

Agenda Item 5

REPORT TO:	PENSION COMMITTEE 11 October 2022
SUBJECT:	Croydon Pension Fund - 2022 Valuation Initial Results and Funding Strategy Statement Review
LEAD OFFICER:	Matthew Hallett Head of Pensions and Treasury
SUMMARY OF REPORT: Under Local Government Pension (LGPS) Regulations an administering authority must obtain an actuarial valuation of the assets and liabilities of the Pension Fund every three years. An administering authority must also maintain and publish a Funding Strategy Statement (FSS) which needs to be kept under review, and after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement. This report details progress made to date in preparing the valuation effective 31 March 2022 and changes made as part of the regular review of the Fund's FSS.	
FINANCIAL SUMMARY: The report sets out the initial whole Fund results of the valuation showing a funding level of 97% effective 31 March 2022.	
PUBLIC/EXEMPT: Public	

1 RECOMMENDATIONS
1.1 The Committee are asked to approve the draft FSS (Appendix A) and 'satellite' policy documents on contribution reviews (Appendix B), academy funding (Appendix C), bulk transfers (Appendix D), cessations (Appendix E) and prepayments (Appendix F) to be issued to all participating employers for comment alongside their 2022 valuation results.
1.2 Note the progress made towards the 2022 valuation.
1.3 Note the initial whole Fund results effective 31 March 2022.

2 BACKGROUND

- 2.1 Under LGPS Regulations, all funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

Firstly: the inputs it requires: the Fund's officers and Pensions Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.

Secondly: the outputs it gives: the finalised FSS itself should be a clear and transparent reference point for the Fund's stakeholders, to set out how the Fund manages funding risks and provide proof that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the framework within which to carry out the triennial valuation to set employer contributions. The FSS also outlines how the funding strategy fits in with the investment strategy.

The current FSS was approved by the Pensions Committee at the May 2021 meeting following updates to allow for regulation amendments for exit credits and employer flexibilities.

This report sets out a revised structure to the FSS and a few technical or regulatory updates required since the May 2021 review. The main updates for the Committee's attention are in relation to the funding assumptions, climate risk and the 'McCloud' judgement.

- 2.2 The 2022 valuation of the Fund is a regulatory requirement and is used to determine contribution rates payable by participating employers for the period commencing 1 April 2023. The valuation is carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Fund officers are currently working with the actuary to progress the valuation. To date this has included: contribution modelling analysis and discussion with Croydon Council; assumptions analysis; and provision and cleansing of membership and cashflow data. The actuary has now used the data to calculate the initial results of the Fund as a whole.

3 FSS - REVIEW DETAIL

- 3.1 The 2022 review has focussed on adapting the FSS to fit in with the changing environment and circumstances within which the Fund operates.
- 3.2 The evolving challenges, increasing diversity of employers and the growing complexity and regulation in the LGPS over the last few years has meant the FSS has become increasingly unwieldy. While the purpose of the FSS is to act as a compliant and robust reference document, it is acknowledged that a more streamlined document and modular approach to policies would enhance the

accessibility and useability - ultimately making it more practical for all stakeholders (particularly employers).

- 3.3 The revised structure is a streamlined “core” FSS document which is complemented by a number of “satellite” policy documents. The core document includes all the funding information required by LGPS Regulations and Statutory Guidance. It has also been restructured into sections within an LGPS employer’s lifecycle (ie arrangements on joining, calculating assets and liabilities, setting contributions, arrangements on leaving, etc)
- 3.4 The satellite policies work both to complement the FSS and as standalone documents in their own right. These documents set out the Fund’s policies with regards to specific elements of strategy and include more details on process and practicalities. Working with the actuary we have updated the bulk transfers and cessation policies and created policies to cover contribution reviews, contribution prepayment requests and academies.
- 3.5 Alongside the restructure there has been relatively few technical or regulatory updates required since the May 2021 FSS review. The most significant changes to bring to the Committee’s attention include:

1. Review of funding assumptions

The actuary has reviewed the funding assumptions as part of the 2022 valuation. These have been updated to reflect emerging experience and market conditions as at 31 March 2022. All assumptions remain best estimate except for the discount rate assumption which includes the margin of prudence required by the LGPS Regulations.

In summary:

- Future investment return assumption – this covers the projected annual returns and volatility on asset classes invested by the Fund. For the purposes of reporting a funding level, a flat 4.0% pa future investment return assumption has been selected. The likelihood of the Fund’s assets yielding at least 4.0% pa over the next 20 years is 75%. This is the same level of prudence that was adopted at the 2019 valuation.
- Benefit increases / CARE revaluation assumption - to determine the size of future benefit payments (LGPS benefits are index-linked to CPI inflation). Significantly higher short-term inflation expectations have increased the CPI assumption.
- Life expectancy assumptions - the effect of recent experience has been allowed for in the longevity assumptions. However, an appropriate adjustment has been made to avoid the assumption being skewed by excess deaths due to Covid-19 in 2020 and 2021.

