

Tyne and Wear Pension Fund

Administered by South Tyneside Council

Funding Strategy Statement

Approved by Pensions Committee

On 1 December 2023

CONTENTS

SECTION	PAGE
1. Overview	1
2. Purposes of the Statement	2
3. Consultation	3
4. Purpose and Aims of the Fund	4
5. Responsibilities of the Key Parties	7
6. Funding Strategy	11
7. Solvency and Funding Targets and Long-Term Cost Efficiency	12
8. Valuation Methods	17
9. Funding Assumptions	18
10. Recovery, Amortisation and Trajectory Periods	20
11. Fund Maturity	23
12. Grouping	24
13. Stepping	26
14. Smoothing	28
15. Advance Funding of Contributions	29
16. Provisions on Exit	30
17. Notional Sub-funds for Employers	33
18. Academies	35
19. Colleges and Universities	37
20. Identification of Risks and Counter Measures	38
21. Links to Investment Policy as set out in the Investment Strategy Statement	47
22. Monitoring	49
23. Merger with Northumberland County Council Pension Fund	50
Appendix A - Most Relevant Regulations	51
Appendix B - Employers for whom the Attained Age method will be used	62

Appendix C - Employers participating in grouped arrangements for valuation purposes	64
Appendix D - Policy on Reviewing Employer Contributions in the Inter-Valuation Period	66
Appendix E - Policy on Employers exiting the Fund	72

1. Overview

- 1.1 This Funding Strategy Statement was last reviewed in March 2023 as part of the 2022 Valuation. A further review has been considered appropriate to bring greater clarity to the approach to exit valuations.
- 1.2 The Statement describes the strategy of South Tyneside Council, acting in its capacity as Administering Authority (the “Administering Authority”), for the funding of the Tyne and Wear Pension Fund (the “Fund”).
- 1.3 The Statement sets out two types of information:
 - generic information on the purpose and aims of the Fund and on the policy context,
 - Fund specific information in relation to the strategy itself.
- 1.4 Under Regulation 58 (3) and (4) of the Local Government Pension Scheme Regulations 2013 (as amended) (the “2013 Regulations”), it is the responsibility of the Administering Authority to maintain and publish the Statement, having regard to guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in September 2016 in a document entitled “Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme”, and also to the Fund’s Investment Strategy Statement.
- 1.5 The CIPFA guidance and the Investment Strategy Statement may be viewed on the Fund’s website, for which the address is www.twpf.info . The CIPFA guidance is contained in the password protected Employer Section.
- 1.6 Extracts from the most relevant Regulations are contained in Appendix A.
- 1.7 The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

2. Purposes of the Statement

2.1 The four main purposes of this Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, which will identify how employers' pension liabilities are best met,
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate (i.e. employer future service contribution rate) as possible,
- Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met,
- Takes a prudent longer-term view of funding the Fund's liabilities,

noting that, whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Statement, its focus should at all times be on those actions which are in the best long-term interests of the Fund.

3. Consultation

- 3.1 Regulation 58 (3) of the 2013 Regulations requires the Administering Authority to consult with such persons as it considers appropriate in the maintenance and review of the Statement.
- 3.2 CIPFA provides further guidance that this must include meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers.
- 3.3 Employers participating in the Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 3.4 In addition, the Administering Authority has had regard to the Fund's Investment Strategy Statement published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Investment Regulations").
- 3.5 The Fund Actuary, Aon Solutions UK Limited, has also been consulted on the contents of this Statement.

4. Purpose and Aims of the Fund

Purpose of the Fund

4.1 The purpose of the Fund is:

- To pay out monies in respect of Local Government Pension Scheme (the “Scheme”) benefits, transfer values, costs, charges and expenses,
- To receive monies in respect of contributions, transfer values and investment income.

The Aims of the Fund in relation to the Funding Strategy

4.2 The aims of the Fund in relation to the Funding Strategy are set out below. It should be noted that the first, third, fourth and fifth aims reflect requirements of the Scheme legislation and associated CIPFA guidance. The second aim is specific to the Fund.

The first aim is to enable primary contribution rates (i.e. employer future service contribution rates) to be kept as nearly constant as possible and at reasonable cost to employers and to taxpayers.

The second aim is to keep overall employer contribution rates as nearly constant as possible and at reasonable cost to employers and to taxpayers.

4.3 The Administering Authority recognises that the desirability of keeping employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency, which should be assessed in the light of the risk profile of the Fund and risk appetite of the Administering Authority and employers,
- the requirement that the costs should be reasonable to employers and to taxpayers (subject to not taking undue risks), and
- maximising returns on investments within reasonable risk parameters (see the fifth aim).

4.4 Reducing volatility in employer contribution rates requires material investment in assets that ‘match’ the employer’s liabilities. In this context, ‘match’ means assets that behave in a similar manner to the liabilities as economic conditions alter. Such assets would tend to comprise gilt edged investments for the liabilities represented by benefits payable by the Scheme.

4.5 Other classes of assets, such as shares, property and private market investments, are perceived to offer higher long-term rates of return on average. The Administering Authority invests a substantial proportion of the Fund in such assets which is consistent with the requirement to

maximise the returns from investments within reasonable risk parameters. However, these assets are higher risk in nature and that risk can manifest itself in volatile returns over short-term periods and a failure to deliver the anticipated return in the long term.

- 4.6 This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of a range of smoothing mechanisms at each valuation.
- 4.7 The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations and the resultant stability of employer contribution rates from one valuation period to the next.
- 4.8 There may be occasions when the Administering Authority considers it appropriate to revisit an employer contribution rate in the inter-valuation period (i.e. between triennial valuations carried out by the Fund Actuary). The Administering Authority's approach is set out in its policy at Appendix D.
- 4.9 The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short-term contracts where utilisation of smoothing mechanisms is less appropriate.

The third aim is to ensure that sufficient resources are available to meet all liabilities as they fall due.

- 4.10 The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a daily basis to ensure that all cash requirements can be met.

The fourth aim is to manage employers' liabilities effectively.

- 4.11 The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:
 - seeking regular actuarial advice,
 - ensuring that employers are properly informed and consulted,
 - regular monitoring of the funding position and the outlook for employers' contributions, and
 - appropriate segregation of employers for funding purposes.

The fifth aim is to maximise the returns on investments within reasonable risk parameters.

4.12 The Administering Authority recognises the desirability of maximising investment return within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as shares and property. The Administering Authority ensures that risk parameters are reasonable by:

- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds,
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy, and
- limiting concentration risk by developing a diversified investment strategy.

5. Responsibilities of the Key Parties

- 5.1 The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

Administering Authority

- 5.2 The key responsibilities of the Administering Authority are set out below.

The first key responsibility is to administer the pension fund.

The second key responsibility is to collect investment income and other amounts due to the Fund as set out in the Regulations, including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

- 5.3 Individual employers must pay contributions in accordance with Regulations 67 to 71 of the 2013 Regulations.
- 5.4 The Administering Authority has advised all employers of its policy on the remittance of pension contributions and the procedures that will be taken in the event of late or non-payment.
- 5.5 It is a legal requirement that pension contributions be paid to the Fund by the 19th of the month following the month that they were deducted from employees' pay. The Administering Authority has exercised its discretion under Regulation 69 to require contributions to be paid on the 14th of the month. If the 14th of the month is a non-banking day, payment is required on the last banking day preceding the 14th. This allows for efficient utilisation and investment of funds as pensions are paid on the 16th of the month. It also provides a margin of safety so that minor problems can be resolved without the need to involve the Pensions Regulator.
- 5.6 The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased and from other employers whose participation in the Fund has ceased by:
- requesting that the Fund Actuary calculates any deficiency at the date of cessation of participation,
 - notifying the body that it must meet any deficiency at the cessation.

Further information on the Administering Authority's approach to exiting employers can be found in Section 16 and Appendix E of this Statement.

The third key responsibility is to invest surplus monies in accordance with the Regulations.

- 5.7 The Administering Authority will comply with the Investment Regulations.

The fourth key responsibility is to pay from the Fund the relevant entitlements as set out by the Local Government Pension Scheme Regulations 2013.

The fifth key responsibility is to ensure that cash is available to meet liabilities as and when they fall due.

- 5.8 The Administering Authority recognises this duty and discharges it in the manner set out in the aims of the Fund in relation to the Funding Strategy.

The sixth key responsibility is to manage the valuation process in consultation with the Fund Actuary.

- 5.9 The Administering Authority ensures it communicates effectively with the Fund Actuary to:
- agree timescales for the provision of information and provision of valuation results,
 - ensure provision of data of suitable accuracy,
 - ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement,
 - ensure that participating employers receive appropriate communication throughout the process,
 - ensure that reports are made available as required by guidance and legislation.

The seventh key responsibility is to prepare and maintain an Investment Strategy Statement and a Funding Strategy Statement after due consultation with interested parties.

- 5.10 The Administering Authority will ensure that both documents are prepared and maintained in the required manner.
- 5.11 The Investment Strategy Statement will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.

The eighth key responsibility is to monitor all aspects of the Fund's performance and funding.

- 5.12 The Administering Authority monitors the funding position and the investment performance of the Fund on a quarterly basis.

The ninth key responsibility is to implement the Pensions Administration Strategy.

5.13 The Administering Authority has prepared a Pensions Administration Strategy.

5.14 The Administering Authority will work to comply with its requirements under the Strategy.

The tenth key responsibility is to manage effectively any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.

The eleventh key responsibility is to enable the Local Pension Board to review the valuation process as set out in their terms of reference.

Individual employers

5.15 Individual employers are responsible for:

- complying with the requirements of the Pensions Administration Strategy,
- deducting contributions from employees' pay,
- paying all contributions, including their employer's contribution as determined by the Fund Actuary and as set out in the Rates and Adjustments Certificate, promptly by the due date,
- developing a policy on certain discretions and exercising discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions,
- paying for additional pension, early release of benefits or other one-off strain costs in accordance with agreed arrangements. Payment is due immediately from all employers, except for the six local authorities where it has been agreed that payment can be spread over up to three years,
- notifying the Administering Authority promptly of all changes to membership, or other changes which affect funding,
- notifying the Administering Authority of any material change in financial circumstances for the employer,
- notifying the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund,
- noting and, if desired, responding to any consultation regarding the Funding Strategy Statement, the Investment Strategy Statement or other policies,

- paying any exit payments required in the event of their ceasing participation in the Fund.

The Fund Actuary

5.16 The key responsibilities of the Fund Actuary are set out below.

The first key responsibility is to prepare valuations.

5.17 The Fund Actuary will prepare valuations, including the setting of employers' contribution rates and the issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and relevant admission agreements.

5.18 Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with current actuarial reporting Standards issued by the Financial Reporting Council, to the extent that the Standards are relevant to the Scheme.

The second key responsibility is to prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

The third key responsibility is to provide advice on funding strategy and the preparation of the Funding Strategy Statement.

The fourth key responsibility is to provide calculations and advice on valuations on the cessation of admission agreements or when an employer ceases to employ any active members.

The fifth key responsibility is to provide calculations and advice on bonds and other forms of security for the Administering Authority against the financial effect on the Fund of an employer's default.

The sixth key responsibility is to assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations, as permitted or required by the Regulations and in accordance with the Administering Authority's Policy on Reviewing Employer Contributions in the Inter-Valuation Period (Appendix D).

The seventh key responsibility is to provide views in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B.

The eighth key responsibility is to ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

5.19 Such advice will take account of the funding position and Funding Strategy Statement, along with other relevant matters when instructed to do so.

6. Funding Strategy

- 6.1 From the perspective of an employer, the key issues regarding funding strategy are likely to revolve around employer contribution rates that are payable from time to time and, in particular, the degree of change in rates from year to year and the impact that this has on budgets.
- 6.2 In the broadest sense, the prime determinants of employer contribution rates are the financial and demographic experience of the Fund. The Fund's assets and liabilities move relative to one another as investment returns fluctuate, economic conditions vary and the membership profile changes. This creates funding surpluses or deficiencies and requires changes to contribution rates.
- 6.3 It is not the purpose of this Statement to address those wider issues. Investment strategy is covered in the Fund's Investment Strategy Statement, whilst wider economic conditions and demographic experience are beyond the control of the Administering Authority (except to the extent that it can influence the pay progression and turnover rates of its own staff).
- 6.4 In the narrower context of Funding Strategy, the most important determinants of contribution levels are:
- Solvency and Funding Targets,
 - Valuation methods,
 - Funding assumptions,
 - Trajectory Period,
 - Recovery and Amortisation periods,
 - Grouping,
 - Stepping,
 - Smoothing.
- 6.5 These areas are discussed in the following sections of this Statement.
- 6.6 All concerned must understand how each area introduces an element of risk, and that it is the net total of these risks that is important.
- 6.7 Whilst maintaining as nearly constant as possible employer contribution rates is desirable, this is in direct conflict with the aims of maximising investment returns and securing solvency. As such, the position must be one of balance between the competing objectives.

7. Solvency, Funding Targets and Long-term Cost Efficiency

Funding Principle

- 7.1 The Fund is financed on the principle that it seeks to pay the appropriate benefits.

Risk based approach

- 7.2 The Fund utilises a risk-based approach to funding strategy. A risk-based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives. In practice, three key decisions are required for the risk-based approach:
- what the Solvency Target should be (the funding objective that the Administering Authority wants the Fund to get to),
 - the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
 - the Probability of Funding Success (how likely the Administering Authority wants it to be that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).
- 7.3 These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the risk in the funding strategy.
- 7.4 These three terms are considered in more detail below.

