North Yorkshire Pension Fund

Admissions and Terminations Funding Policy

lgps | Local Government Pension Scheme

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1 Introduction

1.1 This document details the North Yorkshire Pension Fund's (the **Fund**) policy on admissions and other new employers commencing participation in the Fund and the methodology for assessment of a deficit or surplus payment on the exit of an employer's participation in the Fund. It supplements the general funding policy of the Fund as set out in the [1]Funding Strategy Statement (the **FSS**).

2 Admissions to the Fund and other new employers

2.1 Admission bodies are a specific type of employer under the Regulations that do not automatically qualify for admission into the Local Government Pension Scheme (the **Scheme**) and must satisfy certain criteria set out in the Local Government Pension Scheme Regulations 2013 (as amended) (the **Regulations**). Admission bodies are required to have an 'admission agreement' with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

2.2 North Yorkshire Council (**NYC**) as the Administering Authority for the Fund, will decide which bodies can become an admission body in the Fund. The Fund will enter into an admission agreement that is 'open' or 'closed' to new employees depending on the circumstance of the admission. Whether the admission is 'open' or 'closed' is generally at the option of the applicable transferring employer (if any) and admission body, but there might be an impact on the rate of contributions payable.

2.3 In general, (paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) admission bodies will be admitted on a 'fully funded' basis i.e. a funding shortfall or surplus will not be passed to the admission body unless the transferring employer requests that a proportion of (or all of) the funding shortfall or surplus is passed to the admission body.

2.4 When a new employer joins the Fund, they may become responsible for pension liabilities relating to employees' previous periods of service within the Local Government Pension Scheme. This means that, in addition to being responsible for any experience gains or losses arising during their own period of participation in the Fund, the employer may also be required to take on responsibility for any experience gains or losses in respect of benefits built up by members with a previous employer in the Local Government Pension Scheme (LGPS). This is still the case for admission bodies admitted on a 'fully funded' basis. As set out in 2.3 no funding shortfall or surplus is passed onto the new employer at commencement but a surplus or shortfall may emerge during participation and any surplus or shortfall could be as a result of experience gains or losses in respect of service built up in the ~~Local Government Pension Scheme~~(LGPS) (or transferring into the ~~Local Government Pension Scheme~~LGPS) before the commencement of the new employer).

2.54 All actuarial and legal fees will be recharged to either the transferring employer or the admission body. The Administering Authority will ask for confirmation of who is paying the fee before the invoice is issued.

[1] The FSS can be found on the Fund's website at www.nypf.org.uk > About the Fund >Governance Documents.

3 Subsumption, guarantor or bond requirements for entry

3.1 The Regulations require the admission body to carry out (to the satisfaction of the Fund and where applicable the transferring employer) an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. The Regulations further require that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the Fund with a third party financial services organisation. If for any reason a bond is not desirable the Regulations require that the admission body secures a guarantee in a form acceptable to the Fund.

3.2 Whilst each application is assessed on its own merits under the above criteria, the Administering Authority wishes to limit the risk to the Fund and to other employers arising from any proposed admission. The Administering Authority's expectation is that in the substantial majority of all admissions it will require the admission body to provide either a qualifying bond or guarantee. The Administering Authority further considers that the costs inherent in the provision of a third party bond by the admission body is sufficient reason why it may not be desirable for the admission body to secure a bond. Therefore, the Administering Authority will in most cases be prepared to accept that the admission instead proceeds on the basis of a guarantor being offered. This is most often the transferring employer.

3.3 Further, when considering applications for admission body status the Administering Authority's clear preference is that there should be a subsumption commitment from a suitable Scheme employer (as well as a guarantor from within the Fund). However, where there is no suitable party willing to give a subsumption commitment and/ or where there is no suitable and willing guarantor, the Administering Authority will still consider applications on a case-by-case basis.

3.4 A subsumption commitment means that a Scheme employer in the Fund (usually the transferring employer) agrees that they will take on responsibility for the future funding of the liabilities of the admission body once they have exited the Fund, and (where relevant) the admission body has paid any exit payment as determined by the actuary.

3.5 A guarantor provides a commitment to meet any obligation or liability of the admission body under the admission agreement.

3.6 The guarantor must be a party permitted to give such a guarantee under the Regulations and must be acceptable to the Administering Authority. Usually, this is the transferring employer.

3.7 The Administering Authority will, if it deems appropriate, accept an admission where there is no guarantee or subsumption commitment offered. This acceptance may be subject to additional conditions. Such conditions will often include the following:

- the Fund's actuary will be asked to use the low risk funding target ~~or the ongoing orphan funding target~~ to assess contribution requirements; and/or
- the admission body must have a bond or indemnity from an appropriate third party in place. Any bond amount will be subject to review on a regular basis in line with the Regulations; and
- the admission body may be subject to any other requirements, such as monitoring specific factors, as the Administering Authority may decide.

