

Pensions Committee

22 July 2020

Part I

Exit Credits - Funding Strategy Statement Update

Report by Director of Finance and Support Services

Summary

The Government published its partial response to its May 2019 consultation in relation to LGPS employer exit credit arrangements, local valuations and management of employer risk earlier this year. The resulting Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) came into force in March 2020 – requiring Administering Authorities to determine, at their absolute discretion, the amount of any exit credit payment due to a ceased employer, having regard to any relevant considerations.

An Exit Credit Policy has been drafted for the Committee's consideration which proposes that the amount of the payment will be determined by the Director of Finance and Support Services.

It is proposed that the Policy is included as part of the Funding Strategy Statement and as such employers are consulted.

Recommendation

The Exit Credit Policy is adopted for including in the Funding Strategy Statement, subject to consultation with employers.

The Director of Finance and Support Services considers any feedback on the Exit Credit Policy from employers. Unless material feedback is received which alters the policy's intent, the Director of Finance and Support Services can reflect any amendments and the policy can be adopted without further referral to the Committee.

Background

1. MHCLG issued a consultation in May 2019 in relation to LGPS employer exit arrangements, changes to the local valuation cycle and management of employer risk.
2. One of the issues covered in the consultation was how the payment of exit credits (where an employer was in surplus) worked alongside contractual arrangements such as pass-through (where the contracting Authority, such as the County Council, took on the downside risk).
3. The Government published its partial response in February 2020 which covers this exit credit arrangement. The resulting Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) came into force in March 2020. Given the timing the Funding Strategy Statement was

amended to refer to the Administering Authority discretion pending the fuller consideration of an Exit Credit Policy.

Exit Credit Policy

4. Under the new Regulations the administering authorities may determine, at their absolute discretion, the amount of any exit credit payment due, having regard to any relevant considerations. An Exit Credit Policy has therefore been drafted that:
 - the Actuary will be asked whether there is an exit credit and the proportion which has arisen because of the value of the employer's contributions;
 - we will take into account any representations made by the exiting employer, the Scheme employer in connection with that body and any other connected body;
 - we will consider "other relevant factors" which includes
 - a. whether the employer joined the Scheme prior to May 2018 (when the Regulations introduced an exit credit),
 - b. risk sharing arrangements,
 - c. any agreements on the treatment of the employer on exit from the scheme,
 - d. whether there are any outstanding sums owed to the Fund,
 - e. the effects of changes in assumptions, investment performance or other factors.
5. Taking this into account the amount of the payment will be determined by the Director of Finance and Support Services.
6. The full Policy is included as Appendix A
7. It is proposed that the Policy forms part of the Funding Strategy Statement. This would be considered to be a material amendment and therefore it will be necessary to consult employers.
8. The table below summarises the current position with cessation calculations within the Fund:

Position	Action under Exit Credit Policy	No Employers
Contractor where actuarial calculation completed prior to March 2020 and indicated an exit surplus.	<p>Dependent on representations made to the Administering Authority by the exiting employer, the Scheme employer in connection with that body and any other relevant factors.</p> <p>Payment, if applicable, will be determined by the Director of Finance and Support</p>	1

	Services.	
Contractors on risk sharing arrangements where actuarial calculation is to be completed.	As above	20
Contractors where actuarial calculation is to be completed.	As above	8

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Appendices

Appendix A – Exit Credit Policy

Background Papers

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868589/Exit_Credits_Govt_Response.pdf