2. Climate risk

The Fund recognises that climate change is a key risk due to the open-ended time horizons of the liabilities. As part of the modelling analysis for reviewing the Council’s

contribution strategy, the actuary stress-tested the results under additional climate scenarios.

The modelling results under the stress tests were slightly worse than the core modelling results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks.

3. 'McCloud' judgement treatment

The benefits accrued by certain members between 2014 and 2022 are expected to increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. At the 2019 valuation there was uncertainty around if and how to allow for the potential extra costs. The Fund made an approximate allowance for the potential impact in setting employer contribution rates by building in a slightly higher level of prudence. However, the Department for Levelling Up, Housing and Communities has since provided guidance (dated 22 March 2022) around the treatment of McCloud for valuation purposes. The actuary has therefore now been able to use the guidance to build the expected impact of the benefit improvements directly into the liability calculations. The extra prudence allowed for at 2019 can now be removed from the assessment of employer contributions.

4 FSS - RECOMMENDATION AND NEXT STEPS

- 4.1 The Committee are asked to approve the draft FSS (Appendix A) and 'satellite' policy documents on contribution reviews (Appendix B), academy funding (Appendix C), bulk transfers (Appendix D), cessations (Appendix E) and prepayments (Appendix F) to be issued to all participating employers for comment alongside their 2022 valuation results.
- 4.2 Once approved by Committee, a draft version of the FSS and policies will be issued to all participating employers for comment alongside their 2022 valuation results. Following the end of the consultation period, any comments received may lead to amendments to the document. The Committee will then be asked to approve the final version of the FSS at its March 2023 meeting thus allowing the Actuary to sign off the final valuation report in time for the statutory deadline of 31 March 2023.

5 2022 VALUATION UPDATE

- 5.1 Fund officers are currently working with the actuary to progress the valuation. To date this has included: contribution modelling analysis and discussion with Croydon Council; assumptions analysis; and provision and cleansing of membership and cashflow data. The actuary has now used the data to calculate the initial results of the Fund as a whole.
- 5.2 A key output of the valuation is a measurement of past service liabilities at the valuation date to determine the funding level. To calculate a current funding level, the actuary compares the market value of assets against a value of the benefits accrued to date. The value of assets is easily obtained via market valuations. Placing a single value on the liabilities requires a single set of assumptions about the future,

so it is important to acknowledge the results are very sensitive to the choice of assumptions.

- 5.3 Using this approach, a high-level snapshot of the funding position on 31 March 2022 is below:

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	520	395
Deferred Pensioners	459	351
Pensioners	811	676
Total Liabilities	1,790	1,423
Assets	1,731	1,258
Surplus/(Deficit)	(59)	(165)
Funding Level	97%	88%

- 5.4 As at 31 March 2022, the past service funding position has improved from a funding level of 88% at the last valuation to 97%. This is based on assumed future investment returns of 4.0% pa.
- 5.5 The future investment return the Fund would need to generate to be 100% funded is now 4.2% pa (compared to 4.8% pa at 2019). The likelihood of the Fund's investment strategy achieving this required return of 4.2% pa is now 73% (there was a 66% of the Fund achieving the required 4.8% pa at 2019). Put another way, the Fund is putting less reliance on future investment return to pay for benefits already accrued by members than at 2019.
- 5.6 The main factor driving the funding position improvement is stronger than expected investment returns since the 2019 valuation. These have more than offset the increase in liabilities due to the short- to medium-term inflation expectations. Despite the Covid-19 pandemic, the funding impact of mortality experience has not been significantly different from expectations.
- 5.7 However, it is important to understand reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.
- 5.8 Being 100% funded in a scheme like the LGPS which is both open to future accrual and new entrants, is not the endgame. For the average fund employer, two-thirds of the benefit payments made over the next 50 years will be in respect of future service benefits, i.e. benefits yet to be earned. This will include benefits earned by existing members (new accrual) and benefits earned by new members who begin service in the LGPS after the valuation date (new joiners). The assets held today only cover past service benefits – we still need to fund those benefits yet to be earned.
- 5.9 Every employer is responsible for its own 'share' of the pension fund. While individual employer results will be varied depending on each employer's own membership, the main drivers of change such as investment performance and market conditions

effect all employers to a similar degree. Therefore, the actuary expects most employers to see improvements to their funding positions.