3.8 Some relevant factors that the Administering Authority may consider when deciding whether to apply any of the conditions above, in the absence of a guarantor or subsumption commitment, are:

- uncertainty over the security of the organisation's funding sources e.g. the admission body relies on voluntary or charitable sources of income or has no external funding guarantee/~~reserves;~~reserves.
- if the admission body has an expected limited lifespan of participation in the ~~Fund;~~Fund.
- the general trading risk of the proposed admission body and their financial ~~record;~~record.
- the average age of employees to be admitted and whether the admission is closed to new joiners.

Admission bodies formerly known as Transferee Admission Bodies (TABs)

3.9 The most frequent category of admission body is those admitted under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations, namely that the proposed admission body is providing (or will provide) a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement.

3.10 The settlement of commercial terms between the transferring employer and the proposed admission body (including any mitigations that might be offered to the proposed admission body in respect of the usual costs of participation as an employer in the Scheme) are a commercial matter which the Administering Authority will not be involved in.

3.11 Deficit recovery periods for these admission bodies will be set in line with the Fund's general policy as set out in the FSS.

Admission bodies formerly known as Community Admission Bodies (CABs)

3.12 Where a body believes that it is eligible for admission other than under paragraph 1(d)(i) of Part 3 to Schedule 2 of the Regulations and requests admission into the Fund, the Administering Authority will consider each application on a case-by-case basis.

Town and Parish Councils

3.13 New town and parish councils entering the Fund will be treated as follows:

- If there is a subsumption commitment from a suitable Scheme employer, then the participation will be approved with the valuation funding basis used for the termination assessment and calculation of ongoing contribution requirements.
- If there is no subsumption commitment from a suitable Scheme employer, then the town or parish council must pre-fund for termination with contribution requirements assessed using the low risk funding target ~~or ongoing orphan funding target~~.

3.14 Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the Administering Authority may determine an employer specific deficit recovery period will apply.

Grouped bodies

3.15 The Fund generally groups the following types of employers for setting contribution rates.

- Grouped Scheduled Bodies (Town and Parish Councils admitted prior to 1 April 2008, Drainage and Burial Boards).
- Local Management of Schools (LMS) Pools (NYC LMS pool and the City of York Council (CoYC) LMS pool) admitted prior to 1 April 2019.

3.16 The LMS pool refers to the grouping of a number of transferee admission bodies relating to catering and cleaning contracts within schools who were admitted to the Fund prior to 1 April 2019. Employers in the LMS pool pay the same aggregate total contribution rate as that payable by NYC or the CoYC depending on which pool they are in.

3.17 At each triennial valuation, the actuary will pool together the assets and liabilities of the council with the other employers within the appropriate LMS pool to determine the employer contribution rate.

3.18 The standard approach to setting employer contributions is to not group employers together other than in the cases set out above. However, at the absolute discretion of the Administering Authority, an employer (either an existing employer in the Fund or a new employer joining the Fund) may be grouped with an appropriate council or other employer in the Fund for the purpose of setting contribution rates, subject to the agreement of all relevant parties. All relevant parties should also be aware that grouping gives rise to cross subsidies from one employer to another over time. This arises from different membership profiles of the different employers and from different experience. In general, we would not expect grouping to be permitted for employers whose participation in the Fund is for a fixed period of time.

Other scheduled bodies

3.19 New academies will be treated as indefinite participants in the Fund with full taxpayer backing, as they have a guarantee from the Department for Education. The funding target used to assess contributions will therefore generally be the sScheduled and subsumption body funding target. However, as the Department for Education guarantee is subject to review, where the Administering Authority believes the guarantee is no longer sufficient to cover the risks posed by the number of academies in the Fund, the Administering Authority will review the approach taken to the Funding Target for new academies and any admission bodies for which an academy provides a subsumption commitment, as well as the default approach taken to the notional assets transferred to academies upon conversion.

3.20 For any other new scheduled bodies joining the Fund, the Administering Authority may, without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the ~~employer;~~employer.
- the business plans of the ~~employer;~~employer.
- an assessment of the financial covenant of the ~~employer;~~employer.
- whether the employer is a part 1 Schedule 2 or Part 2 Schedule 2 employer and if the latter, the likelihood of new members joining the Fund; and

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- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

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4 Employer contributions, initial notional asset transfer and funding targets

4.1 The Fund's actuary will calculate the employer contributions payable from the start of the employer's participation in the Fund.

4.2 These will consist of the future service rate (FSR) or primary contribution rate and~~,~~ additional (secondary) contributions required to remove any funding shortfall~~, and an allowance for the possible cost of the McCloud judgement / Cost Management process as set out in paragraphs 4.25 to 4.28~~. Where the employer transfers on a fully funded basis (i.e. the level of notional assets is set to be equal to the full value of the transferring liabilities using the appropriate funding target described below) then the initial contribution rate will be equal to the FSR~~ plus the McCloud judgement / Cost Management process allowance~~. This would generally be the case in an outsourcing of a service or function from a Scheme employer.

4.3 The FSR is net of employee contributions but includes an allowance for the lump sum death benefit payable on death in service and administration costs.