Solvency Target

- 7.5 The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long-term using appropriate actuarial assumptions. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period to meet this aim.
- 7.6 For most Scheduled Bodies and certain other bodies of sound covenant whose participation is deemed to be indefinite in nature, the Solvency Target is set at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period based on a long-term investment strategy that allows for continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in pensions and pension accounts (CPI).

- 7.7 For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, a higher target will be used dependent on circumstances. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after cessation.

Probability of Funding Success

- 7.8 The Probability of Funding Success is the assessed chance of the Fund achieving its Solvency Target at the end of the Trajectory Period (25 years). It is assessed based on asset-liability modelling carried out by the Fund Actuary.
- 7.9 Consistent with the desirability of keeping employers' contribution rates as nearly constant as possible, the Solvency Target for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.
- 7.10 The Administering Authority will not permit contributions to be set, following a valuation, that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target and Long-term Cost Efficiency

- 7.11 In order to satisfy the legislative requirement to secure long-term cost efficiency the Administering Authority's aim is for employer contributions to be set so as to make provision for the cost of benefit accrual, with an appropriate adjustment for any surplus or deficiency.
- 7.12 This is achieved through the setting of a Funding Target, which is the amount of assets which the Fund needs to hold at the valuation date to meet the liabilities at that date. It is the product of the data, chosen assumptions and valuation method. The assumptions for the Funding Target are chosen to be consistent with the Administering Authority's desired Probability of Funding Success. The discount rate, and hence the overall level of employer contributions, is set such that there is a much better than evens chance that the Fund would reach or exceed its Solvency Target after 25 years (the Trajectory Period).
- 7.13 The valuation calculations identify the future service contribution rate and any adjustment for the surplus or deficiency so as to achieve the Funding Target over the deficit recovery period. Other than the stepping in of any contribution changes (see section 13), employer contributions will generally be set in line with the valuation results, ensuring the Funding Target would be met at the end of the deficit recovery / surplus amortisation period if the assumptions were borne out in practice, so ensuring the Administering Authority's long-term cost efficiency objective is met.

- 7.14 Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:
- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
 - For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- 7.15 The Fund is deemed to be fully funded when the assets held are equal to 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

Funding Targets for Employers

- 7.16 The Fund's approach to setting the Funding Target for different employers is as follows:

Scheduled Bodies, excluding Colleges and Universities, and bodies with a subsumption commitment from such Scheduled Bodies

- 7.17 The Administering Authority will adopt a general approach of assuming indefinite investment in a broad range of assets of higher risk for Scheduled Bodies (other than Colleges and Universities) and bodies with a subsumption commitment from such Scheduled Bodies. This is known as the Scheduled and Subsumption Body Funding Target.
- 7.18 At its discretion, the Administering Authority may agree to adopt this Funding Target for certain other bodies of sound covenant open to new entrants.

Colleges and Universities and bodies with a subsumption commitment from such bodies

- 7.19 Due to concerns about the covenant strength of Colleges and Universities, the Administering Authority has adopted a different Funding Target for Colleges and Universities. The Administering Authority may also adopt this different Funding Target for subsidiaries of the Colleges and Universities and / or any other body with a subsumption commitment from a College or University.
- 7.20 Whilst the Administering Authority will adopt a general approach of assuming indefinite investment in a broad range of assets of higher

risk, a reduction will be made to the discount rate to reflect concerns about the covenant strength of Colleges and Universities. This is known as the Intermediate Funding Target. Further details on the approach to be taken are set out in section 19 of this Statement.

Designation Bodies

7.21 For those bodies listed in Schedule 2, Part 2 of the 2013 Regulations, the Administering Authority will assess the Funding Target for each employer on a case-by-case basis. The Administering Authority will have regard to the covenant strength of an employer and the risks that an employer may pose to the Fund.

Admission Bodies, bodies closed to new entrants and bodies of limited duration

7.22 For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Administering Authority will have specific regard to the potential:

- for participation to cease and to the potential timing of such cessation,
- to have no contributing members,
- for any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit, i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities.

Orphaned liabilities

7.23 These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund, the assets notionally related to these liabilities will be assumed to be invested on an appropriate low-risk basis. Further information can be found in paragraph 21.13.

Admission Bodies

7.24 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of admission bodies. On the one hand, the Administering Authority requires all admission bodies to be fully self-funding, or ensure that any shortfall in funding is fully met by a related employer, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those admission bodies. On the other hand, in extreme circumstances, requiring full funding may precipitate failure of the body in question, leading to significant costs for other participating employers.

7.25 The Administering Authority may, at its absolute discretion, agree for an Admission Body to participate on a different Funding Target. In order to agree to this the Administering Authority is likely to require a guarantee and / or subsumption commitment from a statutory body participating in the Fund, or from another organisation approved for that purpose by the Administering Authority. The Administering Authority will likely require such arrangements to be documented in a legally binding agreement.

8. Valuation Methods

- 8.1 The Fund is not static. Over time, members leave and new members join. A measurement can be undertaken at any valuation of the funding position relative to the membership at that time, but that measurement will not take into account new members who will join after the valuation date.

Projected Unit Method

- 8.2 Contribution rates are set by use of the Projected Unit valuation method for most employers. This is consistent with the aim of enabling the primary employer contribution rates to be kept as nearly constant as possible and in anticipation of the Fund continuing for the foreseeable future.
- 8.3 This method produces contribution rates that target solvency over fixed periods in the future. It will tend to produce more stable contribution rates for those employers who expect a future flow of new entrants to the Fund, which would tend to keep the age distribution of members stable. This is seen as a reasonable expectation where the employer is open to new members.

Attained Age Method

- 8.4 For employers that are closed to new members, the existing membership will age as time passes. Under these circumstances, the contribution rate produced by the Projected Unit method will tend to rise from one valuation to the next. It is therefore desirable to consider the use of an alternative method, which is the Attained Age method.
- 8.5 This method is used for a limited number of employers, as shown in Appendix B. It targets solvency over the future working lifetime of a group of membership and tends to produce more stable contribution rates for those employers where no, or few, new entrants to the Fund are expected.

9. Funding Assumptions

9.1 Two types of assumptions are used to measure the funding target:

- financial assumptions,
- demographic assumptions.

Financial assumptions

9.2 There are three financial assumptions that are key to the process in that they have the biggest impact on the results of the measurement. These are discussed below.

Pension increases

9.3 The Scheme provides increases in line with increases in the Consumer Prices Index on the majority of pensions paid. The pension increase assumption is generally set by reference to the Fund Actuary's best estimate of Consumer Prices Index inflation over the long term.

Pay increases

9.4 Over the long term, pay increases have tended to exceed Retail Price Inflation by between 1% and 2% per annum. The Fund Actuary generally uses an assumption at the middle of this range subject to certain adjustments, for example where there is expected to be short term pay restraint. Since the 2013 valuation, to reflect evidence of lower pay increases and expectations for future increases, the pay increase assumption has been expressed as a margin over Consumer Price Inflation.

Future investment returns

9.5 In relation to future investment returns, the assumption depends on the Funding Target used.

9.6 For bodies where a Scheduled and Subsumption Body Funding Target is adopted (as referred to in paragraph 7.17) the assumption is based on indefinite investment in a broad range of assets, predominantly of higher risk but for which a higher return is expected. The assumption is not a best (i.e. neutral) estimate, but recognises the need for prudence; accordingly, partial but not full credit for the future expected returns on the asset portfolio is taken, recognising the risks involved. To be more precise, the assumption is set so as to provide a much better than evens chance of the Fund meeting its Solvency Target (defined in 7.5 and 7.6) over the Trajectory Period, in line with the Administering Authority's chosen Probability of Funding Success.

9.7 For bodies where an Ongoing Orphan Funding Target is adopted (Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no

access to further funding would be available to the Fund after exit), the future investment return assumption will normally be set in line with the approach set out in 9.6 for the period before contributing members are assumed to leave service. For the period after leaving service (or the period contributing members are assumed to have left service), investment in a portfolio of Government index linked and fixed interest bonds will normally be assumed and the investment return assumption will be based on the expected yields on those bonds.

- 9.8 Notwithstanding paragraph 9.7, the Administering Authority may, at its discretion after considering advice from the Fund Actuary, adopt an alternative approach for setting the discount rate for employers on an Ongoing Orphan Funding Target whereby the investment return assumption for the period after leaving service is instead set using an appropriately prudent Probability of Funding Success, Solvency Target and Trajectory Period. The starting presumption is that the Administering Authority shall adopt the approach that is more favourable from a financial perspective for those employers on the Ongoing Orphan Funding Target, unless to do so would be contrary to the best interests of the Fund.
- 9.9 In accordance with paragraph 9.8 above, the Probability of Funding Success approach based on the parameters set out in paragraph 16.15 will be applied at the 2022 Valuation for the Ongoing Orphan Funding Target.
- 9.10 The approach set out in paragraph 9.9 will apply to new employer admissions on or after 1 October 2022 when the employer is to participate in the Fund on the Ongoing Orphan Funding Target.
- 9.11 For Colleges and Universities, for whom an Intermediate Funding Target is adopted, the assumed investment return will be set part-way between the assumed investment returns for the Scheduled and Subsumption Body Funding Target and the Ongoing Orphan Funding Target.
- 9.12 The Administering Authority will review the continued appropriateness of the parameters for the Ongoing Orphan Funding Target from time to time, having regard to advice provided by the Fund Actuary.

Demographic assumptions

- 9.13 These assumptions cover such areas as rates of mortality, ill health, turnover of staff, marital statistics and promotional increases in pay.
- 9.14 The Fund Actuary sets the assumptions by examination of the actual experience of the Fund as a whole, and by reference to national statistics and standard tables. The demographic assumptions are intended to be best estimate and are designed to be applicable to the long-term future and should, therefore, not be too influenced by recent events. In addition, it is usually not practical or desirable to set demographic assumptions at an employer specific level. This is because the number of employees is too small for most employers to provide statistically significant data on which different assumptions

could be based. Also, such activity would significantly increase the cost of the valuation process.

10. Recovery, Amortisation and Trajectory Periods

- 10.1 The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved. For the 2022 valuation the Trajectory Period has been set at 25 years.
- 10.2 Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contribution rates are adjusted to target restoration of full funding over a period of years.

Recovery Periods

- 10.3 The Recovery Period in relation to an employer or group of employers is the period over which any adjustment to the level of contributions in respect of a deficiency relative to the Funding Target used in the valuation is payable.
- 10.4 The Recovery Period for each employer is set by the Administering Authority, in consultation with the Fund Actuary. The Administering Authority will consider any representations received from the employer and any guarantor, with a view to balancing the various funding requirements against the risks arising from the financial strength of the employer and the nature of its participation in the Fund. Whilst willing to consider representations, the Administering Authority retains its discretion in setting the recovery periods for employers.
- 10.5 Where there is a deficiency, the safest way of ensuring full funding would be to require an immediate capital injection from employers straight away. However, such an approach would produce very volatile contribution rates, which is not consistent with the objective of maintaining as nearly constant rates as possible.
- 10.6 Therefore, the policy is to allow deficiencies to usually be recovered over a number of years, which produces smoother contribution rates.
- 10.7 Adopting this approach introduces an element of risk, which increases as longer deficit recovery periods are chosen. The risk is that, by adopting this approach, relatively little action is taken to restore full funding between valuations. An employer may therefore end up in a worse position at the next valuation than if it had sought to restore full funding more quickly. This could produce difficulties in the future if experience is poor and would be contrary to the objective of setting employer contributions so as to secure the long-term cost efficiency of the Scheme. Therefore, excessively lengthy recovery periods are to be avoided.
- 10.8 When considering recovery periods for employers, the Administering Authority may apply an underpin to ensure that the overall contribution does not reduce from the previous valuation whilst that employer continues to be in deficit.

Recovery Periods for the 2022 valuation

- 10.9 In terms of practical limits, analysis carried out by the Fund Actuary has shown that the smoothing impact of recovery periods tends to drop off markedly once the period extends beyond the average future working lifetime of the contributing membership.
- 10.10 At the 2022 valuation the Administering Authority will seek to link recovery periods to the average future working lifetime of the membership of that employer. Notwithstanding this, the Administering Authority acknowledges that a reduction in recovery periods may materially impact certain employers and the Administering Authority may, therefore, agree to increase a recovery period up to a maximum of 14 years. A maximum recovery period of 14 years would be a reduction of 3 years from the maximum recovery period at the 2019 valuation.
- 10.11 Notwithstanding section 10.10, the Administering Authority will seek to set a recovery period for each employer that is as short as possible, consistent with the overall aims of the Fund. This applies particularly for employers with a lower financial standing than the local authority employers.
- 10.12 Where an employer has a guarantee from a statutory body participating in the Fund, or from another organisation approved for that purpose by the Administering Authority, the Administering Authority will consider whether the guarantee can, with the agreement of the guarantor, be taken into account in assessing the recovery period to be used.
- 10.13 Some employers have fixed participation periods in the Fund. In most cases, it would be imprudent to use a recovery period longer than the remaining participation period, as this would effectively target under funding at the end of participation. The maximum period that will generally be permitted is therefore the remaining period of participation. Potential contract extension periods will not generally be taken into consideration.
- 10.14 For any employer that has entered into a Deferred Debt Agreement (see Appendix E – Policy on Employers Exiting the Fund) the maximum recovery period that will be permitted is the remaining period of the Deferred Debt Agreement.
- 10.15 As stated in section 10.8 above, the Administering Authority has a discretion as to whether to apply an underpin to ensure that the overall employer contribution rate does not reduce from the previous valuation where an employer continues to be in deficit. At the 2022 valuation, the Administering Authority will assess the position of employers on a case-by-case basis and the Administering Authority, at its absolute discretion, shall determine whether an underpin will be applied to individual employers.