- 5.10 The worsening future economic outlook, notably short-term inflationary pressures, will lead to upward pressure on the cost of future benefit accrual (Primary contribution rates). The improvement in past service funding position may see a reduction in Secondary contribution rates for most employers. The net impact on total contributions will vary across employers.
- 5.11 The contribution modelling analysis carried out for the Council supports a contribution freeze or moderate reduction from 1 April 2023.

6 VALUATION - NEXT STEPS

- 6.1 Subject to Committee agreement of the Funding Strategy Statement, the next major step in the valuation process is to calculate the individual funding positions and set the contribution rates for all other employers in the Fund. The results will then be issued to employers who will be invited to ask questions and comments as part of an employer consultation period, including at the planned employer forum.
- 6.2 As above, this consultation process is already underway for the Council.
- 6.3 The outcome of these discussions and final contribution rates will be presented to the Committee for approval at the March meeting. The contribution rates will then come into payment from 1 April 2023.
- 6.4 A summary of the valuation timetable is set out below:

Date	Activity
Q1 2022	Council contribution rate modelling and discussion
Q2 2022	Assumptions analysis
Q3 2022	<ul style="list-style-type: none"> • Data provision to actuary • Ongoing engagement with Fund employers
13 October 2022	Committee meeting: Approval sought for draft Funding Strategy Statement
Q4 2022	<ul style="list-style-type: none"> • Funding Strategy Statement consultation with employers invited to comment • Issue valuation results schedules to employers • Employer forum
31 January 2023	Employer contribution rates finalised
March 2023	Committee meeting: Approval sought for final Funding Strategy Statement and 2022 valuation report
31 March 2023	Statutory deadline for completion of final 2022 valuation report and certifying new employer contribution rates
1 April 2023	New employer contribution rates come into payment

7 CONSULTATION

- 7.1 Officers have fully consulted with the Pension Fund's actuarial advisers in preparing this report.

8 FINANCIAL CONSIDERATIONS

- 8.1 This report deals exclusively with the funding strategy and valuation of the Council's Pension Fund.

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

9 LEGAL CONSIDERATIONS

- 9.1 Burges Salmon LLP (a legal advisor appointed to the Pension Fund) comments that the funding strategy statement is a key document setting out a number of policies which impact employers within the Pension Fund and it is therefore important to keep this document under review (as is also required by the Local Government Pension Scheme Regulations 2013)

10 HUMAN RESOURCES IMPACT

- 10.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Gillian Bevan, Head of HR, Resources and Chief Executives on behalf of Dean Shoesmith, Chief People Officer

11 EQUALITIES IMPACT

- 11.1 There are no equality implications arising from the report and the valuation of the pension scheme. The council has an obligation under the Public Sector Equality Duty, which is to eliminate unlawful discrimination, to advance equality of opportunity and to build better relationships between groups with protected characteristics. However, when undertaking consultation with staff it will be important to ensure that a representative range of feedback is received across the protected characteristic groups.

Approved by: Gavin Handford, Director of Policy, Programmes and Performance

12 ENVIRONMENTAL IMPACT

- 12.1 There are no environmental impacts arising from this report.

13 CRIME AND DISORDER REDUCTION IMPACT

- 13.1 There are no crime and disorder impacts arising from this report.

14. DATA PROTECTION CONSIDERATIONS

14.1 WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?

NO

14.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

NO

Approved by: Alan Layton on behalf of Jane West, Corporate Director of Resources
(Section 151 Officer)

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

N/a

Appendices:

APPENDIX A Croydon PF - Draft Funding Strategy Statement (Oct 2022)

APPENDIX B Croydon PF - Policy on contribution reviews (Oct 2022)

APPENDIX C Croydon PF - Academies funding policy (Oct 2022)

APPENDIX D Croydon PF - Bulk Transfer Policy (Oct 2022)

APPENDIX E Croydon PF - Cessation Policy (Oct 2022)

APPENDIX F Croydon PF - Prepayments policy (Oct 2022)

Croydon Pension Fund
Funding Strategy Statement
October 2022

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- Appendix A – The regulatory framework
- Appendix B – Roles and responsibilities
- Appendix C – Risks and controls
- Appendix D – Actuarial assumptions

1 Welcome to our Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Croydon Pension Fund.

The Croydon Pension Fund is administered by Croydon Council, known as the administering authority. Croydon Council worked with the Fund's actuary, Hymans Robertson, to prepare this FSS which is effective from **[DATE POST CONSULTATION]**.

