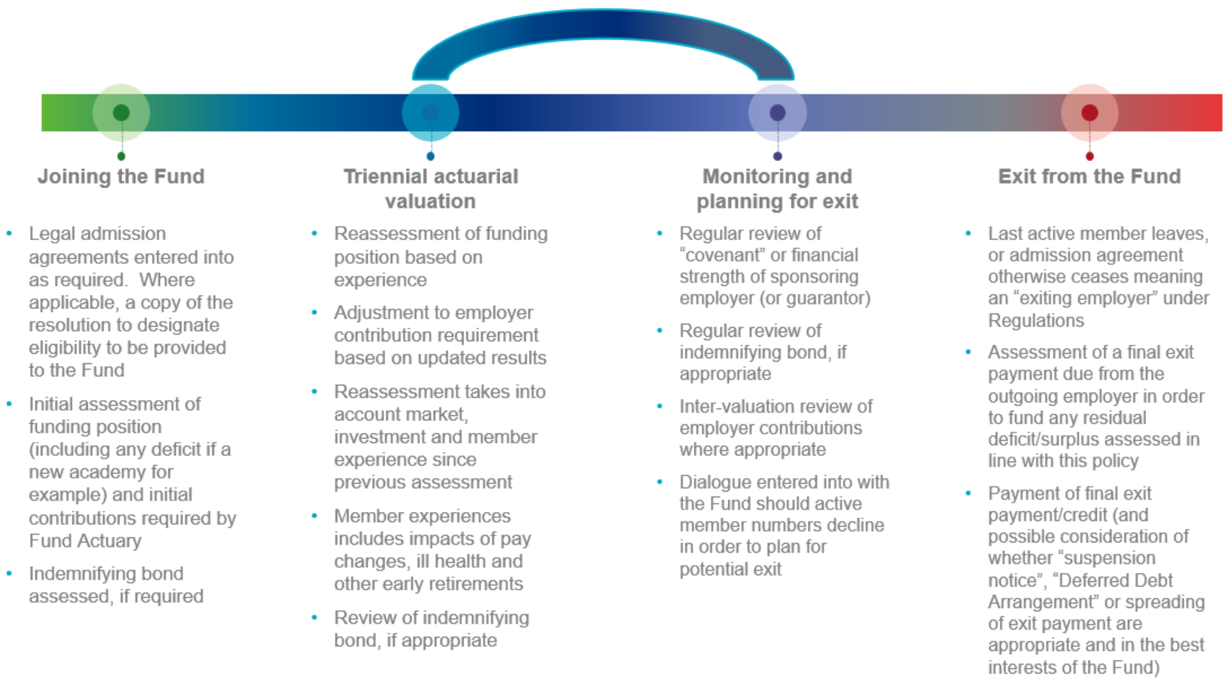
An LGPS Employer's Lifetime

In order to provide some context to this Employer Events Framework, set out below are the major stages of an employer's lifetime within the Local Government Pension Scheme.

Senior staff at each employer should familiarise themselves with these high level stages. Depending on the specific circumstances applying to an employer at each stage, there will be associated operational and financial implications as regards its interests with the pension fund.



Depending on the lifetime of the employer, they may go through a number of triennial valuations and subsequent monitoring activities before reaching a final event that would trigger their exit from the Fund.

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Joining the Fund

Scheme Employers

All Scheme Employers (as defined under Schedule 2 Part 1 of the Regulations) are entitled to join the Fund under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

Other Scheme Employers (specifically those defined under Schedule 2 Part 2 of the Regulations) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. A copy of this resolution will be required by the Administering Authority at the outset, and any subsequent amendments to the resolution should also be provided.

Academy conversions

Where a school has elected to convert to Academy status, the Fund's policy is for the new Academy to inherit the school's share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools. Full details of how this is assessed are set out in a later section of this document, as is the treatment offered to Academies within Multi-Academy Trusts (MATs).

Admission bodies

An admission body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund.

Admission bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but essentially they are "not for profit" organisations (formerly known as Community Admission Bodies).

If its application is accepted by the Administering Authority, it will then enter into an "admission agreement". The admission agreement sets out the conditions of participation of the admission body, in accordance with the Regulations, including which employees (or categories of employees) are eligible to become members of the Fund.