4.4 The actuary will also calculate the funding position of the employer at the commencement date. This shows the notional assets attributable to the employer, along with the value of liabilities using the appropriate funding target. This is needed even when the employer starts fully funded since any accounting figures or calculations at future triennial valuations will use the assets and liabilities at commencement as their starting point. In some cases the asset transfer may need to be re-calculated if the commencement date or data on transferring members is different to that used by the actuary in their initial calculations.

4.5 If the transferring employer is providing a subsumption commitment, the subsumption funding target will be used by the actuary when calculating the FSR and the value of liabilities. The low risk funding target can be used where explicitly requested by the transferring employer. The appropriate funding target to be adopted depends on what will happen to the liabilities of the employer once it has exited the Fund (e.g. when the last active member has left or, for admission bodies, the contract has ended).

4.6 Unless specific instruction to adopt a different approach is received in relation to a new academy and the agreement is reflected in the Commercial Transfer Agreement, the Administering Authority will determine the notional asset transfer from the ceding Council to the new academy using a 'Share of Shortfall' approach. Under this approach any shortfall in respect of the transferring members transfers to the new academy in the same proportion as the payroll of the transferring members compared with the payroll of the ceding Council. If the ceding Council is estimated to have no shortfall at the commencement date of the new academy, the assets transferring to the new academy will be capped at 100% of the transferring liabilities.

4.7 Where a new academy is set up as a multi-academy trust (MAT), the new MAT may elect to join the Fund under two different approaches which are set out below. When a new academy joins an existing MAT, the approach will be the same as the existing MAT.

- Each academy within the MAT is treated as a separate employer in the Fund. Each academy within the MAT has a separate contribution rate and shortfall amount calculated at the commencement date of the new academy.

- The MAT is treated as a single employer in the Fund. At the commencement date of the MAT, the MAT will be treated as a single employer and contributions will be calculated at that date consisting of a future service (primary) rate and shortfall contributions. For any new academies joining in an inter-valuation period, the contributions for the new academy would generally be set in line with the employer contributions of the MAT calculated at the preceding triennial valuation of the Fund (or commencement date of the MAT if later).

4.8 Historically, the Administering Authority have also allowed MATs to adopt an alternative approach to the two approaches set out above, which is for academies within the MAT to be pooled together for the purpose of setting their future service (primary) contribution rate but then any shortfall contribution amounts are based on the position of each individual academy within the MAT. This approach is no longer available for any new MATs joining the Fund.

4.9 For new standalone academies the future service (primary) rate on commencement of participation will be expressed as a percentage of pay and any shortfall contributions are generally expressed as monetary amounts. The recovery period used to set any shortfall contributions on commencement will generally be set equal to that used for the ceding Council at the preceding triennial valuation of the Fund.

Scheduled and subsumption body funding target

4.10 This approach can be used for new long term secure scheduled bodies and academies, where the participation is assumed to be of indefinite duration, and for admission bodies that have a 'subsumption commitment' from a suitable secure Scheme employer (usually the transferring employer). It is used to calculate the initial assets allocated to the employer and its contributions as well as for the exit valuation (updated to allow for financial market conditions at the exit date). This approach results in the same assumptions being used to set contributions for the employer as apply to the Scheme employer letting the contract in the case of an admission body (although the assumptions are updated to allow for financial market conditions at the calculation date, whether that is the date of commencement or exit).

4.11 The assumptions used under the scheduled and subsumption body funding target assume investment in assets that are the same as the long term investment strategy of the Fund as a whole.

4.12 Therefore the potential outperformance over low risk investment in government bonds (gilts) is factored in, giving a lower contribution rate but also there is exposure to the volatility of equity based investments and the risk of the expected outperformance not being achieved and the impact on the contributions.

4.13 This funding target gives a lower contribution rate but less certainty that the liabilities are being fully covered compared with a new employer on the low risk funding target (see below) with assumed notional investment in government bonds and can therefore lead to volatility in the FSR over the life of the employer's participation in the Fund and increases the risk of a shortfall or surplus emerging over the period of participation of the employer in the Fund.

Intermediate funding target

4.14 This approach is used for certain employers that are considered by the Administering Authority to be less financially secure than the long-term tax raising Scheduled Bodies.

4.15 This approach would also be used to set contributions and at exit for employers that have an appropriate subsumption commitment provided by a suitable Scheme employer that is subject to the intermediate funding target.

4.16 This funding target is set with reference to government bond yields but includes an allowance to reflect the expected out-performance above government bonds of the Fund's assets. This allowance will generally be reviewed at each triennial actuarial valuation of the Fund.