There's a regulatory requirement for Croydon Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact pensions@croydon.gov.uk

1.1 What is the Croydon Pension Fund?

The Croydon Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at [link](#).

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

1.6 How is the funding strategy specific to the Croydon Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer total contributions are calculated and set by the Fund actuary and are expressed into two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – any adjustment to the primary contribution rate (such as additional contributions to repair any deficits)

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios (as detailed in [Appendix D](#)). The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	75%	75%	75%	75%	75%	55-75% (dependent on outstanding contract term)
Maximum time horizon	20 years	15 years	15 years	15 years	15 years or average future working lifetime, if less	Same as the letting employer
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
	Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll
Stabilised contribution rate?	Yes	No	Yes	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority				Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	None	None	None	None	None

* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

** See [Appendix D](#) for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	Council
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's contribution review policy is available [here \[add link\]](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 Administering authority discretion

The administering authority may exercise its discretion in managing employer risks and adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund permits the prepayment of employer contributions in specific circumstances. However, in general, this is most appropriate for large, secure employers with stable active memberships.

Further details are set out in the Fund's prepayment policy available [here \[add link\]](#).

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Such strain costs are the responsibility of the member's employer to pay.

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

The Fund therefore has put in place an approach to help manage ill health early retirement costs by obtaining an external insurance quotation on behalf of employers.

If an employer provides satisfactory evidence to the Fund of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Fund notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the Fund?

5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future Funding Strategy Statements.

The Fund's Academies Policy is available [here\[add link\]](#).

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement. However, in general, the funding arrangements are set up as one of the following two options:

(i) Pass-through admissions

The Fund may look at new admission bodies being set up via a pass-through arrangement.

(ii) Other admissions

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs. New contractors will then be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

Further details are set out in the Fund's admissions policy [here](#).

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy can be found [here](#).

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available [here \[add link\]](#).

7 What happens when an employer leaves the Fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at its discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time.
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor

On cessation, the employer may be permitted to enter into a deferred debt agreement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.
- Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and may be deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and Fund.

The cessation policy is available [here \[add link\]](#).

7.1 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading arrangement (DSA)
- if an exiting employer enters into a DDA, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Further details are set out in the cessation policy available [here](#).

7.2 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid, in which case the other Fund employers will be required to contribute to the remaining benefits. The Fund actuary will apportion the liabilities on a pro-rata basis at the formal valuation.
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down, in which case the Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rata basis at the formal valuation.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is set out within [section 3.3](#) of the Fund's cessation policy, available [here](#).

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the funds' actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a Funding Strategy Statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue... with council tax raising authorities and representatives of other participating employers'.

The consultation process included issuing a draft version to participating employers and invitation to attend an open employers' forum. The administering authority should circulate the CIPFA guidance. The draft should include an estimate of the impact of any variations from the previous funding strategy.

A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the Fund's annual report and accounts. Copies are freely available on request and is published on the website at <https://www.croydonpensionscheme.org/>

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall Fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Investment Strategy Statement, Governance strategy and Communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

You can see all Fund documentation at <https://www.croydonpensionscheme.org/>

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a Fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the Fund against employer default
- 9 works with the Fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the Fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the Fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 3 advises on Fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the Fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory, governance, covenant and climate risks.

A summary of the key fund-specific risks and controls is set out below. For more details, please see the Fund's risk register.

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	<p>Anticipate long-term returns on a prudent basis to reduce risk of under-performing.</p> <p>Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three-year valuations for all employers.</p> <p>Roll forward whole Fund liabilities between valuations.</p>
Inappropriate long-term investment strategy.	<p>Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance.</p> <p>Operate various strategies to meet the needs of a diverse employer group.</p>
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	<p>Focus valuation on real returns on assets, net of price and pay increases.</p> <p>Use inter-valuation monitoring to give early warning.</p> <p>Invest in assets with real returns.</p> <p>Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Increased employer's contribution rate affects service delivery.	Consider phasing to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	<p>Seek a cessation debt (or security/guarantor).</p> <p>Spread added costs among employers.</p>

C3 Demographic risks**Risk****Control**

Pensioners live longer, increasing Fund costs.

Set mortality assumptions with allowances for future increases in life expectancy.

Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.

As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.

Monitor at each valuation, consider seeking monetary amounts rather than % of pay.

Consider alternative investment strategies.

Deteriorating patterns of early retirements

Charge employers the extra cost of non ill-health retirements following each individual decision.

Monitor employer ill-health retirement experience and insurance is an option.

Reductions in payroll cause insufficient deficit recovery payments.

Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks**Risk****Control**

Changes to national pension requirements or HMRC rules.

Consider all Government consultation papers and comment where appropriate.

Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known.

Build preferred solutions into valuations as required.

Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis

Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.

Consider all Government consultation papers and comment where appropriate.

Take advice from the fund actuary and amend strategy.

C5 Governance risks

Risk

Control

The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.

The administering authority develops a close relationship with employing bodies and communicates required standards.

The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations

Deficit contributions may be expressed as monetary amounts.

Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way

The administering authority maintains close contact with its advisers.

Advice is delivered through formal meetings and recorded appropriately.

Actuarial advice is subject to professional requirements like peer review.

The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.

The administering authority requires employers with Best Value contractors to inform it of changes.

CABs' memberships are monitored and steps are taken if active membership decreases.

An employer ceases to exist with insufficient funding or bonds.

It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Requiring a bond to protect the Fund, where permitted.

Requiring a guarantor for new CABs.

Regularly reviewing bond or guarantor arrangements.

Reviewing contributions well ahead of cessation.

An employer ceases to exist, so an exit credit is payable.

The administering authority regularly monitors admission bodies coming up to cessation.

The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C7 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. The fund included climate scenario stress testing in the contribution modelling exercise for the Council at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the Funding Strategy Statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (Medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt yield (RPI)	17 year govt bond
10 Years	16 th %ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-0.6%	-0.1%	2.4%	-1.7%	1.1%
	50 th %ile	1.8%	0.2%	1.1%	5.7%	5.6%	4.4%	1.6%	4.1%	-0.5%	2.5%
	84 th %ile	2.9%	2.4%	2.4%	11.6%	11.7%	9.5%	3.2%	5.7%	0.7%	4.3%
20 Years	16 th %ile	1.0%	-1.5%	0.7%	1.7%	1.5%	1.4%	1.1%	1.6%	-0.7%	1.3%
	50 th %ile	2.4%	0.1%	1.5%	6.2%	6.1%	5.0%	2.1%	3.1%	1.0%	3.2%
	84 th %ile	4.0%	1.9%	2.2%	10.6%	10.8%	8.9%	3.2%	4.7%	2.7%	5.7%
40 Years	16 th %ile	1.2%	-0.3%	1.5%	3.2%	3.1%	2.6%	2.0%	1.1%	-0.6%	1.1%
	50 th %ile	2.9%	1.2%	2.3%	6.7%	6.5%	5.5%	3.1%	2.4%	1.3%	3.3%
	84 th %ile	4.9%	3.1%	3.5%	10.2%	10.2%	8.8%	4.4%	3.9%	3.2%	6.1%
Volatility (5 yr)		2%	7%	6%	18%	19%	15%	7%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate (for setting contribution rates)

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate (at end of funding time horizon)
Ongoing basis	All employers except employer approaching exit	2.4%
Low-risk exit basis	Employer approaching cessation	0%

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 75% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.0% applies. This is based on a there being a 75% likelihood that the Fund's assets will achieve future investment returns of 4.0% over the 20 years following the 2022 valuation date.

If an employer is funded on the low risk exit basis, a higher discount rate may apply – see section D5 below.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's Economic Scenario Service (ESS) model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to CPI plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	45% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.17	606.46	813.01	0	0	0	0
25	117	0.17	400.59	537.03	0	0	0	0
30	131	0.2	284.23	380.97	0	0	0	0
35	144	0.24	222.07	297.63	0.1	0.07	0.02	0.01
40	150	0.41	178.79	239.55	0.16	0.12	0.03	0.02
45	157	0.68	167.94	224.96	0.35	0.27	0.07	0.05
50	162	1.09	138.44	185.23	0.9	0.68	0.23	0.17
55	162	1.7	109.02	145.94	3.54	2.65	0.51	0.38
60	162	3.06	97.17	130.02	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
			FT &PT	FT	PT	FT	PT	FT
20	105	0.1	528.64	467.37	0	0	0	0
25	117	0.1	355.71	314.44	0.1	0.07	0.02	0.01
30	131	0.14	298.17	263.54	0.13	0.1	0.03	0.02

35	144	0.24	257.35	227.38	0.26	0.19	0.05	0.04
40	150	0.38	214.19	189.18	0.39	0.29	0.08	0.06
45	157	0.62	199.88	176.51	0.52	0.39	0.1	0.08
50	162	0.9	168.51	148.65	0.97	0.73	0.24	0.18
55	162	1.19	125.74	111.03	3.59	2.69	0.52	0.39
60	162	1.52	101.33	89.37	5.71	4.28	0.54	0.4

D5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?

Where there is a guarantor, the ongoing basis will apply.

