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EXTRACT

Funding Strategy Statement

west sussex county council

lgps

Exiting employers

General Principles

The Administering Authority may consider any of the following as triggers for the cessation on an employer's participation in the Fund:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Administering Authority; or
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or

  The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Administering Authority.

Under these circumstances, the Administering Authority may put in place a Deferred Debt Agreement or instruct the actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Assessment

<u>Deferred Debt Agreement</u>

The Administering Authority may enter into a written agreement with an exiting Scheme employer for that employer to defer their obligations to make an exit payment and continue to make secondary contributions (a 'deferred debt agreement').

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 deferred debt agreement.

The Administering Authority will consider deferred debt agreements in the following circumstances:

- The Scheme employer requests the Fund consider a deferred debt agreement;
- The Scheme employer is expected to have a deficit if a cessation valuation was carried out;
- The Scheme employer is expected to be a going concern; and
- The covenant of the Scheme employer is considered sufficient by the Administering Authority to support.

The Administering Authority may require:

- Security be put in place covering the Scheme employer's deficit on their cessation basis plus market risks (further details are set out in 'Other Actuary Matters' below;
- All costs of the arrangement are met by the Scheme employer, such as the cost of ongoing monitoring the funding level and security requirements.

A deferred debt agreement terminates on the first date on which one of the following events occurs:

- the deferred employer enrols new active members;

- the period specified, or as varied, under the Agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that the administering authority is reasonably satisfied that the deferred employer’s ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
- the Fund actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. the Scheme employer is now fully funded on their cessation basis).
- 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 Scheme employer pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement a deferred employer becomes an exiting employer and a cessation valuation will be completed.

<u>Cessation Valuation</u>

On cessation, the Administering Authority will instruct the actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

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. This may include making an allowance for future administration costs associated with administering the benefits of the former employer’s members and the risk of members living longer than anticipated.

Where there is a deficit:

- The normal approach is for payment of this amount in full by the Admission Body as a single lump sum payment.
- If it is not possible for the deficit to be paid as a single lump sum the Administering Authority may permit the employer to make regular contributions to fund the remainder of the employer obligations over an appropriate period alongside provision of suitable security (bond, indemnity or guarantee). The Administering Authority would take account of the interests of all employers and LGPS funds when determining the payment terms and would reserve the right to invoke the cessation requirements in the future. Where the administering authority has agreed to spread an exit payments, the administering authority may obtain a revision of the rates and adjustments certificate to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable.
- In some instances, the Administering Authority has the discretion to defer charging a cessation liability for up to three years if the employer is expected to acquire one or more active members in the Scheme over the period by issuing a written notice (“a suspension notice”).
- In the event that the Administering Authority is not able to recover the required payment in full and there is no guarantor, then the unpaid amounts fall to be shared amongst all of the other employers in the Scheme. This may require an immediate revision to the Rates

and Adjustments Certificate affecting other employers in the Fund or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

Where there is a surplus:

- The Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations and in line with the Exit Credit Policy (included later in this document). In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements or guarantees) made by the employer and any employer providing a guarantee to the Admission Body.
- Where the Administering Authority determines an exit credit is payable, it must be paid within six months of the date on which the employer ceased to participate in the Fund, six months from the date their deferred employer arrangement ended, or such longer time as the Administering Authority and exiting employer agree.

Employers with no remaining active members

When an employer ceases their participation in the Fund, and provided their exit obligations are met, they will have no further obligation. However as member benefits are guaranteed, it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other employers participating in the Fund will be required to contribute to pay all remaining benefits: this will be done by the actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations; or
- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the actuary to the other employers participating in the Fund at successive formal valuations.

Application

The application of the above factors by employer group is shown below:

Type of employer	Basis	Exit Liability Payment Terms	Exit Credit Payment Terms[1]
Local Authorities and Police	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within six months of the date on which the employer ceased or their deferred employer status ends
Designating Employers	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within six months of the date on which the employer ceased or their deferred employer status ends
Academies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within six months of the date on which the employer ceased or their deferred employer status ends
Other Scheduled Bodies	Gilts cessation basis	Immediate, Payment Plan or Suspension Notice	Within six months of the date on which the employer ceased or their deferred employer status ends
Admission Body with no Guarantor	Gilts cessation basis	Immediate or Payment Plan but note Administering Authority Discretions.	Within six months of the date on which the employer ceased or their deferred employer status ends
Admission Body with Guarantor	Ongoing basis	Immediate or Payment Plan but note Administering Authority Discretions.	Within six months of the date on which the employer ceased or their deferred employer status ends
Admission Body on pass through / other risk sharing arrangements	Ongoing basis [2]	Immediate or Payment Plan but note Administering Authority Discretions.	Within six months of the date on which the employer ceased. or their deferred employer status ends

[1] Subject to the determination of the Administering Authority as required under the Regulations. More information can be found in **Error! Reference source not found.**.

[2] It should be noted that in most circumstances, the Fund assumes all liabilities and assets of employers admitted under 'pass through' remain with the Scheme Employer as they typically retain nearly all the pensions risks involved. The Fund refers to the contractual agreement between the employer and the Scheme Employer for instruction on how any exit credit/debt is to be determined, if available.

The amount of the payment will be determined by the Director of Finance and Support Services, per the County Council's Constitution.[3] The reasons for the decision will be documented.

Once the determination has been made the Administering Authority will pay the exit credit within six months of the exit date, or such longer time as the Authority and the exiting employer may agree. Once the exit credit has been paid, no further payments are due from the Authority to the exiting employer in respect of the surplus.

[3] Part 3, Section 2v, No. 257