Any specific arrangements outside the normal regulations agreed between the letting authority and the new entity will be covered in the commercial agreement. This includes but is not limited to cases where pension costs are shared, or indeed fully passed back to the original employer. In particular, it should be agreed at the outset whether any deficit / surplus when the admission ends will be the responsibility of the exiting employer, or will revert to the original employer. The Administering Authority must be informed at the outset of any specific arrangements entered into. This may result in increased/more detailed requirements when providing member data to the Administering Authority.

Indemnifying bonds and/or guarantors

All admission bodies will be required, in accordance with Regulations, to provide an indemnifying bond from an appropriate third party. This bond must be actuarially assessed to the satisfaction of the Administering Authority, and kept under regular review.

In circumstances where a scheme employer within the Fund has formally agreed to act as guarantor to an admission body, the Regulations allow for a bond not to be put in place. The Fund's primary position on this is that a bond should still be put in place in order to better protect all employers within the Fund (including the guarantor). The Fund's view is that the frequency of the review of any bond amount should be:

Guarantee arrangement	Frequency of bond review
Admission body with no guarantor	Annual reassessment, although changes typically made only on a triennial basis, subject to individual circumstances (further detail is set out in the Employer Risk Policy – see Appendix A)
Admission body with a guarantor	Triennial reassessment (carried out as part of the valuation)

Notification of material employer events

As a condition of an employer's admission to the Fund, all employers will be asked to notify the Administering Authority should circumstances arise that impact materially on the employer's ability to finance members' benefits in the Fund or that impact materially on the employer's members, which will have a material impact on their liabilities in the Fund.

Events that may materially impact an employer's ability to finance benefits include:

- Provision / removal / impairment of any security, bond, guarantee or other form of indemnity
- Material change in an employer's immediate financial strength or longer-term financial outlook, including where an employer ceases to operate or becomes insolvent.

Significant changes to an employer's membership which may have a material impact on their liabilities include:

- Restructuring of an employer
- A significant outsourcing or transfer of staff
- A bulk transfer into or out of the employer
- Other significant changes (e.g. due to redundancies, significant salary awards, ill health retirements or large number of withdrawals)
- Employers merging (including insourcing and transferring of services)
- The separation of an employer into two or more individual employers

Initial funding calculations

Essentially there are two main approaches used for new employers depending on their specific circumstances:

- Fully funded at the start: the value of the liabilities of the transferring group of members is assessed and the assets that are notionally reallocated within the Fund from the original employer to the new employer body are equal to this amount, meaning no initial surplus or deficit.

- Partially funded at the start: where the assets notionally reallocated are less than the value of the liabilities transferring. The method of assessment for this initial deficit can vary depending on the specifics of each case.

(As noted earlier, bespoke commercial arrangements can also be entered into between the new entity and the letting authority which may be different to these and must be communicated to the Administering Authority.)

It is most common for admission bodies to join the Fund on a "**fully funded**" basis. There can be exceptions to this where an outsourcing body has structured the commercial arrangements such that the new body takes on a deficit. Academies will also normally take on a deficit at inception, and their treatment is set out in a later section.

Initial contribution rate assessment

The initial contribution rate assessment will be an actuarial calculation of the future service pension cost that applies appropriate to the members transferring to the new entity. This assessment will take account of:

- The pay levels of the transferring group (and so the implied employee contribution rate)

- The timing of the benefits that are expected to fall due (depending on any applicable transitional protections for certain members)

- Whether the new body will be open, or closed to new entrants

- Whether any funding deficit is ultimately transferred and the period over which it is expected to repay that deficit.

Risk assessment

The Regulations require that an actuarial risk assessment is carried out to the satisfaction of the Administering Authority. It is this assessment that would inform the required indemnifying bond that is discussed in an earlier section.

As a minimum, the Fund would require any bond amount to cover any assessed funding deficit as at the time the risk assessment is performed. Added to this would be any potential early retirement strain costs that could arise on the premature (or normal) termination of the body. These would arise on the grounds that on redundancy, certain members could be eligible for the immediate payment of benefits on an unreduced basis.

It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

Academy deficit/surplus assessment

As noted above, for new academies the approach taken will be that a deficit/surplus will be transferred to the new academy, unless a formal decision to the contrary is made by the local authority.