Amortisation of a surplus at the 2022 Valuation

- 10.16 The Amortisation Period in relation to an employer or group of

employers is set by the Administering Authority as the period over which any adjustment to the level of contributions in respect of a surplus relative to the Funding Target used in the valuation is payable.

- 10.17 In line with the desirability of maintaining as nearly constant a contribution rate at this and future valuations, surplus amortisation shall not generally apply to any employer at a funding level of between 100 – 110%. Those employers will generally be required to pay the primary rate (i.e. the future service rate) in full, without any adjustment for a surplus. In respect of any employer at a funding level in excess of 110%, amortisation shall only apply to any surplus above the 110% funding level.
- 10.18 Notwithstanding paragraph 10.17, the Administering Authority may reduce the threshold from which surplus amortisation applies where an employer is facing an increase in its contribution rate at the 2022 valuation. Any decision to reduce the surplus amortisation threshold from 110% is at the absolute discretion of the Administering Authority. Amongst other things, the Administering Authority will have regard to whether the current rate is set at an appropriate level for future solvency.
- 10.19 Subject to paragraph 10.17 above, the default Amortisation Period at the 2022 valuation will be a period of 20 years. This remains unchanged from the 2019 valuation. If surpluses are sufficiently large, contribution requirements may be set to a minimum nil total amount.
- 10.20 For those employers with fixed participation in the Fund with a funding level in excess of 110%, the surplus will generally be amortised over the remaining participation period. Potential contract extension periods will not generally be taken into consideration.

11. Fund Maturity

- 11.1 To protect the Fund and individual employers from the risk of increasing maturity and declining payrolls producing unacceptably volatile contribution adjustments as a percentage of pay, the Administering Authority will normally require monetary contributions from employers in respect of any disclosed funding deficiency.
- 11.2 In certain circumstances, contribution adjustments to correct for any disclosed surplus or deficiency may be set as a percentage of payroll. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate or declines, insufficient corrective action will have been taken.

12. Grouping

- 12.1 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits certain employers to be treated as a group for the purposes of setting contribution rates.
- 12.2 This approach is used where there is either a degree of homogeneity between employers or for some smaller employers for whom contribution rates could otherwise be very volatile due to the increased likelihood that demographic movements would have a material effect.
- 12.3 The employer groupings are:
- Smaller Admitted Bodies – Open Group
 - Smaller Admitted Bodies – Closed Group
 - Small Scheduled Bodies Group
 - The Police Group
 - The Nexus Group
- 12.4 The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. This can arise from different membership profiles of the different employers and from different experience. However, over longer time periods it would be expected that the experience will even out between employers and each employer will, on average, pay a fair level of contributions.
- 12.5 The benefit of grouping is that it should produce a less volatile contribution rate on average for each individual employer.
- 12.6 The Administering Authority's policy is to consider the position carefully at each valuation and decide whether grouping is appropriate for any employer. This will include consideration of whether those employers that have decided to not admit any new members should be grouped separately and valued using the Attained Age method. The group of employers that do admit new members would continue to be valued using the Projected Unit method.
- 12.7 For employers with more than fifty contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping.
- 12.8 Grouping is unlikely to be permitted for employers whose participation is for a fixed period.
- 12.9 Each employer that is grouped will be advised that this is the case, and which other employers it is grouped with. The employer must consider whether it is comfortable with the approach. If the employer objects to this grouping, it will be offered its own contribution rate from

the time that the Administering Authority agrees that it is practical to implement the revised approach.

- 12.10 Those employers who participate in groups are shown in Appendix C.
- 12.11 Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.
- 12.12 All employers in the Fund are grouped together in respect of the risks associated with ill health retirement, payment of lump sum benefits on death in service and spouse's pensions (death in service only); in other words, the cost of such benefits is shared across the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks.

Exit valuations for grouped employers

- 12.13 Employers that participated in a group, but for whom the need has arisen for an exit valuation cease to participate in the group.
- 12.14 The approach to carrying out an exit valuation for an employer that participates in a group is as follows:
 - With respect to the asset share, the Fund Actuary would take the notional group assets at the last valuation and identify the employer's notional share of those assets at that time. The asset share would then be rolled forward from this figure, taking into account the actual cash flow data for that employer since the valuation date. In this way the employer is, effectively, treated individually since the last valuation for the purposes of establishing the asset share,
 - With respect to the liabilities, the actual liability data for the employer itself is used. Therefore, in effect, the employer is treated individually for liability purposes.
- 12.15 This approach largely removes any cross subsidisation since the last valuation and ensures that the employer fully meets its obligations to the Fund. It also reduces administration costs since calculations are only required for the affected employer rather than for all employers in the group.

13. Stepping

- 13.1 Consistent with the desirability of keeping employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years.
- 13.2 This is similar to setting a longer recovery period in that it seeks to reduce the impact of changes in contribution rates by phasing the change over a number of years. A natural consequence of this approach is that the ultimate rate payable will be higher than if there had been no stepping, to allow for the underpayment in the earlier years of the stepping process.
- 13.3 The risks involved with this approach are similar to those regarding use of a recovery period, but can be more extreme. Where rates are stepped, the rate paid in the early years will be below that required to restore solvency over the recovery period, but may also be below the rate required simply to keep up with the flow of benefit promises being made. In this circumstance, the impact of adverse experience can be even more severe than described above.
- 13.4 The Administering Authority discusses the risks inherent in such an approach with the Fund Actuary and examines the financial impact and risks associated with each employer.
- 13.5 The Administering Authority's standard approach is to limit the permitted steps to three annual steps.
- 13.6 Given the risks involved, it is most unlikely that stepping would be permitted for employers with limited duration of participation or where the recovery period is already constrained due to a perceived higher level of risk.

Admission Bodies

- 13.7 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of Admission Bodies. On the one hand, the Administering Authority requires all Admission Bodies to be fully self-funding, such that other employers in the Fund are not subject to levels of expense as a consequence of the participation of those Admission Bodies. On the other hand, in extreme circumstances, requiring full funding may precipitate failure of the body in question, leading to significant costs for other participating employers.
- 13.8 In circumstances in which the Administering Authority judges to be extreme, the Administering Authority will engage with the largest employers in the Fund with a view to seeking agreement that the requirement that contribution rates target full funding can be temporarily relaxed.

- 13.9 The implication of this is that, during the period of relaxation, contribution rates for Admission Bodies can be set at a level lower than full funding would require. However, should an employer leave the Fund during a period of relaxation, the full exit debt would be payable.

14. Smoothing

- 14.1 Having set the assumptions, the funding target and funding method, a measurement of the funding position can then be made.
- 14.2 The measured funding position alters as economic conditions change because the assumptions are set by reference to prevailing economic conditions.
- 14.3 Even more so, a measurement carried out one week could produce a very different result to one carried out the next because the market value of the assets can change very rapidly on a daily basis.
- 14.4 In this kind of fluctuating environment, it can be difficult to set contribution rates that remain as nearly constant as possible.
- 14.5 A smoothing adjustment can be applied to the Fund's asset value to produce a result that is smoother over time.
- 14.6 Any smoothing adjustment is an arbitrary tool. There is no theoretically correct adjustment. Application of the adjustment will tend to alter the results of the solvency investigation. Whether the result has been altered in the right direction cannot be known in advance. Use of a smoothing adjustment therefore constitutes a risk.
- 14.7 The policy is to consider the use of a smoothing adjustment, but to ensure that its application will not materially alter the outcome of the measurement relative to the underlying unsmoothed position.
- 14.8 No smoothing adjustment has been applied in recent valuations (since 2007 onwards).

15. Advance Funding of Contributions

- 15.1 The Administering Authority may at its discretion, and after considering the advice of the Fund Actuary, permit particular employers to opt to pay early, in lump sum form, their employer contributions that would otherwise be payable over the following year (or longer period not exceeding three years). An appropriate discount, as determined by the Fund Actuary, would be applied to reflect the early payment.
- 15.2 For any employer permitted to pay contributions in advance, a true-up adjustment (additional contribution at each applicable year-end) will be required if the early payment of contributions based on an estimated payroll results in lower contributions having been paid into the Fund (after allowing for the discount) than would otherwise have been the case had the option not been selected.

16. Provisions on Exit

- 16.1 When an employer's participation ceases, the Fund Actuary will carry out an exit valuation. The Administering Authority will then pursue the recovery of any deficiency from that employer.
- 16.2 In the event that the employer cannot meet the exit valuation, and there is no recourse to a guarantor, Regulations require that all employers in the Fund pay revised contributions to meet the shortfall.

Guarantors

- 16.3 The Administering Authority has adopted a policy of generally requiring bodies admitted under paragraph 1(a) of Part 3 of Schedule 2 of the 2013 Regulations (i.e. those bodies previously referred to as Community Admission Bodies) and other employers, where deemed necessary, to obtain a guarantor. The Administering Authority, unless notified otherwise, sees the duty of a guarantor to include the following:
 - 16.4 If the guaranteed employer ceases and / or defaults on any of its financial obligations to the Fund, the guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
 - 16.5 If the guarantor is an employer in the Fund, the guarantor may, subject to the agreement of the Administering Authority, defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
 - 16.6 During the period of participation of the employer, a guarantor can, at any time, agree to the future subsumption of any residual liabilities of the employer, subject to the agreement of the Administering Authority. The effect of that action would be to reduce the funding target for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitisation

- 16.7 Schedule 2 Part 3 Paragraph 6 of the 2013 Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority, and the Scheme Employer in the case of a Admission Body admitted under Schedule 2 Part 3 Paragraph 1 (d)(i), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.
- 16.8 Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an Admission Body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from

an organisation which either funds, owns or controls the functions of the Admission Body.

- 16.9 In the case of Admission Bodies admitted under Schedule 2 Part 3 Paragraph 1(d)(i) and other Admission Bodies with a guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the Admission Body. As such, it is entirely the responsibility of the relevant Scheme Employer or guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority can arrange for standard calculations to be provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter. The Administering Authority notes that levels of required bond cover can fluctuate and recommends that relevant Scheme Employers review the required cover regularly.
- 16.10 In the case of Admission Bodies admitted under Schedule 2 Part 3 1(d)(ii) or 1(d)(iii), or Schedule 2 Part 3 Paragraph 1(d)(i) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and for other Admission Bodies with no guarantor or where the Administering Authority does not judge the guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority notes that levels of required bond cover can fluctuate and will require the relevant Scheme Employer to jointly review the required cover with it regularly.
- 16.11 The Administering Authority will supply standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or guarantor. This should not be construed as advice to the Scheme Employer, guarantor or Admission Body.

Exit Valuations

- 16.12 The Administering Authority will ensure that all exit valuations are undertaken in accordance with its Policy on Employers Exiting the Fund (Appendix E).
- 16.13 Subject to paragraphs 16.14 and 16.15, unless the Administering Authority has agreed to the contrary, all exit valuations will be undertaken on a low-risk basis. This means the Administering Authority will seek funding from the exiting employer that will enable it to match the liabilities with low-risk investments, generally government fixed interest and index linked bonds.
- 16.14 In respect of employers exiting the Fund on or after 1 October 2022, a cost control underpin shall be introduced to the exit valuation process. This cost control underpin will be based on a Probability of Funding Success approach. As part of the exit valuation process, the Fund

Actuary shall assess whether the low-risk basis (see paragraph 16.13) or the Probability of Funding Success approach will result in a higher discount rate for the exit valuation. To assist with cost control for exiting employers, the approach with the higher discount rate will be used in the exit valuation.

16.15 The parameters to be used for the Probability of Funding Success approach in exit valuations will be as follows:

- A Probability of Funding Success of 95%;
- A Solvency Target that is based on a discount rate of 2%; and
- A Trajectory Period of 15 years.

The Administering Authority will review the continued appropriateness of these parameters from time to time, having regard to advice provided by the Fund Actuary.

17. Notional Sub-funds for Employers

Notional Sub-funds

- 17.1 In order to establish contribution rates for individual employers or groups of employers, it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional sub-fund within the Fund.
- 17.2 This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll-forward of notional sub-funds

- 17.3 The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below.
- 17.4 In general, the roll forward is carried out on a monthly basis using a unitised approach. This allows for cashflows in and out of the Fund for each employer on a monthly basis.
- 17.5 Further adjustments are made, as follows:
- A notional deduction to meet the administration costs paid from the Fund, in line with the assumption used at the previous valuation. This is based on the actual administration costs paid from the Fund each month, split between the individual employers in proportion to their implied monthly payroll,
 - Allowance for any known material internal transfers in the Fund, as cashflows will not exist for these transfers. The Fund Actuary will, in general, assume an estimated cashflow equal to the cash equivalent transfer value in respect of the transferring members unless some other approach has been agreed between the two employers,
 - An overall adjustment to ensure the notional assets attributed to each employer is equal to the total assets of the Fund. This will take into account any gains or losses related to the orphaned liabilities.
- 17.6 In some exceptional cases, information available will not allow for such cashflow calculations. In such a circumstance:
- Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used,
 - Where, in the opinion of the Fund Actuary, the cashflow data which is unavailable is material, the Fund Actuary will instead use

an analysis of gains and losses to roll forward the notional sub-fund. Analysis of gains and losses methods are less precise than use of cashflows and involves calculation of gains and losses relative to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset holding.