Where there is no guarantor, the low-risk exit basis will apply. The financial assumptions underlying the low-risk exit basis are explained below:

- The discount rate used for calculating the exit position will be lower than the ongoing funding basis, specifically additional prudence will be applied to the assumption.
- The CPI assumption is based the median value of CPI inflation from Hymans Robertson's ESS model.

Croydon Pension Fund

Policy on contribution reviews

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the Fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

2 Statement of principles

This Statement of Principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the Fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or

- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole Fund.

The administering authority will consult with other Fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The Fund's Funding Strategy Statement should be read in conjunction with this document. In particular, exiting employers should familiarise themselves with:

- Section 2 – How does the Fund calculate employer contributions?
- Appendix D – Actuarial assumptions (specifically section D5)

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Croydon Pension Fund

Policy on academy funding

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a [written ministerial guarantee of academy LGPS liabilities](#), which was [reviewed](#) in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.

- the Fund's current approach is to track all academies within a MAT as single employers.
- academies must consult with the Fund prior to carrying out any outsourcing activity.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation exercise.

3 Policies

3.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below) if the individual asset shares are pooled.

3.2 Multi-academy trusts

Asset tracking

The Fund's current policy is to individually track the asset shares of each academy within the Fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate if requested but this is at the discretion of the Fund.

Contribution rate

If an academy is joining an existing pooled MAT (within the Fund), in general, the transferring academy will pay the certified contribution rate of the MAT it is joining.

At the discretion of the Fund, a new contribution may be calculated by the Fund actuary to allow for impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB if one or both MATs are paying a monetary secondary contribution rate, these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the Fund's contribution review policy and as per Regulation 64 A (1)(b) (iii), the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund it would need to seek approval from the Secretary of State to consolidate its liabilities (and assets) into one LGPS fund.

The Fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the Fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's admissions / pass-through policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

- Section 5.2 of the FSS
- Contribution review policy
- Cessation policy
- Bulk transfer policy

Croydon Pension Fund

Policy on bulk transfers

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the Fund in prescribed circumstances.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and
- Bulk transfers received by the Fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

1.2 Background

Bulk transfers into and out of the Fund can occur for a variety of reasons, such as:

- where an outsourcing arrangement is entered into and active Fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme;
- where an outsourcing arrangement ceases and active scheme members re-join the Fund from another LGPS fund or a broadly comparable scheme;
- where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes);
- where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations); or
- a national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS. As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

1.3 Guidance and regulatory framework

Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the administering authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement.
- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value.
- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a [Club scheme](#) (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with “non-Club” accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the administering authority.
- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between fund actuaries.

Best Value authorities

The [Best Value Authorities Staff Transfers \(Pensions\) Direction 2007](#), which came into force on 1 October 2007, applies to all “Best Value Authorities” in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and
- provides that the provision of pension protection is enforceable by the employee.

Second and subsequent rounds of outsourcing arrangements

The Best Value Direction also provides similar pension protection when former employees of an authority who were transferred under TUPE to a contractor, are subsequently transferred again as a result of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing). The Direction requires the subsequent contractor to secure pension protection for each transferring employee.

Academies and multi-academy trusts

[New Fair Deal guidance](#), introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result, the Fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities

and other admitted bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the Fund, subject to complying with the administering authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the administering authority would not expect to pay out more than individual Cash Equivalent Transfer Value (CETV) amounts, in accordance with appropriate [Government Actuary's Department \(GAD\) guidance](#).

2 Statement of principles

This statement of principles covers bulk transfer payments into and out of the Fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the Fund, the administering authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.
- Ordinarily the administering authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer – including (but not restricted to):
 - the use of cessation assumptions where unsecured liabilities are being left behind;
 - where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or
 - where transfer terms are subject to commercial factors.
- Where an entire employer is transferring in or out of the Fund the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.
- There may be situations where the Fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the Fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the administering authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.
- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.
- Service credits granted to transferring scheme members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

3 Policy

The following summarises the various scenarios for bulk transfers in or out of the Fund, together with the administering authority's associated policies.