The Fund's policy is for this transferring deficit/surplus to be calculated as the capitalised amount of deficit funding/surplus offset contributions (based on the local authority recovery period) the school would have made/received to the Fund had it not converted to academy status. This amount is subject to a limit to ensure that the asset share of the new academy is not less than zero.

The details below show an *illustrative example* of an academy conversion:

Original Council position ***(including the school before conversion to Academy)***	
Overall assets (£k)	750,000
Overall liabilities (£k)	900,000
Overall deficit (£k)	150,000
Funding level	83%
Overall payroll (£k p.a.)	90,000
Deficit contribution (£k p.a.) (payable for 22 years)	7,000
Deficit contribution expressed as a % of pay	7.8%

Split of payroll between Council and new academy	
Payroll being transferred to new academy (£k p.a.):	5,000
Residual payroll (£k p.a.):	85,000

Split of deficit and deficit contributions between Council and new academy	
Deficit contributions payable (£k p.a.):	
- in respect of all remaining staff prior to transfer (7.8% of £5m)	390
- in respect of remaining staff prior to transfer (7.8% of £85m)	6,610
Total post conversion *(same total as pre-conversion)*	7,000
Implied deficit transferred (390 / 7,000 x 150,000) (£k):	8,400
Implied residual deficit (6,610 / 7,000 x 150,000) (£k):	141,600
Total deficit *(unchanged pre and post conversion)* (£k)	150,000

The final table below shows how this may result in wide ranging funding levels, depending on the profile of the transferring members following the conversion. Transferring groups of older members, and/or those with long service will, on average, have higher liabilities. As noted earlier, deficits (where applicable) will be limited such that the asset share of the new academy is not less than zero.

Assets, liabilities, funding levels and deficit contributions for the new academy

Low liability example	*£k*	High liability example	*£k*
Liabilities transferred	9,000	Liabilities transferred	20,000
Deficit transferred	8,400	Deficit transferred	8,400
Assets	600	Assets	11,600
Funding level	7%	Funding level	58%
Deficit contributions (£k p.a.)	390	Deficit contributions (£k p.a.)	390

Multi Academy Trusts

Multi Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the group.

In cases where numerous academies are operated by the same managing Trust, the Fund’s initial position is to maintain separate records for each of the constituent academies. This means that each constituent academy may have varying contribution requirements according to their own circumstances/membership. Any new academies joining an existing MAT in this case would have their own funding position and contribution requirements assessed separately.

However, if desired, the Fund would be willing to allow a decision to combine. This would be a one-off and irrevocable choice of the Trust as at commencement. If a combined basis decision were to be made, for the purposes of the pension fund, the MAT (including all constituent academies) would be treated as a single combined employer.

This decision would have implications for all future actuarial calculations for the MAT; an overall funding position and the same “average” contribution requirement would apply to all constituent academies. It also means pension fund accounting under FRS101 / FRS102 / IAS19 could only be produced for the entire body.

Any new academies joining an existing MAT pool would contribute at the grouped employer contribution rate already established for the MAT in respect of future service, plus additional deficit contributions relating to the academy, calculated in line with the academy approach outlined above. This would be next reviewed at the triennial valuation (see next section), taking experience into account including any new deficit taken on when new academies join.

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Triennial Actuarial Valuation

In accordance with the Regulations, every three years the Administering Authority is required to have a full actuarial valuation carried out by its appointed Fund Actuary. Not only is this required by law, it also serves as a critically important governance tool when running the pension fund.

The Fund Actuary is required to assess the financial health of the Fund as a whole by quantifying the value of the liabilities of the Fund (i.e. benefits due to be paid in the future) compared to the assets held (the ratio of its assets to liabilities is often referred to as the solvency level). The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

This assessment is repeated for each separate employer within the Fund and the employer contributions (primary and secondary rates) are adjusted appropriately to achieve that long-term objective in accordance with the Fund's Funding Strategy Statement (FSS). The Regulations also require that employer contributions are set in order to achieve long-term cost efficiency, meaning that they must not be set at a level that is likely to give rise to additional costs in the future.