- 17.7 Analysis of gains and losses methods will also be used in exceptional cases where the results of the cashflow approach appear to give unreliable results.

Attribution of investment income

- 17.8 Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.
- 17.9 Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

18. Academies

- 18.1 The Academies Act of 2010 has led to a large number of academies being set up. They are Scheduled Bodies and, as such, have an automatic right to join the Scheme.
- 18.2 The position with regard to an academy's covenant is viewed as unclear by many stakeholders across the Scheme. This has led to differing approaches being taken by administering authorities when setting the funding strategy for academies.
- 18.3 Guidance has been issued by the Secretaries of State for Education and the Department for Levelling Up, Housing and Communities. The Administering Authority believes that further clarification is required.

Standard approach

- 18.4 The Administering Authority's standard approach is set out below.
- 18.5 Academies are being treated as completely separate from their former council, or local education authority.
- 18.6 The approach to the transfer of liabilities and assets is set out in the Commercial Transfer Agreement. The Administering Authority transfers an appropriate share of assets against the liabilities.
- 18.7 The liabilities are being discounted at the higher discount rates that are used for employers of a strong covenant.
- 18.8 The employer contribution rates are being set to seek continuity with the rate being paid by the appropriate former council. This is achieved by first calculating the appropriate future service rate for the active members at the academy and then setting the past service deficiency payments and recovery period at the required level.
- 18.9 The employer contribution rate for a multi academy trust may be set at the Total Fund contribution rate where the Administering Authority decides that this is appropriate.
- 18.10 This is subject to the approach as set out earlier in the Funding Strategy Statement on the setting of recovery periods.

Recovery of a deficiency

- 18.11 The Administering Authority's standard approach to the recovery of a deficiency is by way of lump sum payments, rather than as a percentage of payroll. This is currently suitable for most employers as it protects the Fund's position where there is a declining payroll.
- 18.12 Some academies have an increasing payroll due, for example, to academy mergers under a multi academy trust.

18.13 Therefore, in some cases, the Administering Authority requires that a deficiency is recovered by way of payments based on a percentage of payroll.

Grouping (pooling) with a council

18.14 The standard approach does not provide for grouping or risk sharing with the appropriate council. However, this can be provided subject to the agreement of all parties.

18.15 Where an academy wishes to be grouped, it is asked to obtain the consent of the appropriate council to the type of grouping that is sought.

Variations to the standard approach

18.16 The Administering Authority varies its standard approach to take account of the content of the Commercial Transfer Agreement.

18.17 The Administering Authority may vary its standard approach where an academy is in surplus, is fully funded or could become fully funded within the forthcoming valuation period.

Review

18.18 The approach will be kept under review.

19. Colleges and Universities

Funding Target

- 19.1 An Intermediate Funding Target has been adopted for Colleges and Universities. This will be set at a level between that of the Scheduled and Subsumption Body Funding Target and the Ongoing Orphan Funding Target.
- 19.2 The Administering Authority will adopt a three-tier approach to the discount rate used for the Intermediate Funding Target. The three-tier approach will see reductions to the discount rate from the discount rate used for the Scheduled and Subsumption Body Funding Target, at a level determined by the Administering Authority in consultation with the Fund Actuary. Tier 3 of the Intermediate Funding Target will see the largest reduction in the discount rate and Tier 1 the smallest reduction in the discount rate. Tier 2 will be positioned between Tiers 1 and 3.
- 19.3 The standard position will be that Colleges and Universities will have their liabilities valued on the Tier 3 basis. It will be open to each College and University to satisfy the Fund as to its covenant strength which may allow a move to Tier 2 or Tier 1. Any decision on a College or University moving to Tier 2 or Tier 1 will be at the absolute discretion of the Administering Authority.
- 19.4 The discount rates used for the Intermediate Funding Target will be lower than the discount rates used for the Scheduled and Subsumption Body Funding Target.
- 19.5 The Administering Authority may, at its discretion, extend this approach to subsidiaries of the Colleges and Universities, and / or any other body with a subsumption commitment from a College or University.

Recovery of a deficiency

- 19.6 The Administering Authority's standard approach to the recovery of a deficiency is by way of lump sum payments, rather than as a percentage of payroll. This is currently suitable for most employers as it protects the Fund's position where there is a declining payroll.
- 19.7 Some colleges may have an increasing payroll due, for example, to mergers of colleges.
- 19.8 Therefore in some cases, the Administering Authority may require that a deficiency is recovered by way of payments based on a percentage of payroll.

Review

- 19.9 This approach will be kept under review

20. Identification of risks and counter measures

- 20.1 The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level.
- 20.2 The Administering Authority will monitor the risks to the Fund and will, wherever possible, take appropriate action to limit the impact of these both before and after they emerge.
- 20.3 If required, an interim valuation may be carried out between triennial valuations to help to assess the impact of experience diverging from the assumed experience.
- 20.4 The main risks to the Fund are set out below.

Choice of Solvency and Funding Targets

- 20.5 The Administering Authority recognises that future experience and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes and different assumed outcomes will lie at different places within that range.
- 20.6 The more optimistic the assumptions made in determining the Solvency and Funding Targets:
- the more that outcome will sit towards the 'favourable' end of the range of possible outcomes,
 - the lower will be the probability of experience actually matching or being more favourable than the assumed experience,
 - the lower will be the Solvency and Funding Targets calculated by reference to those assumptions.
- 20.7 The Administering Authority will not adopt assumptions which, in its judgement, and on the basis of actuarial advice received, are such that it is less than 55% likely that the strategy will deliver funding success as defined earlier in this document.
- 20.8 Where the probability of funding success is less than 65%, the Administering Authority will not adopt assumptions which lead to a reduction in the aggregate employer contribution rate to the Fund.
- 20.9 The Administering Authority's policy will be to monitor an underlying 'low risk' position, which generally makes no allowance for returns in excess of those available on government stocks, to ensure that the Funding Target remains realistic.

Investment risk

- 20.10 This covers items such as the performance of financial markets and of the Fund's investment managers that lead to the risk of investments not performing and not increasing in value as forecast. Examples of specific risks would be:

- assets not delivering the required return for whatever reason, including manager underperformance,
- systemic risk with the possibility of interlinked and simultaneous financial market volatility,
- insufficient funds to meet liabilities as they fall due,
- that inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon,
- counterparty failure.

20.11 The specific risks associated with assets and asset classes are:

- for equities; industry, country, size and stock risks,
- for fixed income; yield curve, credit, duration and market risks,
- for alternative assets; liquidity, property and alpha risks,
- for money market instruments; credit and liquidity risks,
- currency risk
- macroeconomic risk.

20.12 The Administering Authority monitors:

- the effect of market movements on the Fund's overall funding position,
- the asset allocation of the Fund by carrying out an annual review with its Investment Advisor,
- each investment manager's performance quarterly.

Climate Change

20.13 Administering Authorities need to appreciate the uncertainty presented by forecasting over the long-term. The World Economic Forum has identified Climate Risks as one of the key long-term risks globally. Climate change presents a significant financial risk to the Fund and its employers.

20.14 The Administering Authority has undertaken extensive work in respect of climate change. This includes a carbon footprint analysis for ascertaining a base level for future benchmarking. A Scenario Analysis was commissioned from Hymans Robertson which considered the impact of climate change on the assets and liabilities of the Fund over three climate change scenarios. This analysis highlighted financial risks to the Fund, especially if sufficient action is not taken by policy owners, organisations and individuals to address these risks. The conclusion of the Scenario Analysis was that the Fund is "well positioned" and the Fund's overall investment strategy was endorsed.

20.15 In November 2021, the Fund adopted a Climate Change Policy. The

approved policy sets a net zero carbon target of “2050 or sooner” for the investment portfolio. To assist with achieving this target, the Administering Authority has set interim targets of a 30-35% reduction of carbon emissions by 2025 and by 50-60% by 2030. The Administering Authority is now implementing this policy and is working towards achieving the set targets.

20.16 The Fund’s Climate Change Policy, which includes details on the Scenario Analysis, can be found at www.twpf.info.

Employer risk

20.17 These risks arise from the changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments from orphan liabilities.

20.18 The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer and other pension fund stakeholders.

20.19 In order to seek to ensure that each employer continues with appropriate membership of the Fund, the Administering Authority maintains a knowledge base on employers which includes their basis of participation and their legal status and uses this information to inform the Funding Strategy Statement. Employers are required to contribute to this knowledge base by:

- notifying the Administering Authority promptly of all changes to membership, or other changes which affect funding,
- notifying the Administering Authority of any material change in financial circumstances for the employer,
- notifying the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund,
- completing and returning an Employer Review Questionnaire each year.

Liability risk

20.20 The main risks include:

- changes in expected future investment returns,
- pay and price inflation,
- life expectancy,
- changing retirement patterns,

- other demographic risks.
- 20.21 The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments.
- 20.22 The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.
- 20.23 If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

Regulatory risk

20.24 These risks relate to changes to:

- general legislation,
- Local Government Pension Scheme regulations,
- national pension requirements,
- HMRC rules.

20.25 The Local Government Pension Scheme has gone through a major structural change.

20.26 The Administering Authority will keep abreast of all proposed changes to the Scheme and, where possible and appropriate and after careful consideration, express its opinion during consultation periods. The Administering Authority's approach will be, where it is considered appropriate to do so, to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify employers of this likely impact and the timing of any change.

20.27 In particular, the full scale of the costs from the "McCloud" equal treatment judgement are unknown. Amendments to the 2013 Regulations are expected in respect of McCloud, but this may not be in sufficient time for the 2022 valuation. The Administering Authority will consider any guidance and / or legislation emerging on this issue and will consider the appropriate allowance to make, taking account of the Fund Actuary's advice.

20.28 For the purposes of the 2022 valuation, an approximate employer specific allowance will be made in respect of McCloud based upon a high-level analysis of an employer's fund membership. Members' benefits will be valued as required by relevant legislation as in force as at 31 March 2022, except for the following assumptions:

- It will be assumed that the current underpin (which only applies to those members within 10 years of their Normal Pension Age at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the 2014 Scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022, the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- The underpin will consider when members take their benefits, so they can be assured they are getting the higher benefit.

20.29 For the purposes of the 2022 valuation, an allowance will be made for the anticipated changes to GMP indexation / equalisation as set out in the Government's response to the consultation. This anticipated change is the indefinite extension of the interim solution of paying full CPI pension increases from the Fund, i.e., we will allow for full CPI increases on GMPs for those members reaching State Pension Age on or after 6 April 2016.

20.30 For new employers commencing participation in the Fund, the Administering Authority will include an approximate allowance for McCloud related costs within both the employer's liabilities and its contribution rate and this will take into account the individual employer's membership profile. It is possible that the allowance within contribution rates might be revisited by the Administering Authority and Fund Actuary at future valuations (or, if legislation permits, before future valuations) once the implications for Scheme benefits and employee contributions are clearer.

20.31 The Local Government Pension Scheme is going through a series of changes, each of which will impact upon its maturity profile and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the Local Government Pension Scheme,
- transfer of responsibility between different public sector bodies,
- Scheme changes that might lead to increased opt-outs,
- spending cuts and their implications.

- 20.32 All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.
- 20.33 The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at Fund and employer level where material issues are identified.

Ill Health and Death in Service risk

- 20.34 The Administering Authority is aware that costs flowing from ill health retirement and death in service can cause financial instability for employers; this may be particularly troublesome for some of the smaller employers.
- 20.35 To mitigate this risk, the Administering Authority has decided to pool ill-health and death in service lump sum costs and costs arising from death in service spouse's pensions. Employers' contribution rates will be increased, where required.

Governance risk

- 20.36 This covers the risk of unexpected structural changes in the Fund membership, for example the closure of an employer to new entrants or the large-scale withdrawal or retirement of groups of staff, and the related risk of the Administering Authority not being made aware of such changes in a timely manner.
- 20.37 As noted elsewhere in this Statement, the Administering Authority's policy is to require regular communication between itself and employers and to ensure regular reviews of such items as bond arrangements and funding levels.
- 20.38 Particular examples are set out below:

Early retirement strain payments

- 20.39 No allowance is made at a valuation for the additional value of the benefits when a member is made redundant or leaves on the grounds of efficiency. To counter the potential 'strain', or cost, emerging at the next valuation, early retirement strain payments are due immediately from all employers, except for the six local authorities where it has been agreed that payment can be spread over three years.

Employers with small and declining number of contributing members

- 20.40 Under the current Regulations, employers with no contributing members become "exiting employers", unless a deferred debt agreement is entered into with the Administering Authority (see Appendix E for further details). An exit valuation must be carried out in respect of an exiting employer. The employer will be required to address any deficiency revealed in their exit valuation.

20.41 The Administering Authority will monitor employers with declining membership and may introduce a more conservative funding strategy for such employers.

