HAMPSHIRE
PENSION FUND

Hampshire Pension Fund (HPF)

Employer Policy

Contents

1. Background

1.1. This policy explains the Fund's policies and procedures in the treatment of employers including the admission and exit of employers in the Hampshire Pension Fund. Hampshire Pension Fund is administered by Hampshire County Council.

1.2. The purpose of this policy is to ensure that, as the Administering Authority of the Hampshire Pension Fund, we will minimise the risk that any employer places on the Fund before agreeing to admit any new employers to the Fund. It is also intended to provide clarity on the decisions made by the Fund and provide consistency in the way types of employers are dealt with.

1.3. This policy should be read in conjunction with the Fund's Funding Strategy Statement (FSS).

1.4. The policy will be reviewed from time to time and at least every three years in line with the FSS. It will also be reviewed following changes in the regulations relating to employers in the Fund.

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

1.6. Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

2. Aims

2.1. Our aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund. In managing this risk we will have regard to the aims of the FSS:

- To manage the employer’s liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- To enable primary contribution rates to be kept as nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

2.2. The Administering Authority has an obligation to pursue all liabilities owed so that this deficit does not fall on other employers.

3. Principles

3.1. For funding purposes, the Administering Authority will treat employers in different ways depending on how they participate in the Fund and its views on their financial strength.

3.2. As set out in the FSS, employers will be set their own individual contribution rate, unless they participate in one of the three groups set out below:

- Town and Parish Councils under paragraph 2 of Part 2 of Schedule 2, will be part of the Town and Parish Council Group (TPCG), unless they have otherwise opted out of this group in accordance with terms set out in the FSS and as agreed by the Administering Authority.
- Academies and free schools under Part 1 (paragraph 20) of Schedule 2 will be part of the Academies Group (AG).
- Some admission body employers may be part of the Admission Body Group (ABG), provided they participated in the ABG on 31 March 2019.

3.3. Employers in a group will pay the same future service rate and share the funding risks of the group as set out in the FSS.

3.4. Regardless of whether they are grouped, or ungrouped individual employers will pay for any legal and actuarial costs incurred on their behalf.

4. Responsibilities of employers in the Fund

4.1. We will expect all employers in the Fund to consider the effect of their behaviours on their contribution rate, for example when considering;

- discretions policies;
- outsourcing decisions;
- salary increases.

Employers should have regard to the Fund's administration strategy at all times.

4.2. All employers, whether Admission or Scheduled bodies, need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, setting up a wholly owned subsidiary or other decisions which will or may materially affect the employer's Fund membership. This includes, for Town and Parish Councils under paragraph 2 of Part 2 of Schedule 2, a decision to stop designating posts as eligible for membership of the Fund.

Admission agreements

4.3. All employers must inform the Fund of any outsourcings and allow sufficient time for an admission agreement to be completed prior to the contract start date.

5. Managing risk

5.1. Our aim is to minimise employer related risk to the Fund across all the employers in the Fund.

5.2. There must be no significant additional risk to the Fund from any outsourcing by a scheme employer or admission of any other new body for which a scheme employer is guarantor. We would want to ensure that the decisions made by an employer when outsourcing services or providing a guarantee have no adverse impact on the Fund or on other employers in the Fund. We would look to protect both the Fund and other employers in these circumstances.

5.3. Where Scheduled body employers under Part 1 of Schedule 2 outsource services, there will be a presumption that the Scheduled body has agreed to subsume any assets and liabilities attributable to the new admission on its exit from the Fund (excluding any assets and liabilities transferring to another employer in the Fund). An exception to this for Academies is described in paragraph 6.29.

5.4. Scheme employers must be prepared to manage any pension risk of an outsourcing.

6. New employers in the Hampshire Pension Fund

6.1. Each admission body will be a stand-alone body in the Fund with its own contribution rate, unless:

- the Administering Authority has agreed that the admission body can be pooled with the relevant Scheme employer, or
- the admission body participates in the Admission Body Group.

6.2. Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the Administering Authority at the earliest opportunity, and before any transfer of staff, so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from Pension Services.