Factors that influence the actuarial valuation results

A number of factors affect the valuation results emerging and these include but are not limited to those listed below. Employers should familiarise themselves with this section noting that decisions taken by them and/or the members can have an impact on the valuation results emerging:

Regulatory / Governance	Market / Economic	Membership events and experience
Scheme design changes	Observed and expected levels of CPI inflation	Observed mortality experience and any changes to future life expectancies (and rate of improvement)
Cost Management adjustments as a result of experience analysis performed by the Government Actuary's Department (GAD)	Investment returns delivered from assets held by the Fund	Take-up of the 50:50 scheme
Underlying changes to pensions landscape (e.g. changes to State Pension Age)	Expected future investment returns to be delivered by Fund assets	Incidence of any ill health or early retirement benefits (including on redundancy terms)
Relevant court rulings		Salary growth experience vs assumption

Regulatory / Governance	Market / Economic	Membership events and experience
		Aggregation of any previously accrued benefits
		Take-up of tax-free cash option

The triennial actuarial valuation is a process that means the employer contribution requirements can and do change from time to time. **Employers should be aware that the contribution requirements are not fixed**.

Of course commercial arrangements can be put in place between admission bodies and the original body such that variations are shared, or indeed fully passed back to the original employer (known as "pass through" arrangements). These can be specific to each case, but the fundamental points related to this are:

- It is vital for the Administering Authority to be provided with full details of any bespoke commercial arrangements, and
- pension costs do change for many reasons and employers should be aware of this.

Payment of certified contributions

Employers will be required to pay the contributions certified as part of the valuation process. Unless stated otherwise in the certificate, the default approach is that contributions are to be paid on a monthly basis (with one twelfth of any contributions certified as lumps sums to be paid each month). Any "prepayment" of contributions facilitated by the certificate must be agreed in advance with the Administering Authority.

However, in exceptional circumstances the Administering Authority may allow alternative contribution patterns within a given year, at their sole discretion.

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Monitoring and planning for Exit

Employer Monitoring

The Fund adopts a regular monitoring and review plan to ensure that it can always act proactively to act in the best interests of all pension fund employers. This is illustrated by the policy adopted for bond reviews and their frequency, but also the Fund will be carrying out high level covenant (employer financial strength) assessments.

Covenant Assessments

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant may focus on determining any or all of the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether there is an option to call in contingent assets
- The financial health of the employer
- Whether a more accelerated recovery plan should be enforced
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital. The employers' covenant will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

Covenant assessments will be required for any employers wishing to access the flexibilities around inter-valuation contributions reviews and alternative options on termination mentioned later in this document.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing employer covenant

Depending on the employer's circumstances, the covenant will be assessed from time to time objectively and its ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. The approach taken will be proportionate with depth and frequency of monitoring reflective of the associated risk to the Fund.

In order to accurately monitor employer covenant, it may be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

Covenant risk management

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the reduced risk basis (see below) or the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

From a covenant perspective, the greatest risk lies with those employers who have no guarantor within the Fund or are not taxpayer backed. The Fund has a specific policy for these employers – the Employer Risk Policy (Appendix A) – which details the approach applied by the Fund in these cases.

The approach sets out the default policy however the Fund reserves the right to follow a different approach where appropriate to effectively manage employer risk taking individual circumstances into account. In applying an alternative treatment the Fund will take into account the employer's covenant strength and funding position.

Inter-valuation contribution reviews

The Regulations allow contributions to be reviewed and potentially revised between valuations at the Administering Authority's discretion, under the following scenarios:

Scenario 1	Scenario 2	Scenario 3
There has been a significant change in the employer's membership which will have a material impact on their liabilities	There has been a significant change in the employer's covenant	The Administering Authority is of the opinion that a change in circumstances means the employer is likely to exit the Fund

Scenarios 1 and 2 (for "ongoing" employers) and scenario 3 ("planning for exit") are addressed separately below. "Ongoing" employers are generally expected to remain in the Fund, and any review will take place on that basis (considering their covenant, medium to long term prospects, etc). Employers "planning for exit" are expected to leave the Fund, and their review will take place on that basis, with a focus on achieving a fully funded position at termination.

Where more than one scenario potentially applies, scenario 3 would normally take precedence, although the Administering Authority will have the final decision on the relevant approach.

Scenarios 1 and 2 (interim review for "ongoing" employers)

When contributions will be reviewed

The Administering Authority may trigger a review where it believes either of the above apply. The employer should inform the Administering Authority if it believes either of the above may apply – examples of situations that may arise are set out below. An employer may also request a review in either circumstance and in this situation will be asked to confirm the circumstances that justify the review.