~~**Ongoing orphan funding target**~~

~~4.17 This approach is used where the transferring employer or another secure long-term employer in the Fund is not prepared to offer a subsumption commitment in relation to the employer. This means that no other employer exists in the Fund that would be prepared to take on future responsibility of the liabilities of the employer once the employer has exited the Fund.~~

~~4.18 On the exit of the employer, its liabilities will become 'orphan liabilities' in the Fund. This means that should a shortfall arise in respect of these liabilities after the employer has exited the Fund, all remaining employers in the Fund would be required to pay additional contributions to pay off this shortfall.~~

~~4.19 In that case, the exit valuation of the employer would be carried out on the low risk funding target in order to protect the other employers in the Fund. This assumes that after the exit of the employer the Administering Authority would wish to back the orphan liabilities with low risk investments such as government bonds.~~

~~4.20 The assumptions used under the ongoing orphan funding target are broadly designed to target the low risk funding target at exit of the employer but reflect the fact that exit of the employer will occur at some point in the future and allow for the possibility of the expected return on government bonds changing before the exit date.~~

~~4.21 Prior to the exit date it is still assumed that the assets of the employer are invested in line with the long term investment strategy of the Fund as a whole and this is reflected in the "in-service" discount rate adopted as part of the ongoing orphan funding target.~~

~~4.22 This funding target would generally result in a higher initial contribution rate than if a subsumption commitment existed (where the subsumption funding target would be adopted), but a lower initial contribution rate than if the low risk funding target is adopted (see below), although unlike the matched approach described below investment risk underlying the Fund's investment strategy is retained under this approach.~~

Low risk funding target

4.23 This approach is used to reduce the risk of an uncertain and potentially large shortfall being due to the Fund at the exit of the employer.

4.24 The low risk approach assumes a notional investment in government bonds for the employer. Under this approach the investment risk is substantially ~~reduced~~reduced, and it is expected that the assets and liabilities of the employer would move broadly in line with ~~either~~ one another over time. It does not eliminate investment risk and other funding risks remain, but it gives more certainty that the employer rate is providing funding to 'match' the liabilities. However, it could give~~s~~ a substantially higher contribution rate as no allowance for any expected outperformance of the Fund's assets over the low risk funding target is factored in.

Allowance for McCloud judgement / Cost Management process and GMP equalisation / indexation

~~4.25 For employers commencing participation in the Fund on or after 1 April 2019 allowance will be included in the employer contribution rate for the potential additional costs arising due to the McCloud judgement / Cost Management process equal to 0.9% of Pensionable Pay.~~

~~This figure was determined by the Fund actuary based on calculations carried out as part of the 2019 valuation across the Fund as a whole on the scheduled and subsumption body funding target based on information available when this was calculated.~~

~~The McCloud consultations for the LGPS (in England and Wales) were published on 16 July 2020, which set out the following key proposals:~~

- ~~Compensation will apply to members who were in the LGPS on 31 March 2012 and who have active membership of the Scheme on or after 1 April 2014~~
- ~~Benefits will be the better of those accrued in the 2014 Scheme (up to 31 March 2022) and those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an 'underpin' approach)~~
- ~~Compensation will apply to members who leave with a deferred benefit and those who retire from active service with immediate pension benefits, through voluntary age retirement, ill health retirement, flexible retirement or redundancy~~
- ~~The remedy will apply to deaths in service~~
- ~~The remedy will apply to spouses' and dependants' benefits~~

~~Whilst there are some differences between the proposals set out in the consultation and the assumptions made at the time of calculating the potential additional costs arising due to the McCloud judgement / Cost Management process as part of the 2019 valuation and set out above, given the uncertainty associated with any cost management changes and that employer contributions will be reviewed from 1 April 2023 as part of the next triennial valuation of the Fund, for pragmatic reasons the allowance to be included in the employer contribution rate will be equal to 0.9% of Pensionable Pay. The same allowance will generally be made for any new employer, irrespective of their membership and funding target.~~

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4.256 When determining the notional level of assets to be allocated to the new employer ~~no allowance will generally be made for the potential~~the past service liabilities will generally include liabilities arising due to the McCloud judgement ~~/ Cost Management process~~ based on information included within the membership data. Where the information included within the membership data is insufficient / incomplete, an ~~then~~ approximate allowance may be made as advised by the Fund Actuary.

4.267 When determining the notional level of assets to be allocated to a new employer commencing participation in the Fund on or after 23 March 2021, the Fund actuary will allow for full inflationary increases on GMPs for those reaching State Pension Age on or after 6 April 2016.

~~4.28 In determining the approach set out above, the Administering Authority has had regard to the advice of the Fund actuary. It will be kept under regular review as further information on the McCloud judgement and Cost Management process becomes available. In exceptional circumstances any future change in approach may be backdated if considered necessary in light of the specific circumstances of a particular employer. However, no changes are envisaged to asset transfers for employers that commenced participation before 1 April 2019.~~

Review of Employer Contribution Rates

4.279 The Regulations require a triennial actuarial valuation of the Fund. As part of each actuarial valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64(4) and 64A.

4.2830 The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last ~~valuation;~~valuation.
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the ~~Scheme;~~Scheme.
- it appears likely to the Administering Authority the Scheme employer will become an exiting employer; or
- the Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

4.2931 For the avoidance of doubt, the Administering Authority will not consider a review of contributions under Regulation 64A purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

4.302 In determining whether a review should take place under Regulation 64A, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example due to the restructuring of an employer, a significant outsourcing or transfer of staff, the loss of a significant contract, closure to new entrants, material redundancies, significant pay

awards, or other significant changes to the membership due to ill-health retirements or voluntary withdrawals

- the materiality of any change in the employer's membership or liabilities, taking account of the Fund actuary's view of how this might affect its funding position, primary or secondary contribution ~~rate;~~rate.