6.3. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund (or to a Group if the employer who is outsourcing is a grouped employer).

6.4. The costs in terms of the contribution the new employer pays and the fees in relation to the solicitor and actuary costs will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the scheme employer (including the existence or otherwise of a government guarantee) and whether or not the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future. The fees will depend on the legal and actuarial information required but an estimate will be provided prior to work being commissioned.

All outsourcings

6.5. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund or to the Group if the transferring employer is a grouped employer. This applies equally to the situation where posts are moved to companies within the scheme employer's organisation which do not participate in the LGPS, even if existing members do not transfer, where the Administering Authority believes this may have a material effect on the scheme employer's active membership. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

Paragraphs 5 & 6, Part 2, Schedule 2 bodies

6.6. To be an employer under paragraph 5 of part 2 of Schedule 2, the new employer would be connected with scheme employer, where connected means:

a) it is an entity other than the local authority; and
b) according to proper practices in force at that time, financial information about the entity must be included in the local authority's statement of accounts for the financial year in which that time falls.

6.7. To be an employer under paragraph 6 of part 2 of Schedule 2, the new employer would be "under the control of" the scheme employer, where under the control of has the same meaning as in section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989.

6.8. For the purposes of this policy, paragraphs 5 and 6 Part 2 Schedule 2 bodies are referred to as ‘wholly owned companies’.

6.9. Unless any of the situations listed below apply, the default arrangement will be for the wholly owned company to be a stand-alone employer subject to the ongoing orphan funding target. On exit, unless a subsumption commitment is in place, a low risk ("gilts") basis will be used to value the liabilities in accordance with the Funding Strategy Statement.

6.10. If a wholly owned company is set up by an ungrouped employer the Fund will accept the scheme employer being pooled with its wholly owned company, provided the bodies share the same financial covenant and attributes, and the arrangement does not materially increase the risk to the Fund. This will allow the company to have the same funding target as the scheme employer. A parent company guarantee, and subsumption agreement will need to be put in place for pooling to be acceptable to the Fund and the Administering Authority will reserve the right to review the contributions for the pool on the establishment of the wholly owned company.

6.11. If a wholly owned company is set up by a tax raising authority, that employer can provide a subsumption commitment which will allow the company to be set up with the secure scheduled body funding target. The company will still be a stand-alone employer with its own contribution rate, unless 6.10 applies.

6.12. If a scheme employer has a stronger financial covenant than the wholly owned company (i.e., a MAT/academy with a DfE guarantee that does not extend to the company) then the company will have to be a stand-alone employer subject to the ongoing orphan funding target regardless of whether or not a subsumption commitment is in place.

6.13. Contribution rates for closed employers will be calculated using the attained age methodology (closed contribution rate) with a recovery period equal to future working life. This approach may also be taken for those employers where, in the opinion of the Administering Authority, access to the LGPS is being restricted. The Administering Authority will monitor the number of active members and in particular the number of new entrants in forming this opinion. If the scheme employer enters a pooling arrangement with the wholly owned company under 6.10 above, but one of either the scheme employer or the wholly owned company is closed (or restricts access), the default position for the pool will be to use the attained age methodology with a recovery period equal to the future working lifetime. A period of transition or other easement may be agreed where the number of active members is expected to reduce only slowly over time and new entrants are still expected to be admitted to the group and where, in the Administering Authority's view, such period of transition or easement does not constitute a material risk to the Fund/other employers.

6.14. The Administering Authority will reserve the right to amend the contribution paid by the scheme employer if it is considered that there will be significant or material number of employee members moving to the wholly owned company, relative to the size of the scheme employer. This assessment will take place as part of the triennial valuation.

6.15. Employers considering outsourcing any services to a wholly owned company should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from the Fund.