Bodies ceasing to exist with unpaid deficiency

20.42 Some employers can cease to exist and become insolvent, leaving the remaining employers in the Fund open to the risk of an unpaid deficiency. For Schedule 2 Part 3 Paragraph 1(d)(i) Admission Bodies, any such deficiency will be met by the relevant Scheme Employer and there is therefore little risk to other employers in the Fund, provided that the relevant Scheme Employer is itself of good covenant.

20.43 Other employers are more problematic. The Administering Authority will, as far as practicable, look to reduce risks through the employer contributions that are set, by the use of bond arrangements and through a guarantor.

Statistical / Financial risk

20.44 This covers items such as:

- the performance of markets,
- the performance of the Fund's investment managers,
- asset reallocation in volatile markets,
- pay and price inflation varying from anticipated levels,
- the effect of possible increases in employer contribution rates on service delivery and on employers.

20.45 In order to seek to ensure that the assumptions used remain justified, the Administering Authority:

- receives quarterly updates on the effect of market movements on the Fund's overall funding position,
- reviews each investment manager's performance quarterly,
- considers the asset allocation of the Fund by carrying out asset liability studies.

Solvency measure

20.46 The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise.

20.47 The Administering Authority's policy is to monitor the underlying position, which assumes no such excess returns are achieved, to seek

to ensure that the funding target remains realistic relative to the risk position.

Smoothing

- 20.48 The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position.
- 20.49 The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

Recovery and Amortisation Periods

- 20.50 The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a period of time, rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements.
- 20.51 The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery periods and the Amortisation Period as set out in section 10 above.

Stepping

- 20.52 The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process.
- 20.53 The Administering Authority has discussed the risks inherent in each situation with the Fund Actuary and its approach at this valuation has been to limit the number of permitted steps to three annual steps.

Cyber Security

- 20.54 Cyber security is an area of major importance to the Administering Authority. Cyber-attacks are a threat to the data held and systems operated by the Administering Authority and key external partners, including the Fund Actuary and software providers.
- 20.55 The systems operated by the Administering Authority form part of those of the wider Council. Officers for the Administering Authority work closely with colleagues in the Digital and ICT Team at South Tyneside Council to ensure robust systems and safeguards are in place to mitigate the risks of a successful cyber-attack. The Administering Authority also engages with key external partners to ensure they have appropriate cyber security safeguards. Issues of cyber-security are, where appropriate, addressed through service contracts with relevant third parties.

20.56 The Administering Authority has Business Continuity Plans which include cyber security risk. Restoration plans are also in place should the Administering Authority be the victim of a successful cyber-attack.

21. Links to investment policy as set out in the Investment Strategy Statement

- 21.1 The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy as set out in the Investment Strategy Statement and the Funding Strategy set out in this Statement.
- 21.2 The assets that most closely match the liabilities of the Fund are fixed interest and index-linked government bonds of appropriate term relative to the liabilities.
- 21.3 The Fund's asset allocation, as set out in the Investment Strategy Statement, invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than government bonds.
- 21.4 The Administering Authority has agreed with the Fund Actuary that the Funding Target, on the ongoing basis, will be set after making some allowance for this higher expected return.
- 21.5 However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved the solvency position of the Fund will deteriorate.
- 21.6 The Funding Strategy recognises the investment targets and the inherent volatility arising from the investment strategy by being based on financial assumptions which are consistent with the expected average return, and by including measures that can be used to smooth out the impact of such volatility.

Total Fund Investment Policy

- 21.7 An asset liability modelling study is carried out in order to assist in setting the Fund's investment policy. This study examines the Fund's financial position, the profile of its membership, the nature of its liabilities and includes an analysis of the expected ranges of outcomes from differing investment policies. The study is carried out at Fund level, not at the level of each employer. The strategic asset allocation benchmark that is derived from the study is, therefore, set in the light of the overall liabilities of the Fund.

Investment policies for individual employers

- 21.8 The Administering Authority will examine ways of providing individual employers, at their request and at their own risk and cost, with an investment strategy that may be more tailored to their individual liabilities.
- 21.9 Such an approach could be of interest to employers that wish to adopt a low-risk strategy, or that have a finite membership in the Fund, or to

employers whose liabilities differ markedly from the Total Fund liabilities.

- 21.10 The implementation of a bespoke investment policy for an individual employer, or group of employers, will be at the Administering Authority's discretion.

Monitoring of Investment Policy

- 21.11 The Administering Authority will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances.
- 21.12 The Administering Authority will continue to review the Funding Strategy Statement and the Investment Strategy Statement to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

Orphaned Liabilities

- 21.13 Where an employer exits the Fund and the liabilities for that employer have become orphaned (i.e. no other scheme employer assumes responsibility for those liabilities), the Administering Authority shall back those orphaned liabilities with appropriate assets. The approach to be taken in matching the liabilities depends upon the methodology used in the exit valuation. Specifically:
- Where an exit valuation has been undertaken on a low-risk basis (as set out in paragraph 16.13), the Administering Authority shall allocate index-linked gilts to broadly match those liabilities.
 - Where an exit valuation has been undertaken on the Probability of Funding Success basis (as set out in paragraphs 16.14 and 16.15), the orphaned liabilities will be backed with assets in the main investment portfolio for the Fund.

22. Monitoring

- 22.1 The Administering Authority plans to review formally this Statement as part of the triennial valuation process unless circumstances arise that require earlier action.
- 22.2 The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action. An indicative interim valuation is carried out if it is considered appropriate.
- 22.3 The purpose of this monitoring process is to give employers advance warning of likely changes that may be required following the next triennial valuation or sooner. This allows improved budgeting decisions to be made and allows an employer to take an informed decision on paying additional contributions.
- 22.4 The Administering Authority will monitor the position of individual employers on an ongoing basis to assess their risk to the Fund. Measures may be taken, including the review of an employer contribution rate, during the inter-valuation period, where the Administering Authority considers this appropriate. Such action shall be in accordance with the Regulations, guidance and the Administering Authority's Policy on Reviewing Employer Contributions in the Inter-Valuation Period (Appendix D).

23. Merger with Northumberland County Council Pension Fund

- 23.1 By virtue of The Local Government Pension Scheme (Northumberland and Tyne and Wear Pension Fund Merger) Regulations 2020, Northumberland County Council Pension Fund merged into Tyne and Wear Pension Fund on 3 June 2020 (operating retrospectively to 1 April 2020).
- 23.2 The date of merger was shortly after the completion of the 2019 valuation process. The employer contribution rates certified in the Rates and Adjustments Certificate for Northumberland County Council Pension Fund as part of the 2019 valuation remain valid and those rates shall apply up to 31 March 2023 (save for any amendments made for individual employers in the intervening period – see Appendix D). All employers participating in the merged Fund as at 31 March 2022, will be included in the 2022 valuation for the Tyne and Wear Pension Fund with new employer contribution rates coming into effect from 1 April 2023.
- 23.3 Prior to the merger of the funds, the Administering Authority (on behalf of all Tyne and Wear Pension Fund employers) and Northumberland County Council (on behalf of all Northumberland County Council Pension Fund employers) entered into a legal agreement. Amongst other things, the legal agreement made provision for certain cost allocations which can be summarised as follows:
- External costs incurred in delivering merger are to be allocated to those employers who previously participated in the Northumberland County Council Pension Fund. This includes costs relating to the trading of assets which may arise in aligning the combined assets to the Tyne and Wear Pension Fund asset allocation. This cost sharing principle applies until the tenth anniversary of the merger of the funds;
 - In respect of any costs, damages, fines or other financial awards made against the Administering Authority, but relating to pre-merger action, then such costs shall be allocated to the respective employers of the fund where the financial liability arose.

Appendix A

Most Relevant Regulations – Unless referenced to the contrary, all refer to Local Government Pension Regulations 2013

Regulation 58 - Funding strategy statement

(1) An administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

(2) The statement must be published no later than 31st March 2015.

(3) The authority must keep the statement 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, and if revisions are made, publish the statement as revised.

(4) In preparing, maintaining and reviewing the statement, the administering authority must have regard to-

- (a) the guidance set out in the document published in October 2012 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called "Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme 2012; and
- (b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Regulation 62 - Actuarial valuations of pension funds

(1) An administering authority must obtain—

- (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- (b) a report by an actuary in respect of the valuation; and
- (c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date ("the valuation date") as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the

assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying—

- (a) the primary rate of the employer's contribution; and
- (b) the secondary rate of the employer's contribution,

for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer's contribution is the amount in respect of the cost of future accruals which, in the actuary's opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

- (a) the existing and prospective liabilities arising from circumstances common to all those bodies;
- (b) the desirability of maintaining as nearly constant a primary rate as possible;
- (c) the current version of the administering authority's funding strategy mentioned in regulation 58 (funding strategy statements); and
- (d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer's contributions is any percentage or amount by which, in the actuary's opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

- (a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and
- (b) the amount of the liabilities arising in respect of such members,

during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

Regulation 64 - Special circumstances where revised actuarial valuations and certificates must be obtained

(1) Subject to paragraph (2A), if a person-

- (a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or
- (b) is or was a Scheme employer, but irrespective of whether that employer employs active members contributing to one or more other funds, no longer has an active member contributing towards a fund ("a relevant fund") which has liabilities in respect of benefits in respect of current and former employees of that employer,

that person becomes "an exiting employer" in relation to the relevant fund for the purposes of this regulation and is liable to pay an exit payment or entitled to receive an exit credit.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain-

- (a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and
- (b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)(a).

(2ZAB) An 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 under paragraph 8 of Part 3 to Schedule 2 to these Regulations;
 - (ii) where the exiting employer is a body that has participated in the Scheme as a result of an admission agreement under paragraph (1)(d) of Part 3 of Schedule 2, the Scheme employer in connection with the exercise of whose function it was providing a service or assets; and
- (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 may agree.

(2ZB) When an administering authority has paid an exit credit to an exiting employer, no further payments are due from that administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(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 over the liabilities specified 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 to these Regulations; and
- (d) any other relevant factors.

(2A) An administering authority may by written notice ("a suspension notice") to an exiting employer suspend that employer's liability to pay an exit payment for a period of up to 3 years starting from the date when that employer would otherwise become an exiting employer, if the condition in paragraph (2B) is met.

(2B) The condition mentioned in paragraph (2A) is that in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice.

(2C) If an administering authority serves a suspension notice on an employer, unless that suspension notice is withdrawn, paragraph (2) does not apply in respect of that employer, but the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits in respect of the employer's current and former employees as the administering authority reasonably requires.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing-

- (a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and
- (b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion-

- (a) the contribution at the primary rate should be adjusted; or
- (b) any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(6) Paragraph (7) applies where-

- (a) a Scheme employer agrees to pay increased contributions to meet the cost of an award of additional pension under regulation 31 (award of additional pension); or
- (b) it appears likely to an administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with a Scheme employer exceeds the amount specified, or likely as a result of the assumptions stated, for that authority, in a rates and adjustments certificate by virtue of regulation 62(8) (actuarial valuations of pension funds: assumptions).

(7) The administering authority must obtain a revision of the rates and adjustments certificate concerned, showing the resulting changes as respects that Scheme employer.

(7A) An administering authority may enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

(7B) An administering authority may enter into a deferred debt agreement with an exiting Scheme employer where-

- (a) the last active member in respect of that Scheme employer has left the Scheme;
- (b) the funding strategy mentioned in regulation 58 (funding strategy statements) has set out the administering authority's policy on deferred debt agreements; and
- (c) the administering authority has-
 - (i) consulted the exiting Scheme employer; and
 - (ii) had regard to the views of an actuary appointed by the administering authority.

(7C) Where a deferred debt agreement has been entered into under paragraph (7A)-

- (a) the exiting employer becomes a deferred employer on the date specified in the agreement;
- (b) the deferred employer must-
 - (i) meet all requirements on Scheme employers except the requirement to pay

the primary rate of contributions as determined under regulation 62(5) (actuarial valuations of pension funds); and

- (ii) pay the secondary rate of contributions as determined under regulation 62(7) as revised from time to time following an actuarial valuation until the termination of the deferred debt agreement.

(7D) A deferred debt agreement must include express provision for it to remain in force for a specified period, which may be varied by agreement of the administering authority and the deferred employer.

(7E) A deferred debt agreement terminates on the first date on which one of the following events occurs-

- (a) the deferred employer enrolls new active members;
- (b) the period specified, or as varied, under paragraph (7D) elapses;
- (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- (d) the administering authority serves a notice on the deferred employer that the administering authority is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or
- (e) an actuary appointed by the administering authority assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due under paragraph (1) if the employer had become an exiting employer on the calculation date.

(7F) Paragraph (7E)(c) does not apply where the administering authority serves a notice on the deferred employer that the administering authority is satisfied that the event would not be likely to significantly weaken the deferred employer's ability to meet the contributions payable under the deferred debt agreement in the next 12 months.

(7G) On the termination of a deferred debt agreement under paragraph (7E) a deferred employer becomes an exiting employer in relation to the relevant fund for the purposes of this regulation.

(8) For the purposes of this regulation-

"exiting employer" means an employer of any of the descriptions specified in paragraph (1);

"deferred employer" means a Scheme employer which enters into a deferred debt agreement with an administering authority;

"exit credit" means any amount paid to the exiting employer by the administering authority to meet the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2).