- whether, having taken advice from the Fund actuary, the Administering Authority believes a change in funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, risk-sharing arrangement, or other form of indemnity in relation to the employer's liabilities in the ~~Fund;~~Fund.

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund actuary or other covenant adviser to the ~~Fund;~~Fund.

- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time.

4.3~~1~~3 For an employer where contributions may be reviewed under Regulation 64(4), the following circumstances may trigger a review, which may be informal as well as a full interim valuation (this is not intended to be a comprehensive list):

- a review has been requested by the relevant guarantor or subsuming employer, or for transferee and Schedule 2 Part 3 (1)(d) admission bodies the relevant scheme ~~employer;~~employer.

- a material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to ~~light;~~light.

4.3~~2~~4 For an employer whose participation is due to cease within the next ~~3~~ three years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.

4.3~~3~~5 Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if Regulation 64(4) or 64A applies which may lead to a revised contribution schedule for the employer.

4.3~~4~~6 Where contributions are being reviewed for an employer with links to another employer in the Fund, particularly where this is a formal organisational or contractual link, e.g. a formal guarantee, subsumption commitment or risk sharing arrangement is in place, the Administering Authority will consider the potential risk and impact of the contribution review on those other employer(s), taking advice from the Fund actuary as required.

In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases, the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend

upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related employer in the Fund and the proximity to the next formal valuation.

Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related employers with a view to seeking their agreement to this approach.

4.3~~5~~7 It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

4.3~~6~~8 The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also consider the timing of contribution changes following the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate as part of the valuation.

4.3~~7~~9 Where the request for a review comes from the employer, before submitting their request, the employer should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact the Administering Authority and complete the necessary information requirements for submission to the Administering Authority in support of their application.

4.38~~40~~ The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. In addition, employers should adhere to the notifiable events framework as set out in the Pensions Administration Strategy. Employers should be aware that all advisory fees, including actuarial, legal and any other costs incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

5 Termination of an employer

Exit events

5.1 In accordance with Regulation 64 the LGPS Regulations 2013, when an employer (including an admission body) leaves the Fund, an exit valuation is carried out by the Fund's actuary to determine the level of any surplus or deficit in the outgoing employer's share of the Fund. All actuarial and legal fees relating to the exit will be passed on to either the exiting employer or the transferring employer. This will be dependent on the outcome of the exit.

5.2 There are a number of events that will trigger an exit:

- when a contract comes to an ~~end;~~end.
- when a contract is terminated ~~early;~~early.
- when the employer no longer has any active members in the ~~Fund;~~Fund.
- when the admission body is in breach of its obligations under the admission agreement, or the admission agreement is otherwise terminated by one of the ~~parties;~~parties.
- the insolvency, winding up or liquidation of the admission body
- the withdrawal of approval by HMRC to continue as a Scheme employer; or
- the admission body fails to pay any sums due in a timely manner.

5.3 When an admission agreement comes to an end or a scheduled body exits the Fund, any active employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

Basis of exit valuations

5.4 An exit valuation is carried out to value the liabilities of the employer at the date of exit. The basis used to calculate the liabilities depends on the circumstances of the exit and in particular who takes responsibility of any future liabilities. The Fund's policy is outlined below; however, each exit will be assessed on a case by case basis.

5.5 If the employer has a subsumption commitment in place from a suitable Scheme employer within the Fund, the appropriate subsumption funding target will be used as the basis of the exit valuation unless otherwise indicated below. If the transferring employer requested that the low risk funding target was adopted on admission to the Fund, the same funding target will be used as the basis of the exit valuation. The subsuming employer will, following any termination payment made by the employer, be responsible for any future liabilities that arise in relation to the former employees of the exiting employer. Any liabilities formally attributable to the exiting employer will be assessed at each Triennial Valuation and the subsuming employer's contribution rates will be adjusted to reflect this.

5.6 For all other exiting employers where there is no subsumption commitment in place, the Fund's policy is to use the low risk funding target as the basis of the exit calculation. This is to protect the other employers in the Fund who will become responsible for any future 'orphaned liabilities' that arise in relation to the former employees of the exiting employer post exit.

5.7 Where the active members transfer to a new employer in the Fund on a fully funded basis, any shortfall between the value of the liabilities assessed on the funding target of the exiting employer and the funding target for the receiving employer will be met by the appropriate letting body. Any changes to the default position must be agreed, prior to transfer, by all relevant parties including the Administering Authority.

Grouped Scheduled Bodies - Town and Parish Councils admitted prior to 31 March 2008

5.8 On termination of participation within the grouped scheduled bodies, the exit valuation is based on a simplified share of the group deficit amount, which is calculated on the sScheduled and subsumption body funding target. This involves calculating the notional deficit share, as at the last triennial valuation, based on the proportion of payroll that body has within the group. An adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last triennial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit. Any liability that cannot be reclaimed from the exiting employer will be underwritten by the group and not all employers in the Fund.