6.16. The Fund actuary will determine the employer contribution payable for such a body as an ungrouped employer (or for the group where the employer is grouped with the relevant Part 1 Schedule 2 body) and if necessary revise the contributions payable by the scheme employer outsourcing or otherwise transferring staff to a Part 2 Schedule 2 body with the aim of ensuring the transfer does not increase the risk to the Fund or the group if the employer is a grouped employer. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

6.17. As with admission bodies, the costs in terms of the contribution the new employer pays, and the legal and actuarial fees will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the new employer and the scheme employer, and whether the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future and, where relevant, whether the new employer has a government guarantee. Should a guarantee and subsumption commitment not be given by the scheme employer, the Administering Authority may need to take a more prudent approach to setting contribution rates for the new employer to take account of any perceived increased risk to the Fund. The fees will depend on the legal and actuarial information required but an estimate will be provided prior to work being commissioned.

Town and Parish Councils

6.18. Town and Parish Councils joining the Fund will automatically join the Town and Parish Council group (TPCG). Employers in the TPCG will pay a common primary contribution rate based on prevailing future service rate of the TPCG. The FSS sets out details of how deficit (secondary) contributions are payable by employers in the TPCG which, for new employers, will not be applicable until 1 April following the first actuarial valuation date after their commencement in the Fund.

6.19. When a Town or Parish Council designates to join an employee to the Fund, they have no current active members and are not currently subject to a suspension notice (see section 12 below), a standard employer rate equal to the prevailing future service rate of TPCG will be payable until the contributions from the next triennial valuation come into force.

6.20. Town and Parish Councils can choose to leave the TPCG and instead have their contributions based solely on their own liabilities and notional asset share. This election must be made in accordance with a timetable issued by the Administering Authority as part of the triennial valuation. If a Town or Parish Council opts to have an individual contribution rate, they cannot opt to re-join the TPCG at a subsequent valuation.

Academies

6.21. Schools and colleges converting to academy status will automatically join the Academies Group (AG). This also applies to academies being created from a 6th form college, or where there is no former establishment, such as with the creation of a free school. However a 6th form college will be given a choice prior to conversion as to whether or not to join the AG. If the college chooses to remain outside of the AG, an individual employer contribution rate will be calculated using the same funding target as for the AG. Once this choice has been made there will not be a further opportunity for the new academy to join the AG.

6.22. Within the AG, all employers will pay a common future service rate. Deficit contributions will be set according to a common recovery period for the AG and based on each academy's proportion of the liabilities in the AG. If, when a new academy joins the AG, the employers in the AG are paying deficit contributions, the new academy will also be responsible for paying deficiency contributions to the AG from the date of commencement. The deficit contribution will be calculated by the Fund's Actuary based on a percentage of the employer's liabilities at date of commencement.

6.23. The DfE guarantee extends to all academies and free schools, including those created from 6th form colleges. While this guarantee is in force, contribution rates for all academies will be set using the same risk basis as for the secure scheduled body employers.

6.24. A MAT which participated in the AG as a single employer at the 2019 valuation will continue will be treated as a single employer in the AG and will be certified a single contribution rate and, if applicable, a fixed contribution amount towards eliminating any deficit in the AG identified at the valuation date. A single report will be provided for FRS 102 and will not be split between the academies which are part of the MAT.

6.25. Academies joining a MAT on or after 1 April 2019 will be treated as a single employer in the AG and will be certified a contribution rate and, if applicable, a fixed contribution amount towards eliminating any deficit in the AG. This will be in addition to contributions already certified to the MAT and/or their other individually certified academies. For FRS 102 accounting the MAT can instruct the Fund's Actuary to either produce a single report including all academies in the MAT, or to produce separate reports for each academy, noting that it would not be possible to obtain separate reports for academies within a MAT which participated in the AG as a single employer at the 2019 valuation.

6.26. When a LEA school converts to academy status and joins the AG, there will be a transfer of assets from the former LEA school to the AG. Where the LEA's funding position is in deficiency at the conversion date, the asset transfer will be calculated using a 'prioritised share of Fund' approach (see paragraph 11.4). This approach recognises that it is not possible to transfer the liabilities of the former staff of the school to the academy which means the LEA retains the risk on these liabilities.

6.27. If an academy transfers between two MATs within the AG, the new MAT will become responsible for the deficit contributions associated with the transferring academy in addition to its own.

