

Royal Borough of Kingston upon Thames Pension Fund  
Funding Strategy Statement  
April 2023





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# Welcome

This document sets out the funding strategy statement (FSS) for the Royal Borough of Kingston upon Thames Pension Fund.

The Royal Borough of Kingston upon Thames Pension Fund is administered by Kingston Council, known as the administering authority. Kingston Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for Kingston Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [skemployers@sutton.gov.uk](mailto:skemployers@sutton.gov.uk).

## 1.1 What is the Royal Borough of Kingston upon Thames Pension Fund?

The Royal Borough of Kingston upon Thames Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants

- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency

- where appropriate, ensure stable employer contribution rates

- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy

- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

### Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), which provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

#### **1.4 How does the funding strategy link to the investment strategy?**

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at <https://www.kingston.gov.uk/pensions>.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

#### **1.5 Does the funding strategy reflect the investment strategy?**

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#)).

#### **1.6 How is the funding strategy specific to the Royal Borough of Kingston upon Thames Pension Fund?**

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

## How does the fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

**the primary contribution rate** – contributions payable towards future benefits

**the secondary contribution rate** – the difference between the primary rate and the total employer contribution required.

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

### 2.2 The contribution rate calculation

**Table 1: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Local authorities	Academies	Other	Open to new entrants	Closed to new entrants	
<b>Funding target**</b>	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
<b>Minimum likelihood of success</b>	70%	70%	75%	80%	80%	50%-75%
<b>Maximum time horizon</b>	20 years	20 years	20 years	20 years		Same as the letting employer
<b>Primary rate approach</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
<b>Secondary rate</b>	% of payroll or monetary amount					
<b>Stabilised contribution rate?</b>	Yes	No	No	No	No	No

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Local authorities	Academies	Other	Open to new entrants	Closed to new entrants	
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Contributions kept at primary rate. Reductions may be permitted by the administering authority			Reduce contributions by spreading the surplus over the remaining contract term	
<b>Maximum phasing of contribution changes</b>	Covered by stabilisation arrangement	Phased over a period to be agreed with the administering authority			None	

\* *Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer.*

\*\* See [Appendix D](#) for further information on funding targets.

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for local authority employers. Contribution rate changes for these employers is constrained to an increase or decrease of 0.5% of pay per annum.

### 2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available in [Appendix E](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

### 2.5 What is pooling?

The administering authority operates funding pools for employers who are closely related to one another. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, employers do not target full funding at exit (the pool as a whole targets full funding). While the fund receives the contributions required, the risk that employers will be entitled to a surplus payment on exit increases.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.


CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

### 2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or



permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. This is at the ultimate discretion of the administering authority.

## What additional contributions may be payable?

### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payment invoices may be spread using a payment plan if the administering authority agrees.

### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer may be required to pay a funding strain, which may be a large sum.

To mitigate this, employers may choose to use external insurance.



## How does the fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring.

### 4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See [section 2](#) for further information on rates.

## What happens when an employer joins the fund?

### 5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in [section 2](#), unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in [section 5.4](#) below.

### 5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former local authority maintained schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The ceding council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT) in which case the other MAT schools in the Fund may be pooled such that all academies within a MAT pay the same rate.

The new academy's contribution rate is based on the current funding strategy (set out in [section 2](#)) and the transferring membership. Where a new academy joins an existing MAT who has elected to pay a pooled rate, the new academy will pay the pooled MAT rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

The Fund's default approach is to require all new admission bodies to be set up with a pass-through arrangement. The Fund's policy on pass-through is detailed in [Appendix F](#). Exceptions for non-Academy contractors are possible at the absolute discretion of the Administering Authority.

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a local authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are rare and will be considered on a case-by-case basis.

#### 5.4 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the letting employer may decide the admission body must provide security such as an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The level and type of security given must also be to the satisfaction of the administering authority.



## What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower

the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities

the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is in [Appendix G](#).

## What happens when an employer leaves the fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time

insolvency, winding up or liquidation of the admission body

a breach of the agreement obligations that isn't remedied to the fund's satisfaction

failure to pay any sums due within the period required

failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor

termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the scheme.

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).

Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is in [Appendix H](#).

### 7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

the surplus amount

the proportion of the surplus due to the employer's contributions

any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support



- any other relevant factors.

Further information on the Fund's approach to exit credits can be found in the cessation policy in [Appendix H](#).

