additions shown in bold, italic text, deletions struck through.

APPENDIX 1B: Funding Strategy for Academies and Free Schools

Opening Position

All Academies will have an initial opening position which is based on:

- **Liabilities** reflecting the value of benefits built up by the transferring members of staff active in the Fund on the day before conversion. Ex-employees of the school who have deferred or pensioner status will not be included in these liabilities.
- **Assets** allocated from West Sussex County Council's assets in the Fund, using the estimated funding position of WSCC on the day of the conversion. The asset position for WSCC assumes that ex-employees of the school who have deferred or pension status are fully funded. The maximum starting funding level at outset is 100% of the liabilities.

Free schools typically start with no assets and liabilities. Where members do transfer from other employers in the Fund, the opening position will be set consistently to that done for new academies.

For an Academy, the initial contribution rate will be equal to the Academies who are part of the Multi Academy Trust (MAT) pool or, if this is not applicable, that of WSCC. If requested, the Actuary can calculate an individual rate.

For a Free School, the initial contribution rate will be an individual rate calculated by the Fund Actuary.

Funding Target

The Funding Target used for Academies and Free Schools is the "ongoing funding basis".

For Academies or Free Schools nearing the end of their participation in the Fund, the Fund may use the "cessation basis" as the Funding Target.

Time horizon & Likelihood

Because Academies and Free Schools are considered long term employers, the Fund will look for a 70% minimum likelihood that the assets held on behalf of the Academy or Free School meet (as closely as possible) the value of benefits built up (i.e. a funding position of 100%) at the end of a maximum time horizon of 20 years.

Smoothing

A key principle for Academies and Free Schools is the Fund's approach to keeping contribution rates as stable as possible through "pooling". "Pooling" is a way for some Academies and Free Schools to share experience of membership movements and smoothing out the effects of costly, but relatively rare events, such as ill health retirements or death in service by setting a combined single contribution rate.

Whilst over the longer time periods, it would be expected that the experience for an individual may even out between Academies and that each Academy in the pool will, on average, pay a fair level of contributions it should be noted that Academies who pay "pooled" contributions may be paying more or less than they might otherwise have paid which hides the true long-term liability, and it may take longer to reach full funding, all other things being equal.

Due to the long term nature of Academies and Free Schools, changes to contribution rates may be phased in where the assessed total rate changes by 2% of pay or more (for example, if rates were to increase or reduce by 3% of pay, this would be phased in by changing contributions 1% of pay per annum).

Additional Costs

Early Retirement

No allowance has been made within employer contribution rates for early retirement of members. As a result, employers are required to pay an upfront, additional contributions ('strain') wherever an employee retires before reaching their earliest retirement age. An employer can make a request to the Chief Finance Officer to pay instalments over a maximum three year period, but this would be by exception.

Ill Health Early Retirement

Members are entitled to an ill health benefit if they have qualifying service and where their employment is terminated by a Scheme employer on the grounds of ill-health or infirmity of mind or body before that member reaches normal pension age. The eligibility for an ill health retirement is set out within the LGPS regulations and any decision made by the employer should be based on the recommendation of the Independent Registered Medical Practitioner (IRMP).

Limited allowance has been made within employer contribution rates for ill health early retirement of members. As a result, the preference is for employers to pay an upfront, additional contribution ('strain') wherever an employee retires with an unreduced pension before reaching their earliest retirement age. However, alternatives will be considered based on the employer's covenant.

Exit and Exit Obligations

The Fund considers an Academy or Free School to be a long term employer. However it is important to consider arrangements when an Academy leaves the Fund, for whatever reason.

Suspension Notice

If and when an Academy or Free School ceases to have active members contributing to the Fund and the individual employer position is in deficit, the Fund may issue a Suspension Notice - provided it reasonably believes that the employer is likely to have one or more active members contributing to the Fund within a three year period.

Where a Suspension Notice is issued, the Academy or Free School may be required to pay secondary contributions during the period of the Suspension Notice.

The suspension notice will be lifted if one or more active members join the Local Authority or Police's individual position. If lifted, the Academy or Free School will either pay their MAT's rate where pooled with their associated MAT or an individual contribution rate calculated by the Fund Actuary.

Other circumstances

In all other cases, and if the employer does not have one or more active members actively participating in the Fund at the conclusion of a Suspension Notice, the Fund will request that a cessation valuation is carried out by the Fund Actuary to determine the level of deficit or surplus in the individual employer position.

Whenever completing this the Actuary will adopt an approach which, to the extent reasonably practicable, protects other employers in the Fund from the likelihood of any material loss emerging in future.

Therefore, on exit, the liabilities will be valued on the "cessation basis". The calculation may include an allowance for future administration costs, reserves for retrospective changes to Fund benefits, and/or additional prudence for the risk of members living longer than anticipated.

Where there is a deficit, the full amount is expected to be paid as a single lump sum. Alternatively, the Academy or Free School may be permitted to make regular payments (payment plan) or enter a deferred debt agreement at the discretion of the Fund.

Where there is a surplus, the Fund will determine the amount of exit credit to be paid in accordance with the Regulations and in line with this Strategy.

Provided the Academy or Free School meets its exit obligations, they will have no further obligation to the Fund. The Academy will remain in the pooling arrangement even when they have no active members.

Contractors

Academies should note the impact of setting up new Admission Bodies on their liabilities. It is normal for an Admission Body to be set up in the Fund as a new employer.

Following the Department for Education Academy Trust Guarantee Policy, the default for Academy contractors to be admitted into the Fund will be on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Academy, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, no exit debt or credit will be due. These bodies will be pooled with the Academy for actuarial valuation purposes.

If the Academy does not wish for the contractor to be admitted on a "Pass Through" basis, the Fund will require proof from the Academy that they have permission from the Education and Skills Funding Agency to act as a guarantor.

- ~~The new employer can have responsibility for all the accrued (and future) benefits of the transferring employees and if this is the case, the Admission Body will usually start fully funded on an ongoing funding basis. The contractor's initial contribution rate would be set on an individual basis by the Fund Actuary and the Academy will carry out an assessment (taking account of actuarial advice) concerning the level of risk arising on the premature termination of the service or in the event of insolvency, winding up or liquidation. This risk assessment needs to be carried out to the satisfaction of the Fund and where required an indemnity or bond must be put in place to meet the level of risk. This should be reviewed periodically. When an Admission Body exits the Fund and it is not possible to obtain all or part of the exit payment due from the exiting Admission Body, or from an insurer, or any person providing an indemnity, bond or guarantee on their behalf, any unpaid amounts will fall to any related Fund employer.~~
- ~~Alternatively, the new employer can be set up on a "Pass Through" basis. Under most pass through arrangements no pension fund assets or liabilities will transfer to the contractor's portion of the Fund. The contractor would pay a fixed contribution rate agreed with the Academy, over the entire contract length. When the Admission Body exits the Fund, provided that all pass through arrangements have been complied with, the Academy will have responsibility for any future liabilities.~~