Where the review is triggered at the employer's request, they will be expected to pay all relevant costs. The Administering Authority may also recover costs in other circumstances (for example where the Administering Authority triggers a review due to a material change in circumstances of the employer that the employer failed to notify to the Administering Authority).

The Administering Authority will not conduct a review where:

- The funding position changes solely due to changes in market conditions (asset movements or assumption changes) – this is not permitted under the regulations. (However changes in these factors would be considered in a review triggered due to covenant changes)
- The next actuarial valuation rates and adjustments certificate is less than 6 months away and the review is triggered by membership changes (reviews in this period due to covenant changes may be considered)
- They do not believe that a review is necessary (considering the potential impact that any changes may have on the other employers or the Fund as a whole) or in the best interests of the Fund

Triggering a potential review

1) ***Significant changes in the employer's liabilities*** *(*including but not limited to):

   a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
      - Restructuring of an employer
      - A significant outsourcing or transfer of staff
      - A bulk transfer into or out of the employer
      - Other significant changes (e.g. due to redundancies, significant salary awards, ill health retirements or large number of withdrawals)

   b) Employers merging (including insourcing and transferring of services)

   c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant (including but not limited to):

a) Provision / removal / impairment of any security, bond, guarantee or other form of indemnity
b) Material change in an employer's immediate financial strength or longer-term financial outlook, including where an employer ceases to operate or becomes insolvent.
c) Where an employer shows behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's covenant.

Process and outcomes

Where the Administering Authority believes a relevant event may have occurred, the Administering Authority:

- will gather relevant information (including from the employer as required, e.g. annual accounts, budgets, forecasts, etc)
- may conduct a full updated covenant review, including advice from the Fund Actuary, covenant, legal and other specialist advisers as required
- will hold discussions with the employer as needed to clarify the relevant details

When they have considered all the relevant information, the Administering Authority will decide whether to proceed (this decision rests solely with the Administering Authority, including where an employer has requested a review).

If the review proceeds, the Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

Where the employer's covenant has changed significantly, the review would allow for the updated funding position (both ongoing and on termination).

As well as revisiting the employer's current contribution plan, the review may also consider other parts of the funding strategy, including:

1. Whether the funding strategy remains appropriate
2. Whether the Primary contribution rate should be adjusted to allow for any profile change and/or funding strategy change
3. Whether the length of the recovery period adopted at the previous valuation remains appropriate

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances.

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will then be updated for any contribution changes. As part of this process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund. In such circumstances the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part on the reasons for triggering the original contribution review.

Scenario 3 (planning for exit)

The Administering Authority has the power to revisit any previously certified contributions if it becomes of the opinion that a change in circumstances means it is likely to exit from the Fund.

The Administering Authority's opinion of this scenario will be driven by the considerations in addition to the scheduled end date of any admission agreement such as the following:

Event	Comment
Notification from the employer of its intention to exit (or if it is expecting to reduce the number of members)	Dialogue will be entered into, and work commenced on managing a future exit payment

Event	Comment
A more than 50% reduction in the number of active members between accounting period end dates	This would trigger a dialogue between the Administering Authority and the employer to understand the reasons for the change. This may lead to planning for exit work including a review of contribution requirements
If there is a reduction of active members leaving only two*	This would initially trigger a dialogue between the Administering Authority and the employer to understand the underlying position. It is highly likely that planning for exit work would commence including a review of contribution requirements.

**the Administering Authority would treat each of these cases on its merits e.g. employers with very small numbers to start with would be considered appropriately in that context.*

Here any review of contributions would cover all aspects of the current contributions plan. This would include:

- any likely termination debt
- targeting a fully funded termination position at exit
- the need for potential flexibilities on exit (as described in the next section)

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Exit from the Fund

Termination Policy

When an employer becomes an exiting employer (for example the last active leaving, or an admission agreement terminates for any reason), the employer becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

It is the Fund's policy position that such an actuarial valuation will be commissioned for all cases, unless a decision is taken to the contrary specific to a particular case. In all cases where this valuation is carried out, regardless of whether the assessment reveals a deficit or a surplus, a termination contribution certificate will be issued by the Fund Actuary.