"exit payment" means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);

"exit date" means the date on which the employer becomes an exiting employer; and "related employer" means any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority).

(8A) Paragraph (8B) applies where the exiting employer is the Tyne and Wear Integrated Transport Authority ("the ITA") and the liabilities of the fund in respect of benefits due to the ITA's current and former employees (or those of any predecessor authority) have been or are to be transferred to the Durham, Gateshead, South Tyneside and Sunderland Combined Authority as a result of the establishment of the combined authority by article 3(1) of the Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014.

(8B) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

(9) Paragraph (10) applies-

- (a) where the exiting employer is a probation trust established under section 5 of the Offender Management Act 2007 and the liabilities of the fund in respect of benefits due to or in respect of the probation trust's current and former employees (or those of its predecessor local probation boards or probation committees) have been or are to be transferred to another person as a result of arrangements made for the provision of probation services under section 3 of that Act (power to make arrangements for the provision of probation services); or
- (b) in any other case where the exiting employer is engaged in the provision of probation services, but only to the extent provided for under the relevant admission agreement, in relation to any liabilities of the fund in respect of benefits due to or in respect of the current and former employees of the exiting employer which have been or are to be, with effect from the day following the exit date, transferred to one or more other Scheme employers as a result of arrangements made for the provision of probation services under section 3 of that Act.

(10) Where this paragraph applies, no exit payment is due under paragraph (1) and paragraph (2) does not apply.

Regulation 64A – Revision of Rates and Adjustment Certificate: Employer Contributions

(1) An administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) showing any resulting changes to the contributions of a Scheme employer or employers where-

- (a) the funding strategy mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on amending

- contributions between valuations; and
- (b) one of the following conditions applies-
 - (i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
 - (ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
 - (iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

(2) In revising the certificate, an administering authority must-

- (a) consult the Scheme employer or employers; and
- (b) have regard to the views of an actuary appointed by the administering authority.

Regulation 64B – Revision of Actuarial Certificates: Exit Payments

(1) Where the funding strategy statement mentioned in regulation 58 (funding strategy statements) sets out the administering authority's policy on spreading exit payments, that administering authority may obtain a revision of the rates and adjustments certificate under regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the administering authority considers reasonable.

(2) In revising the certificate, an administering authority must-

- (a) consult the exiting Scheme employer; and
- (b) have regard to the views of an actuary appointed by the administering authority.

Regulation 67 - Employer's contributions

(1) A Scheme employer must contribute to the appropriate fund in each year covered by a rates and adjustment certificate under regulation 62 (actuarial valuations of pension funds) or 64 (circumstances in which revised actuarial valuations and certificates must be obtained) the amount appropriate for that authority as calculated in accordance with the certificate and paragraph (4).

(2) During each of those years a Scheme employer must make payments to the appropriate fund on account of the amount required for the whole year.

(3) Those payments on account must—

- (a) be paid at the end of the intervals determined under regulation 69 (payment by Scheme employers to administering authorities); and
- (b) equal the appropriate proportion of the whole amount due under paragraph (1)

for the year in question.

(4) An employer's contribution for any year is the primary percentage for that year of—

- (a) the pensionable pay on which contributions have been paid into the fund by active members in accordance with regulations 9 to 12 and 14 (contributions), except where sub-paragraph (b) applies, and
- (b) the assumed pensionable pay in respect of members on leave due to sickness or injury on reduced contractual pay or no pay or on child-related leave,

increased or reduced by any secondary rate adjustments specified for that employer for that year in the rates and adjustments certificate.

(5) The primary percentage is the primary rate of the employer's contribution specified in that certificate expressed as a percentage of the pay of its employees who are active members.

(6) A Scheme employer must also pay into the appropriate fund in each year any employer contributions made under regulation 16 (additional pension contributions).

Regulation 68 - Employer's further payments

(1) Any extra charge on the appropriate fund resulting from a member becoming entitled to benefits under regulation 35 (early payment of retirement pension on ill-health grounds) or 38 (early payment of retirement pension on ill-health grounds: deferred and deferred pensioner members) must be paid into the fund by the Scheme employer concerned.

(2) An administering authority may require the Scheme employer concerned to make additional payments to the appropriate fund in respect of any extra charge on the fund resulting from retirements benefits becoming immediately payable to a member under regulation 30(6) (flexible retirement) or (7) (early leavers on grounds on redundancy or business efficiency), including the cost as calculated by an actuary appointed by the administering authority, as a result of a waiver of any reduction under regulation 30(8).

(3) Other than where regulation 64(6) (special circumstances where revised actuarial valuations and certificates must be obtained) applies, a Scheme employer making an award under regulation 31 (award of additional pension) must pay a sum into the appropriate fund to meet the cost of any additional pension, in accordance with actuarial guidance issued by the Secretary of State.

Regulation 69 - Payment by Scheme employers to administering authorities

(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

- (a) all amounts received from time to time from employees under regulations 9 to 14 and 16 (contributions);
- (b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;
- (c) a contribution towards the cost of the administration of the fund; and
- (d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).
- (e) all amounts received from time to time from the Ministry of Defence in respect of contributions for a member on reserve forces service leave.

(2) But—

- (a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995 ;
and
- (b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2016.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—

- (a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),
- (b) the total employee contributions deducted from the pensionable pay referred to in subparagraph (a),
- (c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),
- (d) the total employee contributions deducted from pensionable pay referred to in subparagraph (c),
- (e) the total employer contributions in respect of the pensionable pay referred to in subparagraphs (a) and (c),
- (f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and
- (g) the total additional pension contributions paid by the employer under regulation 16 (additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) cannot be settled by agreement, it must be determined by the Secretary of State.

Regulation 70 - Additional costs arising from employing authority's level of performance

(1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating-

- (a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);
- (b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and
- (c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

Appendix B

Employers for whom the Attained Age method will be used are as follows. Some employers are admitted to the Fund in respect of more than one contract, but are only listed below once for ease of reference.

All employers in the Small Admitted Bodies - Closed Group

Disability North

Groundwork South and North Tyneside Limited

Involve North East

The International Centre for Life

The Percy Hedley Foundation

Others

Action For Children

Active Northumberland

Aramark Limited

Balfour Beatty Living Places

Baltic Art Flour Mill Visual Trust

Barnardo's Services Limited

Bernicia Group Limited

Bulloughs Cleaning Services Limited

Capita Property and Infrastructure Limited

Chartwells (Compass Services UK & Ireland Limited)

Churchill Contract Services Limited

Compass Contract Services (U.K.) Limited

Engie Services Limited

Greenwich Leisure Limited

Karbon Homes Limited

Lovell Partnerships Limited

Maxim Facilities Management Limited

Mitie PFI (Boldon)
Northumbria Healthcare Foundation Trust
Northumbria University Nursery Limited
Orian Solutions Limited
Property Management Integrated Services and Employment Co. Limited.
Queens Hall Art Centre
SLM Community Leisure Charitable Trust
SLM Fitness and Health Limited
Sodexo Limited
South Tyneside Integrated Care Limited
SSE Contracting Limited
Sunderland People First Community Interest Company
Suez Recycling and Recovery UK Ltd
The Human Support Group Limited
TWAM Enterprises Limited
University of Sunderland London Campus Limited
Urban Green Newcastle
Woodhorn Charitable Trust

Appendix C

Employers participating in grouped arrangements for valuation purposes

Smaller Admitted Bodies - Open Group

North East Law Centre

North East Regional Employers Organisation

Praxis Service

Saint Mary Magdalene and Holy Jesus Trust

The Ozanam House Probation Hostel

Smaller Admitted Bodies - Closed Group

Disability North

Groundwork South and North Tyneside Limited

Involve North East

The International Centre for Life

The Percy Hedley Foundation

Small Scheduled Bodies Group

Ashington Town Council

Choppington Parish Council

Corbridge Parish Council

Hexham Town Council

Morpeth Town Council

Newbiggin Town Council

Northumberland Inshore Fisheries and Conservation Authority

Ponteland Town Council

West Bedlington Town Council

The Police Group

Northumbria Police Authority / Police and Crime Commissioner for Northumbria

The Chief Constable for Northumbria

The Nexus Group

Tyne and Wear Passenger Transport Executive (Nexus)

Stadler Rail Service UK Limited

Appendix D

Policy on Reviewing Employer Contributions in the Inter-Valuation Period.

1.0 Background

- 1.1 Under Regulation 62 of the 2013 Regulations, each LGPS fund must undertake an actuarial valuation of its assets and liabilities every three years. This is commonly referred to as the 'triennial valuation'.
- 1.2 At the end of the triennial valuation process, the Fund Actuary issues a Rates and Adjustments Certificate. This document legally sets the employer contribution rate (both the primary and secondary rate) for participating Scheme employers for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.
- 1.3 Prior to September 2020, an Administering Authority was only able to review an employer contribution rate in the inter-valuation period where Regulation 64(4) applied. This provision allows the Administering Authority to review an employer's contribution rate where there are circumstances which make it likely that a Scheme employer will exit the Fund.
- 1.4 On 23 September 2020, the LGPS (Amendment No.2) Regulations 2020 came into force and introduced new powers into the 2013 Regulations for when an employer contribution rate may be reviewed in the inter-valuation period. These powers are set out in Regulation 64A of the 2013 Regulations. It is these new powers which are the subject matter of this policy.
- 1.5 The Administering Authority's approach has been established having considered Regulation 64A, DLUHC statutory guidance (Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements) and the Scheme Advisory Board's 'Guide to Employer Flexibilities'.

2.0 The Administering Authority's approach to reviewing an employer contribution rate under Regulation 64A

- 2.1 The review of an employer's contribution rate in the inter-valuation period may originate from either the Administering Authority or from an employer itself.
- 2.2 The Administering Authority may decide to review an employer's contribution rate where it appears likely to the Administering Authority that there has been either:
 - a significant change to the liabilities of that employer; or
 - a significant change in the ability of that employer to meet the obligations of employers in the Fund (i.e. a change in the employer's covenant strength).
- 2.3 An employer may request the Administering Authority reviews its contribution rate. The Administering Authority will only agree to this, however; where the Administering Authority is satisfied that either of the stated reasons in

paragraph 2.2 (above) applies and that the request is otherwise in accordance with this policy.

3.0 Significant change in an employer's liabilities

3.1 The Administering Authority may determine to review an employer's contribution rate in circumstances including, but not limited to, where:

- Significant changes to an employer's membership have occurred which will have a material impact on its liabilities, such as:
 - restructuring of an employer;
 - a significant outsourcing or transfer of staff to another employer;
 - a bulk transfer in or out of the employer;
 - other significant changes to the membership, for instance due to redundancies, significant pay awards, early retirements or large number of withdrawals.
- Two or more employers participating in the Fund merge to form one employer. This includes rebrokerage of Academy Trusts, insourcing of services and the transfer of services.
- The separation of an employer into two or more individual employers. This includes the establishment of a wholly owned subsidiary of a Scheduled Body which will not participate in the Local Government Pension Scheme.

3.2 Not all cases where the above apply will result in the Administering Authority reviewing an employer's contribution rate.

3.3 The Administering Authority will typically only consider undertaking a review of an employer's contribution rate where the change in liabilities is likely to be more than 20% of the total liabilities of the employer as assessed at the previous triennial valuation. The Administering Authority reserves its right to undertake a review of an employer's contribution rate in instances where the change in liabilities is below the 20% threshold where this is considered to be in the best interests of the Fund.

3.4 For the avoidance of doubt, the Administering Authority will not consider a review of contributions purely on the grounds of a change in market conditions affecting the value of assets and / or liabilities.

4.0 Significant change in an employer's ability to meet its obligations to the Fund

4.1 The Administering Authority maintains an ongoing review of the covenant strength of employers in the Fund.

4.2 The following, non-exhaustive, list sets out circumstances where the Administering Authority may review the contribution rate of an employer due to a change in that employer's ability to meet its obligations to the Fund. The following may apply irrespective of whether the process originates from the Administering Authority or from an employer request:

- Provision of, or removal of, security, bond, guarantee, subsumption commitment or some other form of indemnity by an employer against their obligations in the Fund;
 - Material change in an employer's immediate financial strength;
 - Material change in an employer's longer-term financial outlook;
 - Where an employer exhibits behaviour that raises concerns over their ability to contribute to the Fund. For example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the Administering Authority over a significant period of time.
- 4.3 Not all cases where the above apply will result in the Administering Authority reviewing an employer's contribution rate.
- 4.4 Where there are concerns regarding the covenant strength of an employer, the Administering Authority reserves its right to change the Funding Target for that employer as part of the review of the employer contribution rate.

5.0 Process to be followed

- 5.1 The process to be followed depends upon whether the review emanates from the Administering Authority or from the employer itself.
- 5.2 Where the initial request comes from the employer, the employer will be required to provide whatever evidence the Administering Authority requires in order for the Administering Authority to make a fully informed decision. Should the employer not provide the Administering Authority with the information requested then it is likely that the request for a review will be refused.
- 5.3 Where it is the Administering Authority starting the review process, the Administering Authority will contact the employer and explain why the Administering Authority is considering the review. The employer will be able to make representations and provide information and evidence to the Administering Authority as the employer sees fit.
- 5.4 Irrespective of whether the review starts with the Administering Authority or the employer the following principles shall apply:
- The Administering Authority shall allow the employer to make representations;
 - The Administering Authority shall engage in reasonable dialogue with the employer throughout the review process;
 - Employers will be expected to provide information to the Administering Authority as reasonably required;
 - It will be for the Administering Authority to determine whether to use new member data and whether to allow for changes in market and / or demographic conditions in the review;

- The Administering Authority shall consult with the Fund Actuary and seek advice and assistance from the Fund Actuary as and when the Administering Authority considers this appropriate;
- The Administering Authority may, at its discretion, seek advice from other parties such as legal advisors and covenant specialists;
- The decision of whether to undertake a review of the employer contribution rate shall be made solely at the discretion of the Administering Authority. The Administering Authority shall also determine the funding strategy to be applied in respect of the employer, including (but not limited to) the Funding Target and the deficit recovery period.

