

LOCAL PENSION COMMITTEE – 11 SEPTEMBER 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXIT CREDIT POLICY

Purpose of the Report

1. The purpose of this report is to seek the Local Pension Committee's approval to the proposed changes in the Fund's Funding Strategy Statement, following consultation with employers on the Fund's change to the exit credit policy.

Background

2. On the 14 May 2018 Local Government Pension Scheme Regulations 2013 were amended to require the Pension Fund pay an exiting employer an exit credit, if it left the scheme in surplus. Prior to 14 May 2018 if a Fund employer left the scheme in surplus, this amount remained in the Fund was used to pay the ongoing future liabilities (pensions and spouse's pensions).
3. Since 14 May 2018 nationally LGPS Funds have been challenging this Regulation change, arguing exiting employers never have any expectation or right to an exit credit, and the surpluses should be retained by the Funds to pay future ongoing benefits to the exiting employers scheme members and spouses.
4. On 8 May 2019, the Government published a policy consultation entitled "[Local Government Pension Scheme \("LGPS"\): Changes to the Local Valuation Cycle and the Management of Employer Risk](#)" which addressed a number of different aspects of the LGPS including the issue of exit credits.
5. In [February 2020 the Government issued a partial response to its consultation](#) of 8 May 2019, specifically on the issue of exit credits. The response document summarises the responses received from various Funds and details the revised proposals for changes to the rules on exit credits. These rules were then converted into amending legislation, and on the 20 March 2020 the Local Government Pension Scheme (Amendment) Regulations 2020 came into force, dealing with exit credits. These regulations are backdated to the 14 May 2018.
6. The amended regulations give the Pension Funds a discretion to determine the amount of exit credits payable, if any, and sets out a number of considerations that the administering authority is required to take into account in making its determination including the amount of surplus, the proportion of excess assets which have arisen due to the employer's contributions, and representations made by employers party to an admission agreement, and any other relevant factors.
7. **The new amendment regulations on the 20 March 2020 broadly reverse the position back to the 14 May 2018.** However, the Government's consultation response recommended that the Fund adopt a policy on exit credits, that must be

included in the Fund's Funding Strategy Statement, stating how it will deal with exit credits. Changes to the Fund's Funding Strategy Statement requires a consultation with Fund employers.

Exit Credit Policy

8. The changes on exit credits and the Funds proposed exit credit policy are set out in the amended Funding Strategy Statement which is set out in the appendix to this report at the following sections and pages:
- Note (k) (Admission Bodies Ceasing) - Page 16
 - Appendix G- Proposed Exit Credit Policy - Pages 42 to 44

The changes are highlighted in yellow within the appendix.

9. The exit credit policy at appendix G sets out how the Fund will deal with exit credits for employers who were admitted to the fund before 14th May 2018 and employers who participate in Fund through the pass-through approach which was introduced from 1 April 2019.
10. The Policy makes it clear that no exit credit will be payable to employers who joined the Fund prior to 14th May 2018 unless they are subject to a risk sharing arrangement, as exit credits were not permitted under the Regulations at the time.
11. The Policy also makes it clear that no exit credit will be payable to employers who participate in the Fund through the pass-through approach, as the majority of the pension risk is borne by the letting employer, and the exiting employer would not be required to pay any deficit or receive any surplus at the end of the contract, and this is the arrangement that the parties will have entered to with the admission agreement from the Fund.

Consultation

12. The Fund consulted with the Fund employers on its proposed change to how it deals with exit credits via the [July 2020 Pensions Bulletin](#) that was circulated to employers, information was also added to the Pensions website should employers wish to refer back to the information at a later date. The consultation started on the 20 July 2020 and ended on the 31 August 2020.
13. There were no replies received from any of the Fund's employers.
14. The Local Pension Board supported the Fund's proposed change to how it deals with exit credits and the proposed changes to the Funding Strategy Statement at its meeting on the 10 August 2020.

Recommendation

15. The Committee is asked to approve the proposed changes to the Funding Strategy Statement in relation to the exit credit policy.

Equality and Human Rights Implications

None specific

Appendix

Appendix – The Fund’s proposed Funding Strategy Statement.

Officers to Contact

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