#### 7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)

- if an exiting employer enters into a DDA, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Further information on the use of employer flexibilities can be found in the cessation policy in [Appendix H](#).

#### 7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at formal valuations.

- the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers at formal valuations.

## What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.



# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency objectives**
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue... with council tax raising authorities and representatives of other participating employers'.

The consultation process included issuing a draft version to participating employers and inviting employers the opportunity to discuss the FSS and how it applies to their part of the fund as part of the valuation process.

### A3 How is the FSS published?

The FSS is distributed by:

- publishing on the administering authority's website
- sending copies to each employer
- including the full statement or summary in the fund's annual report and accounts
- sending copies to members of the local pension board
- sending copies to the fund's investment advisers
- making copies freely available on request.

The FSS is published at <https://www.kingston.gov.uk/pensions>.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any material amendments will be consulted on, agreed by the Pension Fund Panel and included in the relevant meeting minutes.

### A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at <https://www.kingston.gov.uk/pensions>.



## Appendix B – Roles and responsibilities

### **B1 The administering authority:**

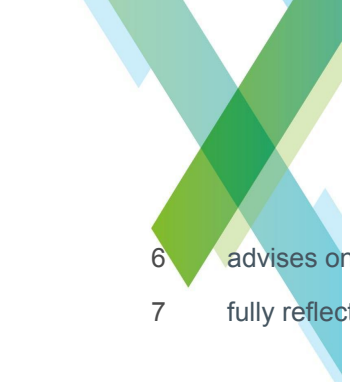
- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### **B2 Individual employers:**

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

### **B3 The fund actuary:**

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits
- 5 assists the administering authority to consider changes to employer contributions between formal valuations

- 
- 6 advises on terminating employers' participation in the fund
  - 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is to assist the Fund in complying with regulations and the requirements of The Pensions Regulator. The local pension board's terms of reference are set out on [modern.gov](#).

Details of the key fund-specific risks and controls are kept under constant review. An updated risk register is a standing item at Pension Fund Panel and can be found in the public papers from those meetings. Agenda packs including papers can be found at [modern.gov](#).

### C2 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employer makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Further details on the fund's approach to climate change risks can be found in the Investment Strategy Statement and the fund's annual report and accounts. These documents are available at <https://www.kingston.gov.uk/pensions>.

## Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns								Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Property	Unlisted Infrastructure Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	CorpMedium A			
10 years	16th %ile	-0.6%	0.7%	1.4%	1.7%	0.9%	-0.4%	2.7%	-0.1%	1.6%	-1.7%	1.1%
	50th %ile	4.4%	5.9%	3.2%	3.5%	2.3%	5.8%	6.0%	1.6%	3.3%	-0.5%	2.5%
	84th %ile	9.5%	11.2%	5.1%	5.2%	3.7%	11.9%	9.2%	3.2%	4.9%	0.7%	4.3%
20 years	16th %ile	1.4%	2.6%	2.1%	2.8%	1.4%	1.8%	4.3%	1.1%	1.2%	-0.7%	1.3%
	50th %ile	5.0%	6.5%	3.8%	4.4%	2.9%	6.3%	6.8%	2.1%	2.7%	1.1%	3.2%
	84th %ile	8.9%	10.6%	5.7%	6.0%	4.6%	11.1%	9.2%	3.2%	4.3%	2.7%	5.7%
40 years	16th %ile	2.6%	3.9%	2.5%	3.6%	1.6%	3.4%	5.5%	2.0%	0.9%	-0.6%	1.1%
	50th %ile	5.5%	7.0%	4.4%	5.3%	3.3%	6.8%	7.7%	3.1%	2.2%	1.3%	3.3%
	84th %ile	8.8%	10.3%	6.5%	7.1%	5.4%	10.4%	10.0%	4.4%	3.7%	3.2%	6.1%
	<b>Volatility (Disp) (5 yr)</b>	15%	15%	5%	6%	3%	18%	10%	7%	3%		

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except closed community admission bodies	1.8%
Low-risk exit basis	Community admission bodies closed to new entrants	0.0%

#### Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.2% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 70% likelihood that the fund's assets will achieve future investment returns of 4.2% over the 20 years following the 2022 valuation date.

#### Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

#### Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

#### D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

#### Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile. Further details on VitaCurves can be found on <https://www.clubvita.net/uk/services-overview/vitacurves>.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recent mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

#### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below

Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	45% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

### Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.17	525.60	894.31	0.00	0.00	0.00	0.00
25	117	0.17	347.18	590.73	0.00	0.00	0.00	0.00
30	131	0.20	246.33	419.07	0.00	0.00	0.00	0.00
35	144	0.24	192.46	327.39	0.10	0.07	0.02	0.01
40	150	0.41	154.95	263.50	0.16	0.12	0.03	0.02
45	157	0.68	145.55	247.46	0.35	0.27	0.07	0.05
50	162	1.09	119.98	203.75	0.90	0.68	0.23	0.17
55	162	1.70	94.48	160.53	3.54	2.65	0.51	0.38
60	162	3.06	84.21	143.02	6.23	4.67	0.44	0.33
65	162	5.10	-	-	11.83	8.87	-	-

### Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT & PT	FT	PT	FT	PT	FT
20	105	0.10	458.15	514.11	0.00	0.00	0.00	0.00
25	117	0.10	308.28	345.88	0.10	0.07	0.02	0.01
30	131	0.14	258.41	289.90	0.13	0.10	0.03	0.02
35	144	0.24	223.04	250.12	0.26	0.19	0.05	0.04
40	150	0.38	185.63	208.09	0.39	0.29	0.08	0.06
45	157	0.62	173.23	194.16	0.52	0.39	0.10	0.08
50	162	0.90	146.05	163.52	0.97	0.73	0.24	0.18
55	162	1.19	108.97	122.13	3.59	2.69	0.52	0.39
60	162	1.52	87.82	98.31	5.71	4.28	0.54	0.40
65	162	1.95	-	-	10.26	7.69	-	-

**D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?**

**Low-risk exit basis**

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin.
- The CPI assumption is based on market implied RPI derived as the difference between the yields on long dated gilts and index linked bonds with an appropriate allowance for differences between RPI and CPI.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

# Appendix E – Royal Borough of Kingston upon Thames Pension Fund Policy on contribution reviews

## Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

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

### 1.1 Aims and objectives

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

To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.

To outline specific circumstances where contribution rates will not be reviewed.

### 1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

### 1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.

Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.





## Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.

The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.

Full justification for any change in contribution rates will be provided to employers.

Advice will be taken from the fund actuary in respect of any review of contribution rates.

Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## Policy

### 3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;

an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;

there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;

it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;

it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);

it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or

where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

### 3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

a copy of the latest accounts;

details of any additional security being offered (which may include insurance certificates);

budget forecasts; and/or

information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### **3.3 Other employers**

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

The existence of a guarantor.

The amount of any other security held.

The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

### **3.4 Effect of market volatility**

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

### **3.5 Documentation**

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.

A note of the new contribution rates and effective date of these.

Date of next review.

Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

## **Related Policies**

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

# Appendix F – Royal Borough of Kingston upon Thames Pension Fund Policy on pass-through

## 1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the fund on a pass-through basis. In addition, and subject to review on a case-by-case basis, the fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the fund.

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

### 1.1 Aims and objectives

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

- To set out the fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the pass-through arrangement.
- To outline the process for admitting new contractors into the fund.

### 1.2 Background

Employees outsourced from local authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007) or new Fair Deal (in the case of academies). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the fund and making the requisite employer contributions.

Pass-through is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the employer's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

### 1.3 Guidance and regulatory framework

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

- Schedule 2 Part 3 sets out the entities eligible to join the fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.
- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the fund.

## 2 Statement of principles

This statement of principles covers the admission of new contractors to the fund on a pass-through basis. Each case will be treated on its own merits, but in general:

- In the absence of a preferred approach from the letting authority, pass-through is the default approach for the admission of all new contractors to the fund from the effective date of this policy. For the avoidance of doubt, this would apply to contracts established by councils and academy trusts ("the letting authority").

- The contractor's pension contribution rate is set equal to the primary contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's primary contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, and salary experience under its pass-through arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and no additional strain payments will be levied on the contractor in respect of ill health retirements.
- The contractor will not be required to obtain an indemnity bond.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains, augmentations and/or salary experience. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass through agreement will be documented by way of the admission agreement between the administering authority, the letting authority (where different), and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above.

The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

## 3 Policy and process

### 3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

### 3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will be set equal to the primary rate payable by the letting authority from time to time. This means that the contractor's contribution rate will change once every three years, following the triennial actuarial valuation, but not between those times. Even then, this would always be in line with changes in the letting authority future service primary rate, and not affected by the (generally more volatile) changes in past service funding level.

### 3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a pass-through basis. The letting authority is effectively guaranteeing the contractor's participation in the fund.