6.28. Where academies outsource services and 10 or fewer employees are transferred to the new admission body, the new employer will be treated as an ungrouped employer subject to the secure scheduled bodies funding target. At the end of the contract, the liabilities will be subsumed by the outsourcing academy.

6.29. Where academies outsource services and more than 10 employees transfer, or where academies set up a wholly owned company and the new admission body or new Part 2 Schedule 2 body is not backed by a guarantee from the Department for Education or the Local Education Authority, the new employer will be treated as an ungrouped employer subject to the ongoing orphan funding target as set out in the Funding Strategy Statement. At the end of the contract, or winding up of the wholly owned company, the liabilities will be subsumed by the outsourcing academy. The exit valuation for the relevant employer will be calculated using the ongoing orphan funding target to be consistent with the original asset transfer.

7. Bonds and guarantors

Guarantor

7.1. A guarantor takes responsibility for the assets and liabilities of the Fund which are attributable to the admission body or wholly owned company. In the event that liabilities of the admission body or wholly owned company remain unpaid, the Fund will seek payment from the guarantor.

7.2. Under the LGPS Regulations 2013[1] every employer who outsources services becomes an ultimate guarantor for the pension liabilities of the new employer. It is the Administering Authority's preferred approach that all wholly owned companies which participate in the Fund as Part 2 Schedule 2 bodies are guaranteed by the Part 1 Schedule 2 employer to which they are related. Should a guarantee not be provided, the contribution rate of the Part 2 Schedule 2 bodies will be set at a level to take account of any perceived increased risk to the Fund (see section 6.17).

7.3. In some circumstances, where the letting authority is not a tax raising authority or an academy who is outsourcing 10 or fewer employees, the Fund will require a bond to be put in place to cover certain funding risks to the Fund on the advice of the Fund actuary.

7.4. The admission agreement ends if the new employer becomes an exiting employer. The Fund will arrange for a valuation of the assets and liabilities of the exiting employer and, where appropriate, a revised rates and adjustment certificate.

7.5. Payment of the outstanding liabilities must be made by the exiting scheme employer. If the exiting scheme employer fails to make this payment and if there is a bond in place this will be called on in the first instance.

7.6. If there is no bond in place and the scheme employer fails to pay the outstanding liability payment from the guarantor will be pursued. If there is no guarantor, the liability will fall to the letting authority who arranged for admission body status for the exiting employer.

7.7. Charitable bodies seeking admission to the Fund will need a tax raising authority to act as guarantor.

7.8. Any employer acting as guarantor will need to complete a guarantor agreement. The Fund will provide a template document for completion.

[1] Schedule 2, Part 3, 1(d)

Bond

7.9. A bond is a way of insuring against the potential cost of the admission body failing by reason of insolvency, winding up or liquidation and being unable to meet its obligations to the Fund.

7.10. The Local Government Pension Scheme regulations provide that the risk assessment for bond cover must be carried out by the admission body. However, we will ask the Fund actuary to calculate the minimum risk to the Fund for any outsourcing. This information will be shared with the scheme employer but not with the admission body. This will not constitute advice for either the scheme employer or admission body, who should take their own actuarial advice as required.

7.11. Where there is a guarantor, the bond will be largely for that scheme employer's protection, in which case the scheme employer must decide if the admitted body will be required to provide a higher bond than that calculated by the Fund actuary.

7.12. The Administering Authority will require a bond or indemnity to be in place for any outsourcings that are arranged by scheme employers that do not have tax-raising powers, unless it is an academy where 10 or fewer employees are transferring. Where there is no bond the Fund will require the letting employer to sign a guarantee agreement.

7.13. The scheme employer needs to be aware of and manage the ongoing risks.

7.14. The scheme employer should review the bond cover annually.

7.15. In the event of an admitted body failing and there being insufficient bond cover, any outstanding liability will fall to the scheme employer.

8. Open or closed admission agreements

Open agreement

8.1. An open agreement allows any person employed in connection with the contract to join the LGPS.

8.2. The Fund will consider an open agreement for an outsourcing. It is for the scheme employer/admission body to ensure only those eligible are admitted to the Fund.

Closed agreement

8.3. A closed agreement relates to a fixed group of employees. Only the employees or roles that transfer to the admission body from the scheme employer can remain or be members of the Scheme.