Throughout this section the policy differentiates between employers who do and do not have a guarantor. Here a guarantor is a guarantee to fund the cost of all future benefit payments in relation to the members of the exiting employer by a suitable Scheme Employer, meaning the Scheme Employer would subsume all assets and liabilities on cessation. Any other form of guarantee (for example a guarantee of a termination payment due from the exiting employer) may lead to an alternative approach, at the discretion of the Administering Authority.

Termination Assumptions

The assumptions applied depend on the employer's circumstances. In particular, a more prudent approach is applied where there is no guarantor employer in the Fund to subsume the position. The details are given in the Funding Strategy Statement.

Treatment of termination deficit / surplus

The Fund's policy on the treatment of a deficit or surplus on termination is also dependent on whether the exiting employer has a guarantor in the Fund. The policy is designed to ensure consistent treatment of surplus and deficit.

a) Termination with no guarantor

Any deficit will be recovered from the exiting employer via the payment of a termination deficit. In the case of a surplus, the Fund will pay the exit credit to the exiting employer.

b) Termination with a guarantor - no "risk sharing"

Where there is no "risk sharing" this means that the exiting employer is responsible for their final position in the Fund.

In these cases any deficit will be recovered from the exiting employer via the payment of a termination deficit. In the case of a surplus, the Fund will pay the exit credit to the exiting employer (subject to the Fund first determining that there is no “risk sharing” – see below).

The liabilities and assets (allowing for any termination payment / after any exit credit) would then be subsumed by the guarantor and taken into account at the following valuation.

The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit debt may be payable by an exiting employer before the assets and liabilities are subsumed by the guarantor; or conversely an exit credit may be payable to an exiting employer prior to subsumption. This will be managed on a case-by-case basis.

c) Termination with a guarantor - “risk sharing” applies
Any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation.

<u>Risk sharing – Fund determination</u>
Where the employer has a guarantor, the Administering Authority will need to determine whether b) and c) applies. In that case they will:

- contact both the exiting employer and the guarantor to confirm whether there is a “risk-sharing” arrangement in place, and to ask for any evidence of this
- where both sides agree, the termination assessment will be progressed in line with the standard approach
- otherwise, the Fund’s normal policy will be to proceed assuming the exiting employer is responsible for any termination payment, and so is entitled to any exit credit unless representation is made by the relevant parties in line with the Regulations (as noted below).

Once the termination assessment is complete, the two parties will be notified of the outcome. At that point either party will have 1 month to dispute the outcome. If this happens then payment of any exit credit will be put on hold, and the two parties will be expected to resolve the dispute between themselves, without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored. The following arrangements will apply in respect of disputes raised with the Fund:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.

- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance and if this fails, the matter will be referred to the guarantor. If neither the Fund nor the guarantor succeeds in recovering the deficit, then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

The Fund may seek to recover any costs associated with appeals or dispute resolution as part of the final termination settlement.

In the event of parties unreasonably seeking to crystalise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Administering Authority reserves the right to modify any aspect of the above approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, and representations from the interested parties where appropriate.

Managing the exit payment / credit, and alternatives to termination

The default policy is that any termination payment due is paid in full following the final assessment. However, the regulations give power to the Administering Authority to use its discretion to allow alternative approaches and these will be considered where this is in the best interest of the Fund. These are:

Suspension	Spreading	Deferred Debt Agreement
Issue a "suspension notice" if the employer is likely to have active members in the near future	Allow the termination payment to be spread over an agreed period	To allow the employer to remain in the Fund under a "Deferred Debt Agreement" (DDA)

Any costs associated with adopting one of the three alternative approaches above (including necessary actuarial, legal and covenant advice), and assessing suitability for an alternative approach even if this is not subsequently taken forwards, will be borne by the employer and, depending on the employer's circumstances, will either be required as an upfront payment or included in the contribution plan or exit debt payment.

1. Suspension notice

The regulations allow the Fund to issue a "suspension notice" for a period up to 3 years, if, in the reasonable opinion of the Administering Authority, the employer is likely to have one or more active members join the Fund within the period of the notice.

The default policy is that any "suspension notice" would only apply for a **maximum period** as remains to the next triennial valuation. If a suspension notice is applied, any contributions not related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid to the Fund as certified.