3.1 Inter-fund transfer (transfer between the fund and another LGPS fund)

Scenario	Bulk transfer mechanism	Policy	Methodology
In	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p>Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:</p> <p>Actives only transferring: CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's).</p> <p>All members transferring (i.e. all actives, deferred and pensioners): Receive all assets attributable to the membership within the transferring scheme.</p>	<p>The Fund's default policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.</p> <p>Pension credits will be awarded to the transferring members on a day-for-day basis.</p>
Out	< 10 members – GAD guidance	CETVs in accordance with GAD guidance.	The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae.
	10 or more members – Regulation 103 of the Local Government Pension Scheme Regulations 2013	<p>Where agreement can be reached, the Fund and the receiving fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:</p> <p>Actives only transferring (i.e. remaining members left behind): CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's).</p> <p>All actives transferring (i.e. deferred and pensioner members left behind): Assets will be retained by the Fund to cover the liabilities of the deferred and pensioner members calculated using the Fund's cessation assumptions. The residual assets will then be transferred to the receiving scheme.</p> <p>All members transferring (i.e. all actives, deferred and pensioners): Transfer all assets attributable to the membership to the receiving scheme.</p>	<p>The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.</p> <p>Discretion exists to amend this to reflect specific circumstances of the situation.</p>

3.2 Club Scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	Club Memorandum	The Club mechanism ensures the pension credit in the Fund provides actuarially equivalent benefits.	The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae.
Out	Regulation 98 of the Local Government Pension Scheme Regulations 2013 or Club Memorandum	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance.	The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value). Discretion exists to amend this to reflect specific circumstances of the situation.

3.3 Broadly Comparable Scheme or non-Club scheme

Scenario	Bulk transfer mechanism	Policy	Methodology
In	GAD guidance	Non-Club transfer in formulae in accordance with GAD guidance	The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae.
Out	1 member only – GAD guidance	CETV in accordance with GAD guidance	The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae.
	2 or more members – Regulation 98 of the Local Government Pension Scheme Regulations 2013	Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement. Or Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance	The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae. Discretion exists to amend this to reflect specific circumstances of the situation.

4 Practicalities and process

4.1 Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the Fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

4.2 Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the Fund, any adjustment may be deferred to the next valuation.

4.3 Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

4.4 Approval process

The Fund will normally agree to bulk transfers into or out of the Fund where this policy is adhered to.

4.5 Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

4.6 Costs

Actuarial and other professional costs will be recharged in full to the employer.

Staff time involved on the Fund side will be charged at the rate defined within the [Administration Strategy Statement](#).

5 Related Policies

Section 6 of the Fund's Funding Strategy Statement.

Croydon Pension Fund

Cessation policy

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a Scheme Employer leaves the Fund and becomes an Exiting Employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described under Section 3 – Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) Exiting Employers, the administering authority, the Actuary and, where relevant, the original ceding Scheme Employer (usually a Letting Authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a Scheme Employer may become an Exiting Employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund Actuary to carry out a valuation of assets and liabilities for the Exiting Employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a Scheme Employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates and Adjustments Certificate to be amended to show the revised contributions due from the Exiting Employer
- Regulation 64 (2) – where an employing authority ceases to be a Scheme Employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the Exit Date. Further, it requires the Rates and Adjustments Certificate to be amended to show the Exit Payment due from the Exiting Employer or the excess of assets over the liabilities in the Fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an Exit Credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-
 - (i) The Exiting Employer and any other body that has provided a guarantee to the Exiting Employer
 - (ii) The Scheme Employer, where the Exiting Employer is a body that participated in the Scheme as a result of an admission agreement
 - b) Pay the amount determined to that Exiting Employer within six months of the Exit Date, or such longer time as the administering authority and the Exiting Employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any Exit Credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - c) Any representations to the administering authority made by the Exiting Employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the Exiting Employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme Employer or remaining Fund employers may be amended.
- Regulation 64 (4) – where it is believed a Scheme Employer may cease at some point in the future, the administering authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the Exit Payment that will be due.
- Regulation 64 (5) – following the payment of an Exit Payment to the Fund, no further payments are due to the Fund from the Exiting Employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written Deferred Debt Agreement, allowing the employer to have Deferred Employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading Exit Payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to Exiting Employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any Exit Debt (an Exit Payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the Fund by the Exiting Employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the Exiting Employer in determining arrangements for the recovery of the Exit Debt.

3 Policies

On cessation, the administering authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the Exiting Employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period. In general, this would only be acceptable in the exceptional circumstances where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the Administering Authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the Exiting Employer (see 3.3 [Exit credits](#) below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis ¹	Shared between other Fund employers
Colleges & Universities	Low risk basis	Shared between other Fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis ²	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other Fund employers (if no guarantor exists)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

²Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

Further details are included in the Fund's Academies Policy.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

As above, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation, the Fund will consider written requests to spread an exit payment over an agreed period.

In this exceptional case, the Fund's policy is:

- The agreed spread period is no more than three years, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The Fund will only consider written requests within six months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with Officers if an urgent decision is required between Committee meetings.

Deferred debt agreement (DDA)

The Fund's policy is for cessation debts to be paid as a single lump sum in full or in exceptional circumstances spread over an agreed period via a DSA (see above).