5.9 Following the termination of the grouped body, any residual assets and liabilities will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the Fund as a whole.

Grouped Bodies - LMS Pools admitted prior to 1 April 2019

5.10 On termination of an admission body within the LMS pool, a termination valuation will generally be calculated on the ~~s~~Scheduled and subsumption body funding target. The assets and liabilities relating to the active employees will, assuming there is a subsumption commitment in place in the admission agreement relating to that admission body, be subsumed by NYC or the CoYC depending on which pool they are in. If there is no subsumption commitment in place, the parties will be offered the opportunity to put one in place on exit. If this option is not ~~taken~~taken, ~~then~~ the low risk funding target will be used to calculate the exit position.

Academies

5.11 In some cases, different academies within a multi-academy trust (MAT) will be (at the request of the MAT) treated by the Fund as if they were separate employers for the purposes of assessing contribution rates in respect of employees at those academies. However, even where this is the case, in the event that a single academy ceases to participate in the Fund in circumstances where other academies within the same MAT continue to participate, this will not be treated as an exit or partial exit by the MAT and no exit valuation will be commissioned. Rather, any liabilities attributed to an academy as a notionally separate employer will fall to be funded by the MAT as a whole. The impact of this on the MAT's employer contributions will generally be allowed for at the subsequent triennial valuation of the Fund. However, the Administering Authority may direct the Fund actuary to take the cessation into account straight away and adjust the contributions payable by the MAT if the event is considered material and the circumstances meet the criteria for a review of contributions under Regulation 64A - see paragraphs 4.29 to 4.40 above for details of the Administering Authority's policy in this area.

Allowance for McCloud judgement / Cost Management process and GMP equalisation / indexation

5.12 ~~For employers exiting the Fund on or after 1 April 2019 t~~The Fund actuary will ~~add 1% to the value of the exiting employer's liabilities as a prudent margin given the possibility of additional liabilities arising due to the McCloud judgement / Cost Management process and covering the potential costs of GMP equalisation / indexation.~~ generally include liabilities arising due to the McCloud judgement based on information included within the membership data. Where the information included within the membership data is insufficient / incomplete, an ~~then~~ approximate allowance may be made as advised by the Fund Actuary.

~~However, the Administering Authority will not seek to recalculate the exit liabilities for exits on or after 1 April 2019 where the exit deficit (or credit) has already been paid as at the date this policy comes into effect.~~

5.13 When calculating the liabilities of the employer at exit, the Fund actuary will allow for full inflationary increases on GMPs for those reaching State Pension Age on or after 6 April 2016.

~~5.13 In determining this margin, the Administering Authority has had regard to guidance prepared by the Scheme Advisory Board and the advice of the Fund's actuary. It will be kept under regular review as further information on the McCloud judgment / Cost Management process becomes available.~~

Notification of termination

5.14 In many cases termination of an admission agreement can be predicted, for example, because the admission body wishes to terminate their contract. In this case admission bodies are required to notify the Fund of their intention as soon as possible. The Fund requires a minimum of 3 months' written notice for early termination of an admission agreement.

5.15 Where termination is disclosed in advance or in the opinion of the Administering Authority there are circumstances which make it likely that an employer will become an exiting employer, the Fund may request a revised certificate from the Actuary that specifies the amount that the rates should be adjusted by prior to exit in line with Regulation 64(4) of the Regulations.

5.16 A valuation under Regulation 64 will assess the assets held as at the exit date in the Fund in respect of the exiting employer, as compared to the liabilities of the Fund in respect of benefits attributable to the exiting employer's current and former employees. The exit valuation will usually show that there is either:

- a deficit, in that the liabilities have a higher value than the assets. In this situation paragraphs 5.19 to 5.39 below will apply; or
- a surplus, in that the assets have a higher value than the liabilities. In this situation paragraphs 5.40 to 5.50 below will apply.

5.17 In the event that a valuation under Regulation 64 results in there being no deficit or surplus, then no further payments will be due from or to the exiting employer (save for any unpaid liability arising before the exit valuation).

5.18 It should be noted that existence of a subsumption commitment or other agreement entered in relation to any liabilities of the exiting employer does not mean that the exit valuation does not need to be carried out.

Payment of exit debt

5.19 If the Fund actuary has calculated a deficit at the exit date the exiting employer is liable for payment of that deficit under the Regulations. The Administering Authority will usually require a lump sum payment from the exiting employer in the first instance, although the Administering Authority may allow phased payments as permitted under Regulation 64B. Where an exit payment cannot be met in full or in part by the exiting employer the Administering Authority will attempt to recover any outstanding payment from a bond or alternative indemnity that may be in place.