6.0 Other employers

- 6.1 In deciding whether to undertake a review of an employer contribution rate, the Administering Authority shall, amongst other things, have regard to the risks an employer poses to the Fund and its other Scheme employers. In particular, this shall include the risk of the financial default of an employer and the level of potential unmet liability that the remaining employers may be exposed to.
- 6.2 As part of the review process, the Administering Authority shall liaise with any employer providing a guarantee (including the statutory guarantee under Regulation 64(3) of the 2013 Regulations), a subsumption commitment or any other employers who may be directly impacted by the review (for example, where an employer is on a pooled contribution rate).
- 6.3 The Administering Authority will take into consideration the views of any employer considered to have a direct interest as part of the decision-making process.

7.0 The Fund Actuary

- 7.1 The Administering Authority shall have regard to the views of the Fund Actuary before a decision is made on whether to proceed with a review of an employer's contribution rate.
- 7.2 The Fund Actuary will be required to undertake the necessary calculations in order to re-set an employer's contribution rate before amending the Rates and Adjustments Certificate as necessary.

8.0 Costs

- 8.1 Where the review originates as a result of an employer request, the employer shall be required to meet all costs arising. This includes, but is not limited to, the costs of the Fund Actuary, legal costs and the costs of a covenant review where such costs arise.
- 8.2 Where the review process is started by the Administering Authority, the Administering Authority shall meet all costs unless such costs arise due to a specific request from the employer.

9.0 Timescale for review

- 9.1 The time taken on an individual review will depend upon the circumstances of that case. However, as a general guide, we would anticipate a review would take in the region of three to six months.

10.0 Restrictions on the review process

- 10.1 Typically, reviews will not take place once the triennial valuation process is underway (i.e. from the valuation date) and within six months of the issuing of the Rates and Adjustments Certificate at the end of the valuation process.
- 10.2 An employer will generally only be permitted one review request in the period between triennial valuations.
- 10.3 Notwithstanding the above restrictions, the Administering Authority reserves its right to undertake a review at any time where this is considered to be in the best interests of the Fund.

11.0 Decision and implementation

- 11.1 Having considered the representations from the employer, and having regard to the views of the Fund Actuary and any other relevant Scheme employer, the decision of whether to undertake the review shall be solely at the Administering Authority's discretion.
- 11.2 Where the Administering Authority decides to proceed with the reassessment of an employer's contribution rate, the Administering Authority shall serve written notice on that employer ("the **Preliminary Notice**").
- 11.3 In the absence of a successful appeal following the service of the Preliminary Notice, the Administering Authority shall formally instruct the Fund Actuary to reassess the employer contribution rate.
- 11.4 Following the reassessment of the contribution rate, and where the Administering Authority determines that the employer's contribution rate should be amended, the Fund Actuary shall amend the Rates and Adjustments Certificate and the new employer contribution rate shall become payable with effect from the first day of the following month. The Administering Authority shall serve notice of the new contribution rate on the employer.

12.0 Appeal

- 12.1 An employer may appeal to Pensions Committee against the decision by Officers to amend an employer contribution rate in the following circumstances only:
- Where the employer believes the Administering Authority has deviated from this policy; and / or
 - The employer has additional relevant information, which was available at the time of the review, but was not taken into consideration by the Administering Authority in the decision-making process.

- 12.2 Any appeal by an employer must be submitted in writing to the Administering Authority within 28 days of service of the Preliminary Notice. The notice of appeal must fully set out the reasons for the appeal and, where appropriate, provide supporting evidence.
- 12.3 Where an appeal request meets the criteria of this policy, the appeal will be taken to the next quarterly meeting of Pensions Committee, provided there is sufficient time for the papers to be filed in advance of the meeting. Where this is not the case, the appeal shall be presented at the following Pensions Committee meeting.
- 12.4 An employer shall be permitted to attend the appeal hearing at Pensions Committee and shall be permitted to make representations to the Committee. Where the employer does not wish to appear in person then the appeal will be considered on the basis of written representations.
- 12.5 The decision of Pensions Committee shall be final and binding. There shall be no further right of appeal.

13.0 Future Monitoring

- 13.1 Once an employer contribution change has been reviewed, the Administering Authority shall keep the position under review to monitor the risk profile of the employer in question and the risks to the Fund and the other employers. This will particularly be the case when a review has taken place due to a change in an employer's covenant strength.

Appendix E

Policy on Employers Exiting the Fund

1.0 Background

- 1.1 Under Regulation 64 of the 2013 Regulations, it is a legal requirement for there to be an exit valuation where an employer:
- ceases to be a Scheme employer; or
 - no longer has any active members contributing towards the Fund.
- 1.2 Subject to the 2013 Regulations, and / or this Policy providing to the contrary, an employer falling within the scope of one of the two bullet points above shall be classed as an 'exiting employer'.
- 1.3 Regulation 64 of the 2013 Regulations requires an exiting employer to make an exit payment to the Fund when the employer is assessed as being in deficit or, in certain circumstances, for the Administering Authority to pay an exit credit to an employer where there is a surplus scenario in the exit valuation.
- 1.4 This Policy sets out the Administering Authority's approach to exit valuations and the ways in which an exit liability can be paid or otherwise managed.
- 1.5 The Administering Authority's approach has been established having regard to the 2013 Regulations, DLUHC statutory guidance (Guidance on preparing and maintaining policies on review of employer contributions, employer exit payments and deferred debt agreements) and the Scheme Advisory Board's 'Guide to Employer Flexibilities'.

2.0 The Exit Valuation

- 2.1 Whilst the 2013 Regulations require an exit valuation to be undertaken, there are no prescribed requirements as to the approach taken by the Administering Authority and the Fund Actuary in the valuation methods and assumptions used.
- 2.2 The Fund is aware of a number of existing agreements it has entered into that contain provisions relating to the funding target to be used in an exit valuation. Where such a legal agreement is in place, either existing or future agreements, the agreed approach, as set out in the legal agreement, shall be adhered to.
- 2.3 In all other cases, all exit valuations will be undertaken in accordance with paragraphs 16.13 to 16.15 of this Statement. The low-risk basis (or, where appropriate the Probability of Funding Success approach) will apply in respect of all classes of membership (active, deferred, pensioner, pension credit members and those with preserved refund, all classes including beneficiaries where relevant) where there is no onward transfer of members to another Scheme employer.

- 2.4 Where there is an onward transfer of members to a new Scheme employer following a TUPE transfer, the Fund Actuary will generally adopt the following approach:
- Those members who were active up until the exit date shall be valued using the same funding target that the exiting employer participated on at the time of exit; and
 - All other members shall be valued on a low-risk basis (or Probability of Funding Success approach where appropriate).
- 2.5 The Administering Authority may decide to adopt an alternative approach to that set out at paragraphs 2.3 and 2.4, but prior to doing so, shall discuss this with the exiting employer.
- 2.6 For employers that exit the Fund on or after 1 April 2019 the Administering Authority will include an approximate allowance in the exiting employer's liabilities for potential additional liabilities arising from the McCloud judgement and cost management process and for the potential costs of GMP equalisation / indexation. In determining this allowance, the Administering Authority will have regard to any relevant guidance prepared by the Scheme Advisory Board and the advice of the Fund Actuary. It will be kept under regular review as further information on the McCloud judgement / Cost Management process and GMP equalisation / indexation becomes available.

3.0 Suspension Notice

- 3.1 In accordance with Regulation 64(2A) of the 2013 Regulations, the Administering Authority may serve a Suspension Notice on an exiting employer where it appears reasonably likely that the employer will have one or more active members contributing to the Fund within a reasonable period of the employer becoming an exiting employer. Where a Suspension Notice is served, the employer's status in the Fund shall be suspended for the duration of the notice.
- 3.2 The decision as to whether to serve a Suspension Notice shall vest solely in the Administering Authority who, amongst other things, shall consider:
- The status of the employer in the Fund (for instance is the employer a Scheduled Body, a Designation Body or an Admission Body) and whether it is 'open' for new members;
 - The funding level of the employer;
 - The views of any other employer with an interest (for example a guarantor);
 - The covenant strength of the exiting employer; and
 - The risks to the Fund and the other employers.
- 3.3 In accordance with Regulation 64(2A) of the 2013 Regulations, a Suspension Notice shall be for a period not exceeding three years.

- 3.4 At the end of the Suspension Notice, the employer shall either regain active status (i.e. if it has any active members) or shall be an exiting employer and an exit valuation shall be undertaken.

4.0 Payment of an Exit Liability

- 4.1 Where the exit valuation shows a deficit then, subject to the provisions of this Policy, the starting expectation is that the exit payment will be made in full (including interest) to the Administering Authority within 28 days of notice of the liability being served on the exiting employer.

5.0 Payment of an Exit Credit

- 5.1 Where the exit valuation shows an exiting employer to be in surplus, an 'exit credit' may be payable to the employer.
- 5.2 In determining whether an exit credit is payable, the Administering Authority shall have due regard to Regulation 64(2ZC) of the 2013 Regulations and this Policy. Particular considerations include (but are not limited to):
- The valuation methodology used in the exit valuation in respect of the classes of membership;
 - The employer contributions paid by the exiting employer; and
 - Any risk sharing arrangements that are in place.
- 5.3 Where an exit credit has arisen solely, or in part, due to a class of members being valued on a lower funding target basis in the exit valuation (i.e. a funding target has been used in the exit valuation which is lower than the funding target that had been used for the employer on an ongoing basis), the Administering Authority shall not pay an exit credit (at least in relation to that part of the surplus which relates to those members).
- 5.4 An exit credit paid by the Administering Authority will generally be restricted to a maximum of the level of employer contributions paid by the exiting employer during their period of participation in the Fund, with provision for investment returns on those contributions.
- 5.5 Similarly, the Administering Authority will not likely pay an exit credit where a surplus arises due to a change in approach in the exit valuation from that used on the ongoing basis. This includes, but is not limited to, instances where the valuation approach used for an employer has fluctuated between the low risk approach and the Probability of Funding Success approach for the purposes of setting the discount rates.
- 5.6 The decision of whether to pay an exit credit to an exiting employer shall be at the absolute discretion of the Administering Authority. In making this decision, the Administering Authority shall have due regard to the views of the Fund Actuary, the exiting employer and (where applicable) a guarantor or subsuming employer.

6.0 Subsumption

- 6.1 In certain circumstances, the Administering Authority may allow another Scheme employer (or in the case of an exiting Multi Academy Trust, the Administering Authority may allow a successor Multi Academy Trust) to subsume the assets and liabilities of an exiting employer into its own pool of liabilities, including responsibility for any surplus or deficit at exit (i.e. the subsuming Scheme employer will assume responsibility for all of the assets and liabilities of the exiting employer and for the future funding of those assets and liabilities). In these circumstances, no exit payment will be made to or from the exiting employer.
- 6.2 Subject to the size of the exit liability or credit, and the size of the liabilities being subsumed, subsumption could impact the subsuming employer at future triennial valuations.
- 6.3 Whether to allow a Scheme employer to subsume the assets and liabilities of the exiting employer, including any surplus or deficit at the exit valuation, will be a decision for the Administering Authority, entirely at its sole discretion. In considering subsumption requests, the Administering Authority may have regard to:
- the covenant strength of the Scheme employer requesting to subsume the assets and liabilities of the exiting employer. Requests from those Scheme employers with tax raising powers, or of comparable covenant strength, are more likely to be accepted by the Administering Authority than requests from Scheme employers of lesser covenant strength;
 - the size of the exit credit or deficit and the size of the liabilities being subsumed and the funding level of the Scheme employer requesting to subsume the liabilities;
 - any contractual relationship in place between the exiting employer and the employer requesting to subsume the liabilities. Particular regard will be given as to whether an indemnity or risk sharing agreement is in place; and
 - any other matter the Administering Authority considers to be relevant in deciding whether or not to allow subsumption.
- 6.4 If a Scheme employer would like any actuarial work undertaken in respect of subsumption of an exiting employer, then the Fund will require that Scheme employer to meet all such costs.

7.0 Debt Spreading

- 7.1 The starting position of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment within 28 days of notification of the liability. Nevertheless, the Administering Authority is, in certain circumstances, open to an exit liability being paid over a period of time as permitted under Regulation 64B of the 2013 Regulations. This section of this Policy will set out the Administering Authority's approach to debt spreading arrangements.

