

Hampshire Pension Fund – Employer Policy

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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 Hampshire Pensions Funding Strategy Statement.
- 1.4. The policy will be reviewed from time to time and at least every three years in line with the Hampshire Pensions Funding Strategy. 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 Hampshire Pensions Funding Strategy:
 - 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 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 Funding Strategy Statement Scheduled body employers under Part 1 of Schedule 2 of the Regulations which are deemed to be secure public sector bodies and Town and Parish Councils under paragraph 2 or Part 2 of Schedule 2 will be part of the Scheduled body group. Decisions made by employers in the group must be in accordance with the group behaviours as set out in paragraph 4.1 below. Employers in the group will pay the same future service rate and share the funding risks of the group as set out in the Funding Strategy Statement.
- 3.3. Some existing Admitted bodies may be part of the Scheduled body group on the understanding that, where considered appropriate, a formal agreement will be put in place to protect the other grouped employers from the actions of the admission body and the effect of the admission agreement being closed to new entrants. The Administering Authority may remove those employers from the Group if satisfactory agreement cannot be reached or the terms of any agreement are not adhered to by the employers concerned.
- 3.4. Some existing Admitted body employers may be part of the Admitted body group.
- 3.5. Some employers will be in neither group and will be set an individual employer contribution.
- 3.6. Employers who are part of a group need to act in accordance with the group behaviours. The Fund will monitor the funding / membership experiences of the employers from time to time. If the Fund considers an employer is not acting in accordance with the group behaviours it will consider taking appropriate action which may include requiring the employer to pay additional contributions so the impacts of the decisions made by the employer do not adversely affect other employers in the group.
- 3.7. 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 take into consideration the effect of their behaviours on the group, for example when considering;
- Discretions policies
 - Outsourcing decisions
 - Salary increases

Employers should have regard to the Hampshire Pension Fund administration strategy at all times.

Changes/mergers

- 4.2. All employers, whether Admission or Scheduled bodies, need to inform the Hampshire Pension Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution or mergers with other organisations or other decision which will or may materially affect the employer's Fund membership.

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. In particular, 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).
- 5.4. Scheme employers must be prepared to manage any pension risk of an outsourcing.

6. New employers in the Hampshire Pension Fund

Admission bodies

- 6.1. Each Admitted body will be a stand alone body in the Fund with its own contribution rate.
- 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 the Fund.
- 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 the Scheduled body group.
- 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 information required from the actuary and solicitor 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 the Scheduled body group. 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. 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. In all cases any liabilities which the outgoing employer is unable to meet on exit will be assumed to pass to the related scheme employer, i.e. the scheme employer setting up the wholly owned company must provide a guarantee in relation to the liabilities of the wholly owned company.
- 6.7. If a wholly owned company is set up by a tax raising authority in the Scheduled Body Group, that employer can provide a subsumption commitment which will allow the company to be set up with the Scheduled Body Group funding target. The company will still be a stand alone employer with its own contribution rate.
- 6.8. If a wholly owned company is set up by an ungrouped Part 1 Schedule 2 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.
- 6.9. 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.
- 6.10. 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 into a pooling arrangement with the wholly owned company under (3) 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.

- 6.11. 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.
- 6.12. 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.
- 6.13. 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.
- 6.14. 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.
- 6.15. 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 Scheduled body group. 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.
- 6.16. As with Admission bodies, the costs in terms of the contribution the new employer pays and the fees in relation to the solicitor and actuary 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 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 and, where relevant, whether the new employer has a government guarantee. The fees will depend on the information required from the

actuary and solicitor but an estimate will be provided prior to work being commissioned.

Town and Parish Councils

- 6.17. Town and Parish Councils joining the Fund will automatically join the Scheduled body group.
- 6.18. 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 the Scheduled body group (currently 14% of pay, increasing to 16.9% of pay with effect from 1 April 2017) will be payable until the contributions from the next triennial valuation come into force.

Academies

- 6.19. Schools and colleges converting to academy status will retain the position in the Fund held by the former establishment. This means that an academy created from the conversion of an LEA school will be part of the Scheduled body group. An academy created from a 6th form college, or where there is no former establishment, will be a standalone employer in the Fund. A new free school will also become a standalone employer in the Fund.
- 6.20. Similarly new multi academy trusts (MATs) will become standalone employers in the Fund unless at the point of creation they wholly consist of former LEA schools (in which case the MAT will stay in the Scheduled body group). Academies which join a MAT will become part of that MAT. An exception may be made for a former LEA school which joins a MAT which is a standalone employer. The MAT can choose for the LEA school to remain part of the Scheduled body group. This will mean that the school continues to share the experience of the Scheduled body group and may pay a different contribution rate to the rest of the MAT.
- 6.21. 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 Scheduled body group, even if the academy or MAT is a standalone employer.
- 6.22. A MAT which participates in the Scheduled Body Group will be treated as a single employer in the Group and will receive a single contribution rate and fixed contribution amount. A single report will be provided for IAS19 and will not be split between the academies which are part of the MAT.
- 6.23. New academies that are formed from an LEA school will also be asked to take responsibility for a portion of the local education authority's deficit contributions in

line with the proportion of pensionable payroll which is transferring from the local education authority to the academy. If an academy moves to a MAT, the MAT will become responsible for those deficit contributions in addition to its own.

- 6.24. Where academies **outsource services or 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.

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 Local Government Pension Scheme Regulations 2013¹ every employer who outsources services becomes an ultimate guarantor for the pension liabilities of the new employer. It is the Administering Authority's policy 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.**
- 7.3. In some circumstances, where the letting authority is not a tax raising authority 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 employer². 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 we will call on this in the first instance.
- 7.6. If there is no bond in place and the scheme employer fails to pay the outstanding liability we will pursue payment from the guarantor. 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.

¹ Schedule 2, Part 3, 1(d)

² The Local Government Pension Scheme Regulations 2013 Part 2 , 64

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

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. However, it 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. 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. Unless advised otherwise, we will assume the admission agreement is closed and there will be a default joining window of 6 months.
- 8.5. 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

- 8.6. 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 under 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 15 December 2017, 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 fixed-interest and index-linked bonds.

- 9.6. Where an admission body is admitted and there is no subsumption commitment from a tax raising employer 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, 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 admission bodies under paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund after 1 April 2018 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**

Scheduled Body Group 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 or other educational establishment where the admission body is not subject to a guarantee from the Department for Education or Local Education Authority, as set out in paragraph 6.22 above.

Intermediate funding target

- 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. Where an employer subject to the intermediate funding target 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 Admitted bodies will not be included in the scheduled body or admitted body group even if there is a pass-through arrangement in place between the letting authority and the admitted body.

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.

Share of fund

- 11.4. 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.

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), or
 - no longer has an active member contributing towards the Fund
- 12.3. For admission bodies, this includes the following scenarios:
- an outsourcing contract ends or,
 - for a closed agreement, when the last member leaves if it is before the contract end date, or
 - 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 Fund 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 Fund 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 the Scheduled Body Group may subsume the assets and liabilities, failing which they will fall to be funded by all employers in accordance with Regulation 64 (3)(b).

Town and Parish Councils

- 12.8. Under the Regulations an exit is triggered when the last active member leaves the Fund.
- 12.9. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves as it may take some time to replace a member of staff and the Parish Council may wish to admit the new employers into the scheme. The Local Government Pension Scheme (Amendment) Regulations 2013 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.
- 12.10. 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.

³ Provision 22