8.4. Contribution rates for closed employers will be calculated using the attained age methodology (closed contribution rate) with a recovery period equal to future working life.

8.5. Unless advised otherwise, we will assume the admission agreement is closed.

8.6. A scheme employer arranging an outsourcing may agree to vary from this position, but they must be aware of their obligations under Best Value or recommendations of Fair Deal.

Designating employers

8.7. Part 2 Schedule 2 employers are "designating" employers in that they can designate which staff or posts are eligible for membership of the LGPS. Where a Part 1 Schedule 2 employer establishes a wholly owned company which participates in the Fund as a Part 2 Schedule 2 employer, it must advise the Administering Authority of its intentions as regards the eligibility of the company's current and future employees. This will enable the Administering Authority to determine whether the wholly owned company should be treated as an open or closed employer.

9. Funding targets

9.1. The funding target relates to what happens to the liabilities for the members being outsourced at the end of the contract, on termination of the admission agreement or other exit of an employer and may also take into account the Administering Authority's view on the strength of the scheme employer's covenant.

9.2. The presumption will be that the scheme employer will provide a "subsumption commitment" (i.e. be responsible for the future funding of the liabilities post-exit). This will automatically apply to the non-active liabilities of admission bodies in Part 3 paragraph 1(d)9i) of Schedule 2 which commenced in the Fund after 1 April 2018, i.e., these liabilities and any associated assets will be subsumed by the relevant Scheme employer. This should be confirmed in all other cases.

Orphan (gilts) funding target

9.3. Outstanding liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

9.4. The Fund will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities.

9.5. To achieve this, as set out in the Funding Strategy Statement, when an exiting employer would leave orphaned liabilities, the Administering Authority will seek sufficient funding from the outgoing employer to match the liabilities with low-risk investments, generally Government bonds.

9.6. Where an admission body is admitted and there is no subsumption commitment from a secure scheduled body or an academy or the Administering Authority determines that the scheme employer which would subsume the assets and liabilities on the admission body's exit is not of sufficiently strong covenant for the scheme employer's funding target to be adopted (see also paragraph 9.13 below), the new employer will be set ongoing contributions calculated to meet the 'ongoing' orphan funding target. This funding target takes account of the approach taken to value orphan liabilities on exit and will be reviewed at each triennial valuation on the advice of the actuary. Where the 'ongoing' orphan funding target applies, the value of the transferring liabilities, and hence notional asset transfer sufficient (where a fully funded transfer applies) will be higher than using a subsumption basis. Similarly, the contribution rate payable by the admission body will be higher than payable by the scheme employer, potentially materially so. Whilst this approach does not guarantee that there will be no exit payment due, it should materially reduce this risk.

9.7. The exit valuation for academy contractors admitted under paragraph 1(d)(i) of Schedule 2 Part 3 on or after 1 April 2019 where more than 10 employees transferred to the admission body and where the ongoing orphan funding target was used to determine the transferring assets on commencement, will be undertaken on the ongoing orphan funding target, notwithstanding the presumption that the scheme employer will subsume the non-active liabilities and associated assets on exit.

Secure scheduled body funding target

9.8. Where an employer is leaving the Fund another employer or group of employers may agree to provide future funding for any liability.

9.9. In that case, any funding deficit arising in future in relation to the exited employer's liabilities will be subsumed by the accepting employer or group.

9.10. Where the subsuming employer is a tax raising body or is deemed to be of similar covenant to a tax raising body the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally, this will mean assuming continued investment in more risky investments than Government bonds. In other cases, a more prudent funding target will apply, for example in relation to admission bodies following an outsourcing by an academy where more than 10 employees are being transferred, or an outsourcing by other educational establishments where the admission body is not subject to a guarantee from the Department for Education or Local Education Authority, as set out in paragraphs 6.29 and 9.6 above.

Intermediate funding targets

9.11. The actuary also has the option to place an employer on an intermediate funding target if they deem it appropriate. In the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, the administering authority will normally adopt a funding target which produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities.