2. Spreading an exit payment

The Administering Authority will use the following process to determine whether an employer is eligible to spread their exit payment:

a) Firstly, consider whether it is in the best interests of the Fund to enter into such an arrangement. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed)

b) For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided then the default policy of immediate payment will apply

c) Depending on the length of the spread period and the size of the debt, the Fund may request some form of additional security

d) Any agreement may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. All payments required will include allowance for interest from the termination date

e) The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

f) If the covenant review confirms that the exit payment is not immediately affordable, the Administering Authority will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:

- The spreading period (subject to a maximum of 5 years)
- The initial and annual payments due
- The interest rates applicable and the costs associated with the plan
- Any security required (e.g. bond, escrow account etc)
- The employer's responsibilities during the period (e.g. the supply of covenant information)
- The views of the Actuary, covenant, legal and any other specialists necessary
- Circumstances where the plan might be reviewed or immediate payment requested (e.g. due to a significant change in covenant / circumstances)

g) The Administering Authority will then make a final decision, based on the best interests of the Fund, and the arrangement will be documented

3. Deferred Debt Agreement (DDA)

As an alternative to terminating participation in the Fund and triggering a resulting exit payment, an employer may request to continue its participation in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA).

The Administering Authority will use the following process to determine whether a DDA is appropriate:

1. Firstly, consider whether it is in the best interests of the Fund to enter into a DDA. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed).

2. For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided then the default policy of immediate payment will apply

3. Consider what additional security is required to protect the Fund

4. This could include a lump sum up front to reduce the size of any potential termination debt

5. The initial process to determine whether a DDA is appropriate may take up to 3 months from receipt of data so it is important that employers who request the Administering Authority to consider a DDA, notify the Fund in good time

6. If the covenant review confirms that the potential exit debt is not affordable either immediately or over the short-term, the Administering Authority will engage in discussions with the employer about the potential format of a DDA (using the template agreement based on the principles set out in the Scheme Advisory Board's separate guide). As part of this, the following will be considered and agreed:

    a. What security the employer can offer (generally a DDA will only be allowed where the Administering Authority is confident the employer can support the arrangement on an ongoing basis). Provision of security may also result in a review of the recovery period and other funding arrangements
    b. The funding assumptions and investment strategy that would be applied
    c. Whether an upfront cash payment should be made
    d. The updated secondary contributions
    e. The regular financial information required from the employer, and any other monitoring that will be required.
    f. The advice of the Actuary, covenant, legal and any other specialists necessary.
    g. The responsibilities that would apply to the employer while they remain in the Fund
    h. Circumstances that would trigger a revised recovery plan and contributions (e.g. due to a significant change in covenant / circumstances)
    i. Circumstances that would trigger changes to the DDA, including a cessation of the agreement, an exit payment becoming payable (e.g. the removal of security, a significant change in covenant)
    j. Circumstances where the employer may be able to vary the DDA (e.g. a further cash payment or change in security)

7. The Administering Authority will then make a decision, based on the best interests of the Fund, confirm and document the required terms

8. For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation, or in line with the DDA in the interim, if any of the agreed triggers are met.

4. Exit payments

Where a credit is payable to the exiting employer in the case of a surplus, the Fund will hope to be able to pay the exit credit following completion of the termination process within 6 months of cessation, subject to:

- the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date

- Any delays due to appeals or disputes arising under the process outlined in the previous section

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Employer costs and charges

All employers that participate within the Fund will be required to make contributions to it in accordance with the underlying Regulations.   Specifically, employers will be required to:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all employer future service and deficit contributions, as determined by the Fund Actuary, promptly by the due date
- make additional contributions as required in respect of, for example, augmentation of Fund benefits and early retirement strains, and
- pay any professional fees as determined by the Fund that are incurred on account of actions or events applicable to that employer, including in relation to any bulk transfer (to either another LGPS Fund or another pension fund) and
- pay any fines or sanctions issued to it in accordance with the Fund's Pension Administration Strategy Statement or underlying legislation.