5.20 Following the use of any bonds or indemnities (if any), any remaining debt will be recovered in a lump sum payment from the guarantor (if there is one). However, where the terms of the guarantee allow it, the Administering Authority reserves the right to demand payment of any exit debt from the guarantor as a primary liability (i.e. without first seeking payment from the exiting employer)

5.21 If there is no guarantor any outstanding debt will be recovered from any related employer in the case of a Schedule 2, Part 3, 1(d)(i) body. The Administering Authority may request a lump sum ~~payment~~payment, or it may be agreed, if the related employer is a contributing employer of the Fund, that the rates and adjustment certificate be revised to allow for the recovery of the remaining debt over a reasonable period of time, as determined by the Administering Authority.

5.22 In any other case the debt will be subsumed by all other employers in the Fund. The rates and adjustment certificate for all contributing employers will be revised to allow for the recovery of any remaining exit debt over a reasonable period of time, determined by the Administering Authority, at the next triennial valuation following exit.

5.23 Any lump sum payments will be required within 30 days following the issue of the revised rates and adjustment certificate showing the exit payment due unless another period is specified by the Administering Authority. Any late payments will incur charges in accordance with the Fund's Charging Policy.

Suspending payment of exit amounts

5.24 At the absolute discretion of the Administering Authority, a suspension notice may be awarded to an exiting employer under Regulation 64(2A) of the Regulations. This can be for a period of up to three years after the exit date (the maximum period permitted by the Regulations).

5.25 Any application for the Administering Authority to grant a suspension notice will normally only be considered if the following criteria apply:

- the employer can provide evidence that it is likely to admit one or more new active members to the Fund within the period of the suspension ~~notice;~~notice.
- the employer is not a 'closed' employer (no new active members are permitted to join the Fund); and
- any application for the Administering Authority to grant a suspension notice is made within three months of the exit date.

5.26 The Administering Authority reserves the right to withdraw a suspension notice if the terms of the agreement to award a suspension notice are not being upheld by the employer.

5.27 If a suspension notice is awarded, the exit valuation will be deferred until the earlier of:

- the end of suspension period; or,
- the point at which the suspension notice is withdrawn (for any reason).

5.28 If one or more new active members are admitted to the Fund the employer's full participation in the Fund will resume.

5.29 During the period of any suspension notice, the employer must continue to make contributions to the Fund as certified in the rates and adjustments certificate.

Spreading of exit payments

5.30 The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment. However, the Administering Authority may allow phased exit payments as permitted under Regulation 64B.

5.31 It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage with the employer to consider the application and determine whether spreading the exit payment is appropriate, and the terms which should apply.

5.32 In determining whether to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

- the ability of the employer to make a single capital ~~payment;~~payment.
- whether any security is in place, including a charge over assets, bond, guarantee or other ~~indemnity;~~indemnity.
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

5.33 In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment, this will normally weigh against the Administering Authority allowing the payment to be spread.

5.34 The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within ~~2~~two months of request.

5.35 In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be up to ~~3~~ three ~~years~~years, but longer periods may be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

5.36 Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that the request may not be able to be made until the results of the exit valuation are known. Where there is a guarantor or subsuming employer, the guarantor/subsuming employer will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee (or where there is one in place prior to exit, a bond) continuing in force during the spreading period.

5.37 The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as equal annual amounts allowing for interest over the spreading period in line with the discount rate used to calculate the exit liabilities. Alternatively, monthly payments may be required, or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

5.38 Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period, the annual payments due, any other costs payable including actuarial and legal costs and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

5.39 The Administering Authority will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

Surplus on Exit

5.40 As soon as is practicable after the production of the applicable exit valuation, the Administering Authority will notify the exiting employer and, where the exiting employer has been admitted to the fund as an admission body:

- any party that has given a guarantee under paragraph 8 of Part 3 to Schedule 2 to the Regulations; and
- (in respect of admissions under paragraph (1)(d) of Part 3 of Schedule 2 to the Regulations) any scheme employer who was providing a service or assets in connection with the exercise of a function of the exiting employer

of the fact that the exit valuation shows a surplus, that the Administering Authority intends to make a determination of whether this surplus should be passed in whole or in part to the exiting employer, and to request that each party provides their written representations to the Administering Authority in relation to any factors which, in their view, would influence such a decision and make the payment of a surplus to the exiting employer more or less appropriate.

When requesting the representations of the parties, the Authority will set a time period for responses that it considers reasonable in the circumstances, but which shall not be less than 14 days in duration. Except in cases where the amount of the surplus in question would make the process disproportionate, the Authority would usually offer each party consulted a separate opportunity to respond in writing to the representations of the other party (if any have been made).

5.41 The representations of the parties mentioned in paragraph 5.40 above may (but need not) detail any risk sharing arrangement agreed between the parties as regards the participation of the exiting employer in the Fund.

5.42 The Administering Authority will make a determination of the amount of the exit credit (if any) payable to the exiting employer. In reaching this decision, the Administering Authority will have regard to the following factors:

a) the extent to which there is a ~~surplus;~~surplus.

b) the proportion of the excess of assets which has arisen because of the value of the exiting employer's ~~contribution;~~contribution.

c) the representations received by the parties under paragraph 5.40 ~~above;~~above.

d) the date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual ~~arrangements;~~arrangements.

e) (where the Administering Authority is aware of the same) whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third ~~parties;~~parties.

f) where part or all of the surplus relates to an increase in the value of the assets of the Fund as at the exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value ~~increase;~~increase.

g) any other relevant factors.