A cessation valuation is required when a contractor no longer has any active members in the fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a pass-through arrangement is in place, the fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains and/or augmentations at the end of the contract.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation is as follows:

<b>Risks</b>	<b>Letting authority</b>	<b>Contractor/ Admitted body</b>
Surplus/deficit prior to the transfer date	✓	
Interest on surplus/deficit	✓	
Investment performance of assets held by the Fund	✓	
Changes to the discount rate that affect past service liabilities	✓	
Changes to the discount rate that affect future service accrual *		✓
Change in longevity assumptions that affect past service liabilities	✓	
Changes to longevity that affect future accrual *		✓
Price inflation affects past service liabilities	✓	
Price inflation / pension increases that affect future accrual *		✓
Exchange of pension for tax free cash	✓	
Ill health retirement experience	✓	
Strain costs attributable to granting early retirements (not due to ill health (e.g. redundancy, efficiency, waiving actuarial reductions on voluntary early retirements))		✓
Greater/lesser level of withdrawals	✓	
Rise in average age of contractor's employee membership	✓	
Changes to LGPS benefit package *		✓
Excess liabilities attributable to the contractor granting pay rises that exceed those assumed in the last formal actuarial valuation of the Fund		✓
Award of additional pension or augmentation		✓

*\* These elements would be picked up at the next triennial valuation, if the contractor is still active in the Fund at that time, and would feed through into the letting authority's primary contribution rate and hence the contractor's contribution rate.*

### 3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing

defined benefit pensions), however, this is a rule of thumb and some pass-through employers may still be required to account under defined benefit basis.

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authority's FRS102 / IAS19 disclosures.

The administering authority expects employers to seek approval to the treatment of pension costs from their auditor.

### 3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the Administering authority.

All existing admission agreements (i.e. which commenced prior to the effective date of this policy) are unaffected by this policy.

### 3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this pass-through policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the fund during the period of participation and meeting the cost of (non-ill health) early retirement strains, the cost of benefit augmentations and excessive salary growth (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in [paragraph 3.2](#).
- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.
- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.
- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.
- **Template admission agreement** – a template pass-through admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.
- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the fund can start to receive contributions from the contractor and its employee members (backdated if necessary).
- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.



## Costs

Contractors being admitted to the fund under a pass-through agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

## 4 Related Policies

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

The treatment of new employers joining the fund is set out in the Funding Strategy Statement, specifically "[Section 5](#) – What happens when an employer joins the fund?"

The treatment of employers exiting the fund is set out in the in the Funding Strategy Statement, specifically "[Section 6](#) – What happens when an employer leaves the fund?" and the fund's cessation policy.

# Appendix G – Royal Borough of Kingston upon Thames Pension Fund Policy on bulk transfers

## 1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme members' pension rights into and out of the fund in prescribed circumstances.

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

### 1.1 Aims and Objectives

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

- Bulk transfers out of the fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the fund must be sufficient to pay for the benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

### 1.2 Background

Bulk transfers into and out of the fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. The fund will therefore consider bulk transfers on a case-by-case basis.

### 1.3 Guidance and regulatory framework

#### Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a [Club scheme](#) (that is schemes with benefits broadly similar to those of the LGPS), who request



to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with “non-Club” accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.

- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between Fund actuaries.

### Best Value authorities

The [Best Value Authorities Staff Transfers \(Pensions\) Direction 2007](#), which came into force on 1 October 2007, applies to all “Best Value Authorities” in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

### Academies and multi-academy trusts

[New Fair Deal guidance](#), introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result, the fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

### Other employers


For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the fund, subject to complying with the administering authority’s requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate [Government Actuary’s Department \(GAD\) guidance](#).

## 2 Statement of principles

This statement of principles covers bulk transfer payments into and out of the fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the fund, the administering authority’s objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority’s default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer’s share of fund assets (capped at 100% of the value of the liabilities). The fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
  - the use of cessation assumptions where unsecured liabilities are being left behind or;

- 
- where transfer terms are subject to commercial factors.
  - Where an entire employer is transferring in or out of the fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
  - There may be situations where the fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
  - Any shortfall between the bulk transfer payable by the fund and that which the receiving scheme is prepared to accept must be dealt with outside of the fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
  - Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

## 3 Policy

The following summarises the various scenarios for bulk transfers in or out of the fund, together with the administering authority's associated policies.