Appendix A

Employer Risk Management Policy

Employers without a guarantee from a tax raising authority

When an Employer that does not have a guarantee from a tax raising authority terminates, the assets and liabilities of the exiting Employer become the responsibility of the remaining Fund Employers (in proportion to their share of the Fund). To protect the remaining Employers, the Fund uses more prudent actuarial assumptions to assess the final termination amount payable – this produces a higher liability and so reduces the chance that the residual assets (including the termination payment) are insufficient and the remaining Employers are called on.

To protect the other Employers in the Fund, the Fund will seek to minimise the risk posed by unguaranteed Employers – specifically that on exit there is a shortfall against the termination liabilities that cannot be paid by the Employer – by either:

- securing a suitable bond[1], the level of which would be based on the Employer's deficit assessed using the termination assumptions, adjusted to reflect the strength of the Employer's covenant, or;
- the use of a stronger funding approach when assessing the Employer's valuation position and resulting contributions (as detailed in the Funding Strategy Statement). The purpose of this is to give a higher likelihood of the contributions and funding plan being enough to provide the relevant benefits (and this also reduces the gap between ongoing funding and ultimate termination liabilities).

Employers covered:

All Employers without a guarantee from a tax raising authority, that aren't themselves a tax raising authority, are covered by the policy, i.e.

- Community Admissions;
- Higher Education/Further Education Employers; and

[1] alternatives to bonds will not generally be considered although these are not ruled out where there are exceptional mitigating circumstances

- any Transferee Admission Bodies (TABs) the above employers guarantee.

Scheme Employers, Academies, Designated Bodies and the TABs they guarantee are out of scope of this policy and continue to be covered under the standard funding approach.

Assessment:

The Fund will normally conduct an annual review for these Employers (or as frequently as a particular Employer's circumstances may otherwise warrant, based on risk exposure to the Fund). This will involve the following stages:

- Covenant assessment, as detailed in section 5 of this Employer Events Framework, although the Fund may seek a specialist covenant assessment where the level of risk (either due to the size of the Employer and / or their circumstances) merit this. For the purposes of this policy, the result of the assessment will be a rating categorised as one of the following:
    - strong/tending to strong;
    - moderate
    - tending to weak/weak .

- Termination deficit assessment – The Fund will assess the size of the termination deficit at the review date, so as to determine the size of the unsecured potential debt

- Set the required bond amount – this will be set to the size of the termination deficit plus the potential strain arising from early retirements. This will then be adjusted to reflect the covenant strength – Employers with the highest covenant ranking would be required to have a bond equal to 70% of the required amount, Employers with the middle covenant ranking the amount would be required to provide 85% the required amount, and 100% for the lowest ranking.

- Note for some Employers the required amount may be zero, if there is a surplus on the termination assumptions

Ongoing funding approach (primary and secondary contributions):

The approach will then depend on whether the Employer provides the required bond (noting that in some individual cases the Fund may insist on a bond, or at least that any current bond is maintained, in order to effectively manage risk for the remaining employers in the Fund):

Full bond not provided :

- The Employer's funding position, primary and secondary contributions would all be assessed using a funding approach that gives a higher likelihood of the contributions and funding plan being enough to provide the relevant benefits. Details of this approach are given in the Funding Strategy Statement

Surplus offsets would be payable only in respect of any surplus in excess of the liabilities measured on the termination basis.

In certain cases the Fund may insist that any existing bond is maintained under this approach. The Fund will take into account the employer covenant rating and funding position in considering the approach to take.

Full bond provided (including those where the requirement is zero):

- The Employer's funding position, primary and secondary contributions would all be assessed using the Fund's standard ongoing assumptions (see the Funding Strategy Statement)
- Surplus offsets would be payable only in respect of any surplus in excess of the liabilities measured on the termination basis

Operation:

The Fund will normally assess the position each year, however adjustments to contributions and bonds will usually be required only on a triennial basis – as part of the actuarial valuation (for contributions), and following the valuation (for bonds). However, where the Fund perceives the change in risk is material (e.g. due to a material change in covenant, Employer structure or funding position) then in order to protect the risk to the other Employers in the Fund, the bond/contributions may be reviewed more frequently (note any change in contributions would be in line with the Fund's policy on inter-valuation contribution reviews as detailed in the Employer Events Policy)

The application of the above would be at the sole discretion of the Administering Authority, which reserves the right to adjust the approach where individual circumstances warrant this in order to manage the risk to the remaining employers (and ultimately the taxpayer).

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