Process for applying for Debt Spreading

- 7.2 An employer who is considering exiting the Fund, or whose admission is otherwise coming to an end, who wishes to apply to the Administering Authority for debt spreading arrangements, should make an application in writing to the Administering Authority.
- 7.3 Whilst an employer should, as far as reasonably possible, contact the Fund in advance of exit to discuss debt spreading arrangements, any requests should be made within 28 days of notification of the exit liability. The Administering Authority will likely refuse requests received after this date unless there are compelling reasons for the delay in the employer request.
- 7.4 In making the written application, the employer should have regard to the provisions of this Policy and explain the employer's reasons for seeking to spread the exit liability. The employer will be required to demonstrate how and why it is unable to meet the exit liability by way of lump sum payment.
- 7.5 The Administering Authority shall be entitled to request whatever information it considers reasonably necessary in order to fully consider the request. If the employer fails to provide the requested information, then the application will likely be refused.
- 7.6 The employer shall be afforded reasonable opportunity to make further representations to the Administering Authority. The Administering Authority shall also consider representations from other parties with an interest in the matter, such as a guarantor (which includes the statutory guarantor).

Considerations of the Administering Authority

- 7.7 In considering a request for the spreading of an exit payment over a period of time, the Administering Authority will take into account:
 - Whether the exiting employer is able to meet the exit liability as a lump sum payment within 28 days;
 - The covenant strength of the exiting employer;
 - The funding level of the exiting employer and the level of the potential exit liability;
 - The availability of security for the term of debt spreading (such as bond, guarantee or alternative forms of security);
 - The views of a guarantor (if any);
 - The risks to the Fund and its employers in allowing an exit payment to be paid over a period of time;
 - Any other matter the Administering Authority considers relevant to the decision-making process.

- 7.8 The Administering Authority will be unlikely to consent to a debt spreading arrangement where it is considered that the employer is financially able to make a single capital payment.
- 7.9 The Administering Authority will not be willing to consent to a debt spreading arrangement where to do so is not considered to be in the best interests of the Fund.

Advice

- 7.10 In considering requests for debt spreading, the Administering Authority may seek advice from the Fund Actuary, legal advisors and / or covenant specialists as the Administering Authority sees fit.
- 7.11 If considered appropriate, the Fund Actuary shall set out the payment schedule, including interest in line with the discount rate used to calculate the exit liabilities, for the duration of the debt spreading period.

Timescale for considering request

- 7.12 The time taken on an individual employer request for debt spreading will depend upon the circumstances of that case. However, as a general guide, we would anticipate a review may take in the region of two to four months.

Decision

- 7.13 The decision of whether to spread an exit debt shall be at the absolute discretion of the Administering Authority. The Administering Authority's decision is final and there is no right of appeal.
- 7.14 The Administering Authority shall communicate its decision in writing to the employer as soon as reasonably practicable after a decision has been made.

Duration of Debt Spreading

- 7.15 If the Administering Authority agrees to debt spreading arrangements, then a decision will be needed as to the duration of the spreading period. Again, this shall be at the absolute discretion of the Administering Authority although representations from the employer and (where appropriate) any guarantor will be taken into consideration.
- 7.16 Generally, the maximum duration permissible for a debt spreading arrangement shall be three years, however; in exceptional circumstances, the Administering Authority may agree to a period of up to five years.
- 7.17 The amount of the instalments due under an exit deficit spreading arrangement may be calculated as level annual amounts. Alternatively, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

Legal Agreement

- 7.18 If the request for the spreading of an exit liability is approved, the Administering Authority may require the employer and any guarantor to enter into a legal agreement documenting the arrangements.

Costs

- 7.19 An employer seeking a debt spreading arrangement shall be required to meet all costs arising. This may include any costs relating to the Fund Actuary and external advisors to the Administering Authority (including, but not limited to, legal advisors and covenant specialists).

Future Monitoring

- 7.20 The Administering Authority shall closely monitor compliance with the terms of the debt spreading arrangements.

- 7.21 The Administering Authority may terminate the arrangements early in the following circumstances:

- Breach of the terms of the arrangements by the employer;
- Failure to maintain appropriate security;
- Deterioration in the covenant strength of the employer; or
- For any other reason where the Administering Authority, acting reasonably, believes it to be in the best interests of the Fund to terminate the arrangements.

- 7.22 Where the debt spreading arrangements are terminated early, the exiting employer shall be required to pay the remainder of the exit liability (including all accrued interest) within whatever timescale the Administering Authority requires (which shall not exceed 28 days).

8.0 Deferred Debt

- 8.1 Under Regulation 64(7A) – (7G) of the 2013 Regulations, the Administering Authority may enter into a written agreement with an exiting employer for that employer to defer its obligation to make a lump sum exit payment to the Fund and instead to make contributions at the secondary rate (often referred to as ‘deficit contributions’). Upon completion of a ‘Deferred Debt Agreement’, the employer gains deferred status in the Fund which delays the employer’s exit.

- 8.2 The starting expectation of the Administering Authority is that an exiting employer will be required to meet any exit liability owed as a single lump sum payment within 28 days of notification of the value of that liability (as assessed by the Fund Actuary).

- 8.3 Where the Administering Authority considers that it is not appropriate for an exiting employer to meet the liability within 28 days, the Administering Authority may consent to debt spreading arrangements (see above).

- 8.4 The Administering Authority will only consider the use of a Deferred Debt Agreement where neither payment in 28 days nor debt spreading arrangements are considered appropriate by the Administering Authority.

Process for applying for a Deferred Debt Agreement

- 8.5 An employer who is considering exiting the Fund, or their admission is otherwise coming to an end, who wishes to explore deferred debt arrangements should apply to the Administering Authority in writing.
- 8.6 Whilst an employer should, as far as reasonably possible, contact the Fund in advance of exit to discuss deferred debt arrangements, any requests should be made within 28 days of notification of the exit liability. The Administering Authority will likely refuse requests received after this date unless there are compelling reasons for the delay in the employer request.
- 8.7 In making the written application for deferred debt arrangements, the employer should have regard to the provisions of this Policy and explain the employer's reasons for seeking to become a deferred employer. This written application should set out why, in the employer's view, the employer should not be required to meet the exit liability as a lump sum payment or through debt spreading arrangements.
- 8.8 The Administering Authority shall be entitled to request whatever information it considers reasonably necessary in order to fully consider the request. If the employer fails to provide the requested information then the application will likely be refused.
- 8.9 The employer shall be afforded reasonable opportunity to make representations to the Administering Authority. The Administering Authority shall also consider representations from other parties with an interest in the matter, such as a guarantor (which includes the statutory guarantor).

Considerations of the Administering Authority

- 8.10 In considering a request for deferred debt arrangements, the Administering Authority will take into account:
- Whether the exiting employer is able to meet the exit liability as a lump sum payment within 28 days;
 - Whether the employer can enter into a debt spreading arrangement;
 - The covenant strength of the employer;
 - The funding level of the exiting employer and the level of the potential exit liability;
 - The availability of security (such as bond, guarantee or alternative forms of security);
 - Whether the employer is able to make an upfront payment to the Fund;

- The views of a guarantor (if any);
- The views of the Fund Actuary;
- The risks to the Fund and its employers in agreeing to deferred debt arrangements;
- Any other matter the Administering Authority considers relevant to the decision-making process.

8.11 The Administering Authority will be unlikely to consent to a deferred debt arrangement where it is considered that the employer can meet the exit liability as a lump sum payment or within a period of three years.

8.12 The Administering Authority will also not be willing to consent to a deferred debt arrangement where to do so is not considered to be in the best interests of the Fund and its employers.

Evidence Required

8.13 An employer who is seeking to enter into deferred debt arrangements with the Administering Authority shall be required to provide such information as the Administering Authority reasonably requires in order to give the request full consideration.

8.14 Evidence that may be requested, includes (but is not limited to):

- Financial accounts for the last three years (or such other period as the Administering Authority may determine);
- Financial projections for future years;
- Details of available security; and
- Information relating to the covenant strength of the employer (the Administering Authority may require the employer to undertake a covenant assessment to the Administering Authority's satisfaction).

8.15 Failure to provide all information required by the Administering Authority will likely see the refusal of the request for deferred debt arrangements.

Advice

8.16 The Administering Authority shall seek advice from the Fund Actuary, legal advisors and / or covenant specialists as the Administering Authority sees fit.

8.17 The Fund Actuary shall be required to undertake all necessary calculations relating to a deferred debt arrangement. This includes setting the secondary contributions at the start of the deferred debt arrangements and any subsequent times (either at a triennial valuation or otherwise).

Timescale for considering request

- 8.18 The time taken on an individual employer request for deferred debt arrangements will depend upon the circumstances of that case. However, as a general guide, we would anticipate a review may take up to six months, including the completion of the Deferred Debt Agreement.

Decision

- 8.19 The decision of whether to agree to deferred debt arrangements shall be at the absolute discretion of the Administering Authority (having regard to the views of the Fund Actuary). The Administering Authority's decision is final and there is no right of appeal.
- 8.20 The Administering Authority shall communicate its decision in writing to the employer as soon as reasonably practicable after a decision has been made.

Funding Target

- 8.21 The Administering Authority, having regard to the views of the Fund Actuary, shall determine the appropriate funding target for a deferred employer.
- 8.22 The Administering Authority reserves its right to change the funding target for an employer either at a triennial valuation, or at any other time when the Administering Authority considers this to be in the best interests of the Fund (and where there is a lawful power for doing so).
- 8.23 Whilst the Administering Authority shall have regard to the affordability of contributions for a deferred employer when setting the funding target, the overriding consideration shall be to target full funding for the deferred employer on a low risk basis (or, where appropriate, a Probability of Funding Success exit basis) over the duration of the Deferred Debt Agreement.

Investment Strategy

- 8.24 Where the Administering Authority agrees to deferred debt arrangements, the Administering Authority shall be open to considering the implementation of a bespoke, lower risk, investment strategy for that employer. If adopted, this will likely link in with the funding target and the discount rate applied.
- 8.25 The decision on whether to adopt a bespoke investment strategy shall be made by the Administering Authority. The Administering Authority shall seek whatever advice it considers appropriate.

Deferred Debt Agreement

- 8.26 Where the Administering Authority agrees to deferred debt arrangements, the exiting employer (and any guarantor) shall be required to enter into a Deferred Debt Agreement.
- 8.27 Amongst other things, the Deferred Debt Agreement shall contain provisions including:
- where applicable, provision for an upfront payment;

- the responsibilities of the deferred employer;
- an obligation for the employer to share certain information with the Administering Authority;
- provisions regarding security;
- monitoring of covenant strength;
- duration of the Deferred Debt Agreement;
- when and how the arrangements can be reviewed;
- review of contributions payable;
- early termination provisions;

Duration of a Deferred Debt Agreement

- 8.28 The Deferred Debt Agreement shall be for a fixed period of time as set out in the Agreement itself. This may be varied with the consent of the parties and subject to an appropriate amending legal document.
- 8.29 The duration of a Deferred Debt Agreement shall be at the absolute discretion of the Administering Authority. In making its decision, the Administering Authority shall have regard to the views of the Fund Actuary, the exiting employer and (where applicable) the guarantor.
- 8.30 Notwithstanding the above, it is not expected that a Deferred Debt Agreement will exceed the maximum permitted deficit recovery period and, in any event, the Deferred Debt Agreement shall not exceed a period of 20 years.

Costs

- 8.31 An employer seeking a deferred debt arrangement shall be required to meet all costs arising. This may include any costs relating to the Fund Actuary and external advisors to the Administering Authority (including, but not limited to, legal advisors, investment advisors and covenant specialists).

Future Monitoring

- 8.32 The Administering Authority shall closely monitor compliance with the terms of the Deferred Debt Agreement and the covenant strength of the deferred employer. The Administering Authority will monitor compliance with the terms of the Deferred Debt Agreement at least triennially but in some cases may monitor this more frequently, for example, annually, as determined by the Administering Authority taking into factors such as the size of the employer and any deficit and the materiality of movements in market conditions or the employer's membership.
- 8.33 The employer shall be required to provide certain information to the Administering Authority to enable the Administering Authority to monitor the covenant strength of the employer on an ongoing basis.

8.34 The Deferred Debt Agreement may be terminated in accordance with the 2013 Regulations, the terms of the Deferred Debt Agreement and / or under this Policy.

Early Termination of Deferred Debt Agreement

8.35 The Administering Authority may terminate the Deferred Debt Agreement early in the following circumstances:

- Breach of the terms of the Agreement by the employer;
- Failure to pay contributions, either in full or on time;
- Failure by the employer to maintain appropriate security;
- For any of the reasons stated in Regulation 64(7E) of the 2013 Regulations (or any comparable provision in subsequent legislation); or
- For any other reason where the Administering Authority, acting reasonably, believes it to be in the best interests of the Fund to terminate the arrangements.

8.36 The Deferred Debt Agreement shall also make provision for early termination by the employer.

Final Exit Valuation

8.37 When the Deferred Debt Agreement comes to an end (either at the stated end date or following early termination), the Fund Actuary shall undertake a final exit valuation on a low-risk basis (or, where appropriate, a Probability of Funding Success exit basis). One of the following circumstances shall arise:

- The employer remains in deficit – in which case, the employer will be required to make a final lump sum payment to the Fund within 28 days of notification of the liability (there will generally be no provision for debt spreading);
- The employer is in surplus – subject to the 2013 Regulations and the terms of this Policy, an exit credit may be payable to the employer; or
- There is no liability arising – no payment shall be made by either the Administering Authority or the employer.

8.38 Following payment of the final exit liability, the employer shall have no further liability to the Fund.