

Pension Fund Committee

3 December 2020

Implementation of Exit Policy



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

- 1 To inform Members of the finalisation of the Fund's Exit Policy and seek delegation to make a determination on any exit credit that may become payable under the Policy.

Executive summary

- 2 Following the meeting of the Committee on 12 March 2020, The Fund's Funding Strategy Statement (FSS) and Exit Policy were finalised, meeting the requirements of the Local Government Pension Scheme Regulations.
- 3 The report details the approach outlined in the Exit Policy and seeks delegated authority to the Corporate Director of Resources to make a determination on the amount of any exit credit payable to an exiting employer, in line with the Policy.

Recommendation(s)

- 4 Members are asked to:
 - (a) note this report, and the Exit Policy set out in Appendix 1, and;
 - (b) authorise the Corporate Director of Resources to make a determination on the amount of any exit credit payable to an exiting employer, in line with the Fund's Exit Policy.

Background

- 5 On 27 February 2020 the Local Government Pension Scheme (Amendment) Regulations 2020 were laid before parliament. The Regulations came into force on 20 March 2020, but have effect backdated to 18 May 2018. Under this change to the Regulations, where an exiting employer is in surplus, the decision as to whether to pay that surplus to the exiting employer as an exit credit is at the Administering Authority's discretion.
- 6 At the March Meeting of the Pension Fund Committee, Members authorised the Corporate Director of Resources to finalise the Fund's 'Funding Strategy Statement' (FSS), including the approach to employers exiting the Fund. The finalised approach took into account professional advice on the Local Government Pension Scheme (Amendment) Regulations 2020.
- 7 Where an employer becomes an exiting employer, an exit valuation will be carried out in accordance with Regulation 64 of the Local Government Pension Scheme Regulations. That valuation will take account of any activity as a consequence of exit regarding any existing contributing members and the status of any liabilities that will remain in the Fund.
- 8 Under the finalised Exit Policy (Appendix 1), the Administering Authority will seek to minimise the risk to other employers in the Fund that after exit any deficiency arises on the liabilities of the exiting employer such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.
- 9 For exits on or after 14 May 2018, where the exit valuation shows that there is a surplus in the Fund in respect of the exiting employer, the Administering Authority will follow the process set out in the Exit Policy. In determining the amount of any exit credit payable (if any) the following factors will be taken into account:
 - the extent to which there is a surplus;
 - the proportion of the excess of assets which has arisen because of the value of the exiting employer's contributions;
 - the representations received by relevant parties;
 - where part or all of the surplus relates to an increase in the value of the assets of the Fund as at exit date due to better-than-

expected investment growth or returns, the extent to which that increase in asset value can be regarded as a stable and long-term value increase;

- whether or not the exiting employer has been exposed to the full financial risk of participation in the Fund and the existence of any risk-sharing arrangements in place with third parties;
 - whether the payment of the surplus to the exiting employer would have a materially negative effect on the position of other employers in the Fund, and;
 - any other relevant factors.
- 10 The value of any surplus returned to the exiting employer will be capped in all circumstances at the total value of employer contributions made by the exiting employer during the course of its relevant participation in the Fund. Beyond this, the Administering Authority will consider whether a lower cap may be justified on a case by case basis
- 11 Where the exiting employer has not been exposed to a material extent to the usual financial risks associated with participation in the Fund by reason of a risk sharing arrangement with a third party, then in general no surplus will be distributed to the exiting employer.

Author(s)

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