However, in the event that both these options create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a Deferred Debt Agreement as described in [Regulation 64 \(7A\)](#).

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 employer requests the Fund consider a Deferred Debt Agreement.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the Deferred Debt Agreement and signed by all relevant parties prior to the arrangement commencing (including details of the time period of the Deferred Debt Agreement, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements.
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A Deferred Debt Agreement will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active Fund members.
- The period specified, or as varied, under the Deferred Debt Agreement elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the administering authority is reasonably satisfied that the employer's ability to meet the contributions payable under the Deferred Debt Agreement has weakened materially or is likely to weaken materially in the next 12 months.

- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their cessation basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an Exiting Employer on the calculation date.
- 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 employer pays their outstanding cessation debt on their cessation basis).

On the termination of a Deferred Debt Agreement, the employer will become an Exiting Employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the administering authority will take into account the following factors;

- a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

The below sets out the general guidelines that the Fund will consider when determining the amount of an exit credit payable to an exiting employer in line with Regulation 64, depending on employer's participation conditions. 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 the below guidelines were rigorously adhered to. In all cases, the Fund will not be bound by the guidelines, and will make its decision on a discretionary basis.

Admitted bodies

- i. No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund.
- ii. No exit credit will be payable to any admission body who participates in the Fund via the mandated pass through approach as set out in this Funding Strategy Statement. For the avoidance of doubt, whether an

exit credit is payable to any admission body who participates in the Fund via the “Letting employer retains pre-contract risks” route is subject to its risk sharing arrangement, as per paragraph iii) below.

- iii. The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers 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/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.
- v. 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.
- vi. 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.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

- i. 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.
- ii. 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.
- iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or designating body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. 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.
- ii. 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 based on 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.
- iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the Head of Pensions, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy. Each and every decision will be taken in a discretionary manner, and whilst this policy provides guidelines, nothing in it should be taken as fettering the administering authority's discretion in making a determination in any given case.
- v. 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.
- vi. The guidelines above at point v) in the 'Admitted Bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.5) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other Scheme Employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the Exit Credit Policy above. If payment is required, the administering authority will advise the Exiting Employer of the amount due to be repaid and seek to make payment within six months of the Exit Date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any Exit Credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that Exit Credits are not subject to tax, however all Exiting Employers must seek their own advice on the tax and accounting treatment of any Exit Credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies

- What happens when an employer leaves the Fund? (Section 7 of the FSS)
- Financials assumptions used (Appendix D3 of the FSS)

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Croydon Pension Fund

Policy on Prepayments

Effective date of policy	
Date approved	
Next review	

1 Introduction

The purpose of this policy is to set out the administering authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted.
- To outline the key principles followed when calculating prepayment amounts.
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

1.2 Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the Fund in future. Employer contributions include the 'Primary Rate' – which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits, and the 'Secondary Rate' – which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an [Opinion](#) on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an administering authority to prepare an R&A certificate.
- Regulation 9 – outlines the contribution rates payable by active members

2 Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the Fund. Each case will be treated on its own merits, but in general:

- The administering authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying contributions is therefore only permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the Fund over the period of prepayment.
- The Fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the administering authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- Prepayment agreements will be documented by way of correspondence between the administering authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.
- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

3 Policy

3.1 Eligibility and periods covered

The Fund is happy to consider requests from any employers to pre-pay certified primary and secondary contributions. However, in general, this is most appropriate for large, secure employers with stable active memberships.

Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

3.2 Request and timing

Prior to making any prepayment, employers are required to inform the Fund in writing of their wish to prepay employer contributions and to request details of the amount required by the Fund to meet the scheduled future contribution.

This request should be received by the Fund within 2 months of the start of the period for which the prepayment is in respect of.

The Fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made as close as possible to the beginning of the appropriate R&A period and by 31 May at the latest.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

3.3 Calculation

The Fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The Fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation) and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period (see section 3.4)

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The Fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required

Employers may pay more than the prepayment amount determined by the Fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the Fund actuary's estimation of payroll for the prepayment period.

3.4 Sufficiency check

Where required, the Fund actuary will carry out an **annual** assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The administering authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

3.5 Documentation and auditor approval

The Fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers.

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The Fund will not accept any responsibility for the accounting implications of any prepayment agreement.

3.6 Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

3.7 Risks

Employers enter into prepayment agreements on the expectation that the Fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a lower return than that which can be generated by the employer. It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled. This would be considered by the Fund actuary at the next triennial valuation (as per the normal course of events).

4 Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the Fund calculate employer contributions?".