9.12. The Administering Authority will differentiate between higher, medium, and lower risk employers on the intermediate funding targets by way of a light touch financial assessment based on a data submission which the employers will be asked to complete as part of the triennial valuation process. Employers can request a full covenant assessment at their own expense which will be carried out by the Fund Actuary’s covenant team.

9.13. Where an employer subject to the intermediate funding targets outsources services under 1(d)(i) of Schedule 2 Part 3 or transfers employees to a wholly owned company with a commitment to subsume the liabilities of the company on exit, the funding target for the new employer will be the same as that applicable to the scheme employer, (i.e. will be the scheme employer's intermediate funding target) unless the ongoing orphan funding target is considered by the Administering Authority to be more appropriate to the circumstances.

10. Pass-through

10.1. A scheme employer may agree a pass-through arrangement with an admitted body. In this case the employer contribution is still calculated by the Fund actuary and the admitted body will be expected to pay this to the Fund. Any arrangement to share the cost of this rate will be between the scheme employer and the admitted body.

10.2. New admission bodies will be stand alone employers in the Fund unless a pooling arrangement - which does not introduce risk into the Fund - is agreed with the Administering Authority.

11. Fully funded or share of fund

Fully funded

11.1. When a new employer starts in the Fund, they will usually start as fully funded. This means that any past deficit for the members who are transferring to the new employer remains with the scheme employer and does not transfer to the new employer.

11.2. This applies even where there is an onward outsourcing from an existing body. The new employer will start fully funded and the existing admission body will pay any deficit (unless specified otherwise in their contract with the scheme employer).

11.3. Where the funding target for the new employer is higher than that for the scheme employer, the Fund actuary will revise the contributions for the scheme employer to take this into account. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

Prioritised share of fund

11.4. When a LEA school converts to academy status and joins the AG, there will be a transfer of assets from the former LEA school to the AG. Where the LEA's funding position is in deficiency at the conversion date, the asset transfer will be calculated using a ‘prioritised share of Fund’ approach, This approach assumes the LEA's notional assets in the Fund are first allocated towards ensuring the LEA's deferred and pensioner liabilities are fully funded, so that any deficiency is allocated wholly to the LEA's active membership, of which a part is transferring to the Academy Pool.

11.5. If the LEA is in surplus at the conversion date, the asset transfer will be 100%.

Share of fund

11.6. In exceptional circumstances and only where agreed between the employers the Fund may consider starting a new employer with a share of fund. The Fund will only agree to this where it doesn't increase the risk to the Fund. The principal exception to this is in relation to academy conversions where the assets transferred will be on a prioritised share of fund basis as described in paragraph 11.4 above.

Allowance for McCloud / GMP equalisation

11.7. Until actual costs are known, an approximate allowance will be made for the costs of the McCloud remedy for exit valuations calculated on or after the date of this statement, as agreed by the Administering Authority on the advice of the Fund Actuary.

12. Exit from the Fund (terminations)

12.1. If an exit is triggered, the employer will be responsible for all costs (including any deficit).

12.2. An exit valuation will be carried out when an employer becomes an "exiting employer", i.e. it:

- ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme);
- no longer has an active member contributing towards the Fund.

12.3. For admission bodies, this includes the following scenarios:

- An outsourcing contract ends.
- For a closed agreement, when the last member leaves if it is before the contract end date.
- The admission body becomes insolvent, is wound up or goes into liquidation.

12.4. For exits of a body admitted to the fund under Schedule 2 Part 3 paragraph 1(d) (or earlier regulations) or where a scheme employer is acting as guarantor, the scheme employer should notify the Administering Authority as soon as it knows the admission agreement is likely to be terminated.

12.5. The Administering Authority will instruct the actuary to carry out an exit valuation. The costs of this will be added to the final exit valuation.

12.6. The Administering Authority will pursue all liabilities owing to the Fund. We will support employers to develop a strategy to exit the Fund where required and it is in the interests of the Fund to do so.