### 3.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p><b>Actives only transferring:</b> Subject to negotiation.</p> <p><b>All members transferring (i.e. all actives, deferred and pensioners):</b> Receive all assets attributable to the membership within the transferring scheme.</p>
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p><b>Actives only transferring (i.e. remaining members left behind):</b> Subject to negotiation.</p> <p><b>All actives transferring (i.e. deferred and pensioner members left behind):</b> Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the appropriate cessation assumptions. The residual assets will then be transferred to the receiving scheme.</p> <p><b>All members transferring (i.e. all actives, deferred and pensioners):</b> Transfer all assets attributable to the membership to the receiving scheme</p> <p>The fund reserves the right to consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.</p>

### 3.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy
In	Club Memorandum	<p>CETVs in accordance with GAD guidance and Club Memorandums.</p> <p>The fund reserves the right to consider the individual circumstances of each transfer when considering appropriate terms. Particularly where a transfer involves significant numbers of members or a concentration of high liability individuals.</p>
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013	<p><b>Actives only transferring (i.e. remaining members left behind):</b> CETVs in accordance with GAD guidance and Club Memorandums.</p> <p><b>All actives transferring (i.e. deferred and pensioner members left behind):</b> Assets will be retained by the fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme. Minimum transfer amounts may apply.</p>

		The fund reserves the right to consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.
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### 3.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy
In	GAD guidance	The fund reserves the right to not accept transfers in from non-Club schemes on an individual or bulk basis.  Where a bulk transfer is permitted, the fund will consider the individual circumstances of the transfer when determining the appropriate terms.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance subject to non-Club factors
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	The fund will consider the individual circumstances of each transfer when considering appropriate terms and may take into account representations from the employers involved.

## 4 Practicalities and process

### 4.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

### 4.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

### 4.3 Consent

Where required within the Regulations, for any bulk transfer the administering authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

### 4.4 Approval process

The fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.



#### 4.5 **Non-negotiable**

It should be noted that, as far as possible, the fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the fund.

#### 4.6 **Costs**

Actuarial and other professional costs will be recharged in full to the employer.

## 5 Related Policies

[Section 6](#) of the fund's Funding Strategy Statement.

# Appendix H – Royal Borough of Kingston upon Thames Pension Fund Policy on cessations

## 1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in [section 3 - Policies](#)).

### 1.1 Aims and Objectives

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

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting employer).

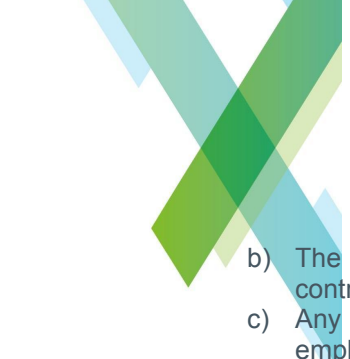
### 1.2 Background

As described in [section 7](#) of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered (e.g. when the last active member stops participating in the fund). On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

### 1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.
- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  - a) Notify its intention to make a determination to-
    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)

- 
- b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
  - Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
  - Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
  - Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
  - Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
  - Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

## 2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund having to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per [section 7](#) of the FSS and [section 3.1](#) below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

## 3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in [section 4.3](#) of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below). The fund will normally require security covering any outstanding debt for the entirety of the agreed period.

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

### 3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in [section 7.2](#) of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities	Low risk basis <sup>1</sup>	Shared between other fund employers
Further & Higher Education Colleges	Low risk basis	Shared between other fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis <sup>2</sup>	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

<sup>1</sup>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

<sup>2</sup>Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the administering authority reserves the right to carry out the cessation valuation on a low-risk basis.

### Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.



- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, [section 7.5](#) of the FSS would apply.

### 3.2 Repayment flexibility on exit payments

#### Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- A legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

#### Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, the fund may also allow a DDA as described in [Regulation 64 \(7A\)](#) on a case by case basis.

The employer must meet all requirements on scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

### 3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the administering authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the administering authority made by the exiting employer, guarantor, ceding scheme employer (usually the letting employer) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors.

### **Admitted bodies**

- i. No exit credit will normally be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass-through approach.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

### **Scheduled bodies and designating bodies**

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will normally be paid.

- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

### General

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the Section 151 officer, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 ([section 2.2](#)) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual likelihood of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.
- vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However, it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

### Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

## 4 Practicalities and process

### 4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

### 4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

#### Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.

- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

#### 4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

## 5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "[Section 7](#) – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in [Appendix D](#) of the FSS.