policy statement

The below sets out the general guidelines that the London Borough of Camden Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”) as amended.  Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis.  These considerations may result in a determination that would be different if these guidelines were rigorously adhered to.  In all cases, the Fund will make clear its reasoning for any decision.

## Admission bodies

1. No exit credit will be payable in respect of admissions to the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per point 3 below, or if point 9 below applies.  Prior to this date, the payment of an exit credit was not permitted under the Regulations and the Fund assumes this was reflected in the commercial terms agreed between the admission body and the letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund.
2. No exit credit will be payable to any admission body who participates in the Fund via a pass through approach as set out in the Funding Strategy Statement.
3. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically cover 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 within one month of the admission body ceasing participation in the Fund.
4. If there is any dispute from either party regarding interpretation of contractual or risk sharing agreements as outlined in 3, the Fund will withhold payment of the exit credit until such disputes are resolved.
5. The Fund will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties.  The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.
6. 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.
7. 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.
8. The decision of the Fund is final in interpreting how any arrangement described under 3, 5, 6 and 7 applies to the value of an exit credit payment.
9. If an admission body leaves on a gilts exit basis (because no guarantor is in place) as set out in the Funding Strategy Statement, then any exit credit will normally be paid in full to the employer.

## Scheduled bodies and resolution bodies

1. 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.
2. 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.
3. The decision of the Fund is final in interpreting how any arrangement described under 1 and 2 applies to the value of an exit credit payment.
4. If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
5. If a scheduled body or resolution body leaves on a gilts-exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

## General

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.

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 having regard to 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.

The Fund will also factor in any contributions due or monies owed to the Fund that remain unpaid by the employer at the cessation date.  The Fund’s default position will be to deduct these from any exit credit payment.

The final decision will be made by the Head of Treasury & Financial Services (Nigel Mascarenhas), in conjunction with advice from the Fund’s Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

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.

The Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer’s exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

If the exiting employer or letting authority wishes to dispute the determination of the amount of an exit credit, this must be routed through the Fund’s internal dispute resolution process in the first instance.

Glossary

|  |  |
| --- | --- |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”. |
| **Admission Bodies** | Employers where there is an Admission Agreement setting out the employer’s obligations. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation. |
| **Funding basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer’s time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target. |
| **Gilt** | A UK Government bond, i.e., a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return. |
| **Guarantee / guarantor** | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s covenant to be as strong as its guarantor’s. |
| **Letting employer** | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |
| **LGPS** | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| **Members** | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| **Primary contribution rate** | The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). |
| **Resolution Bodies** | Employers that are able to participate in the LGPS via resolution.  These employers can designate which of their employees are eligible to join the Fund. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers). |
| **Valuation** | A risk management exercise to review the contribution rates, and other statutory information for a Fund, and usually individual employers too. |