12.7. The Administering Authority will pursue the body, any insurer providing a bond or any guarantor as appropriate but ultimately, if unsuccessful, the scheme employer will become liable for any outstanding costs. If there is no scheme employer (e.g., in relation to community admission bodies whose participation pre-dates the requirement for a guarantor), depending upon the circumstances a secure scheduled employer may subsume the assets and liabilities, failing which they will fall to be funded by all employers in accordance with Regulation 64 (3)(b). The Administering Authority has secured subsumption commitments in relation to all employers in the ABG so the risks to the Fund associated with the exit of community admission bodies are now materially reduced.

13. Exit credits

13.1. Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the payment of an exit credit will be made at the discretion of the Administering Authority, after taking into account the factors set out in the LGPS 2013 regulations:

- The extent of any surplus.
- The proportion of a surplus that has arisen because of the value of the employer contributions.
- Any representations made by the exiting employer or letting authority
- Any other relevant factors.

13.2. The value of the employer contributions will be estimated by multiplying the contributions paid by the employer during their participation, by the change in Fund’s value over the same period (estimated where necessary).

13.3. For exits carried out on a low-risk basis, the exit credit will usually be the excess of assets over the liabilities. For exits carried out on a subsumption basis, the exit credit will usually be the lower of the surplus or the value of the contributions. Actuarial and legal costs of the exit will be deducted from the exit credit before payment, unless there is a good reason to accept a separate payment.

13.4. Exit credits will usually be paid to the exiting employer. Scheme employers should note that it is their responsibility to ensure that contracts and side agreements provide for the possibility of either a deficit or a surplus at the end of the contract when the exit valuation takes place.

13.5. A known exception to 13.4 above relates to those scheme employers in the Admission Body Group whose assets and liabilities will be subsumed by a secure scheduled employer, where the subsuming employer has made it a condition of subsumption that no surplus (when measured using assumptions for secure scheduled employers) will be repaid to the exiting employer.

13.6. Representations from the exiting employer and letting authority will be considered before any decision is made. Letting authorities need to be able to show clearly why the surplus (or value of employer contributions if lower) should be retained in the Fund rather than an exit credit being paid to a contractor if they believe this to be the right course of action. Similarly, contractors will need to be able to demonstrate why an exit credit should be paid, particularly where the contract was entered into before 14 May 2018 when the regulations did not envisage surpluses being paid out.

13.7. Other relevant factors may also be taken into account, and employers should include as much detail as possible in their representations. Employers will be notified if the administering authority is taking something else into consideration prior to a final decision being taken so that they can ensure their representations cover these additional points.

13.8. Once a final decision has been taken, the relevant employers as set out in Regulation 64 (2ZAB (a)) will be notified of the decision.

13.9. Regulation 64 (2ZAB (b)) states an exit credit must be paid within 6 months of the exit date or such longer period as is agreed. Where the circumstances mean that the 6-month period cannot be met, for example (but not limited to) to inaccuracies or delays in the provision of information by the Employer, the Fund will advise the Employer accordingly and seek to agree a later payment date (usually three months after receipt of all required information). If the Employer does not agree, the Fund will discuss with the Actuary how the exit valuation can be finalised, and an exit credit paid without increasing the risk for the remaining employers in the Fund.

13.10. If a surplus is retained in the Fund because an ongoing employer has provided a commitment to subsume the liabilities, the assets will be attributed to the subsuming employer unless it is in the Academy Pool where deficits and surpluses are shared within the Pool and not attributed to a specific Academy.

14. Exit of Town and Parish Councils

14.1. Under the Regulations an exit is triggered when the last active member leaves the Fund.

14.2. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves if the Town or Parish Council indicates that it is continuing to designate posts as being eligible for membership. The Local Government Pension Scheme (Amendment) Regulations 2012 specifically introduced the power to suspend a demand for an exit payment for up to 3 years where the administering authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. The Administering Authority considers that it would be appropriate to exercise that discretion in relation to Town and Parish Councils.

14.3. The Fund will issue written notice of the period of the suspension notice. The employer must continue to pay any deficit payments and the actuary will recalculate any deficit at the next valuation. If no new members have joined by the time the suspension notice expires, the Actuary will carry out an exit valuation as at the date of expiry.

[2] Provision 22

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