5.43 No single factor will be ~~conclusive~~conclusive, and the Administering Authority will consider all the circumstances in the round in coming to its decision on the correct level of an exit payment. In order to help the parties in formulating their representations, the Administering Authority sets out below the factors it may consider, and some guidance as to the usual implication of those factors:

Factor	The Administering Authority's view on how this may influence the determination
The extent to which there is a surplus	Will not itself influence the determination in favour or against the exit credit, but the Administering Authority may decide to truncate the determination process where the surplus is so small as to make the full process administratively disproportionate;
The proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions	In general, the Administering Authority considers that where the surplus exceeds the total employer contributions received over the course of the admission (plus a reasonable allowance for interest where this might be appropriate), this would weigh against the payment of the full surplus as an exit credit;
The representations received from the parties	Dependent on their content;
The date on which the admission and/or commercial arrangements between the exiting employer and scheme employer came into effect, and whether therefore the parties had the opportunity to deal with the chance of an exit credit in their contractual arrangements	In general, the Authority considers that where the arrangements pre-date the introduction into the Regulations of the concept of exit credits, and therefore the parties did not anticipate the existence of an exit credit in their negotiations or contractual arrangements, this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances), and where the arrangements post-date the concept of exit credits, this will weigh in favour of the payment of an exit credit (either in full or in part dependent on the circumstances);
Whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties	In general, the Administering Authority considers that where the exiting employer has not been exposed to the usual financial risks associated with admission by reason of its commercial arrangements with third parties (for example the scheme employer), this would weigh against the payment of an exit credit (either in full or in part dependent on the circumstances of the arrangement in question). Such a risk sharing arrangement might include for example: • an agreement whereby the exiting employer will be protected from, or reimbursed in respect of, any deficit which arises under Regulation 64 of the Regulations, either in whole or to a material extent; and/or

	• an agreement which protects the exiting employer from variation in respect of the level of its ongoing employer contributions to the Fund, either in absolute terms, or within a defined range (often referred to as a "cap and collar" arrangement). The Authority also considers that where a scheme employer has given a subsumption commitment in respect of an exiting employer, this would qualify as a risk sharing arrangement, as the practical effect would be to transfer contingent risks that would usually rest with the exiting employer to the subsuming employer, thus reducing the risk to which the exiting employer is exposed. Where the Administering Authority is aware that a subsumption commitment has been given, it will prepare and will submit to the parties exit valuations prepared on both the subsumption basis and discounting the subsumption commitment, in order to more clearly demonstrate the impact of the subsumption and to enable the parties to make informed representations on the impact of the subsumption commitment on the exit ~~surplus;~~surplus.
Where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;	In general, the Administering Authority considers that where the exit took place at a time when the value of assets held by the Fund were unexpectedly high, and subsequently declined, or appear to the Administering Authority reasonably likely to decline in the short or medium term, then this will weigh against the payment of an exit credit (either in full or in part dependent on the circumstances). Where the Authority relies on this factor in making a determination, it will provide the parties with details of why it considers that is the case; and
Any other relevant factors.	Dependent on the factor in question.

5.44 In making a determination under paragraph 5.42, the Administering Authority will take such legal, actuarial and investment advice as it considers appropriate.

5.45 The Administering Authority will notify each of the parties identified in paragraph 5.40 of the amount of any surplus which it has determined should be returned to the exiting employer, if any (the "**exit credit**").

5.46 Where the Administering Authority has determined that an exit credit will be paid, the Administering Authority will make the payment to the exiting employer by the later of:

- six months after the date of the exit event; or
- such later date as the Administering Authority and the exiting employer may agree.

5.47 The Administering Authority's ability to meet the payment deadlines mandated by the Regulations is dependent on the parties providing the information needed as part of the exit process in a timely manner.

5.48 Payment will be made by BACS in the absence of a compelling reason why this is not appropriate. If there are any sums due from the exiting employer connected to their participation in, or exit from, the Fund, then these sums will be deducted from any exit credit due to the exiting employer before payment.

5.49 If the scheme employer and admission body wish to change the default position on the payment of an exit credit then they should include suitable provisions in any service agreement between themselves. Where the Administering Authority determines that an exit credit is to be paid, this will in all circumstances be paid to the exiting employer and not to any other party (even where, for example, the exiting employer requests it or the exiting employer has already agreed to pass that payment to a third party).

5.50 When an exit credit payment is made, or if the Administering Authority determines that no exit credit is due, no further payments are due from the Administering Authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.

Deferred Debt Agreements (DDAs)

5.51 Under Regulation 64(7A) of the Regulations, an administering authority may enter into a written agreement with an exiting employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate.

5.52 The Administering Authority's current policy is that Deferred Debt Agreements will generally not be permitted.