Pension Fund Committee
Meeting to be held on Friday, 18 September 2020

Electoral Division affected:
(All Divisions);

Lancashire County Pension Fund - Admission and Termination Policy
(Appendix 'A' refers)

Contact for further information:
Abigail Leech, 01772 530808, Head of Fund,
abigail.leech@lancashire.gov.uk

Executive Summary

The admissions and termination policy was last updated in April 2018. The latest review incorporates further changes to legislation covering exit credits, allowances for the on-going effects of the McCloud judgement and generally to bring the policy in line with the Funding Strategy Statement which was amended in March 2020.

Recommendations

The Pension Fund Committee is asked to:

1. Approve the changes to the admission and termination policy set out at Appendix 'A' to this report to enable a short consultation with the employers in the Fund.

2. Agree that a further report on the outcome of the consultation and a final draft of the admissions and termination policy be presented to the Committee at its meeting on the 27th November 2020.

Background and Advice

The current admissions and termination policy has been in place since April 2018 when the policy was amended following a review of the actuarial assumptions which are used to assess the value of the liabilities at the point the employer exits the fund.

This latest review incorporates further changes to legislation covering exit credits, allowances for the on-going effects of the McCloud judgement and generally to bring the policy in line with the Funding Strategy Statement which was amended in March 2020.

The changes have been made following discussions with our actuaries and the key updates are highlighted within the full draft policy statement set out in Appendix 'A'.

Lancashire County Council

A summary of the key changes are set out below.

Exit Credits

When an employer leaves the Fund, an assessment needs to be made of the assets and liabilities attributable to it under the Fund. If there is any deficit of assets against liabilities then this needs to be met by the employer. This assessment and payment of any deficit is both a requirement of the LGPS Regulations and sensible financial practice, as otherwise the deficit attributable to the leaving employer would need to be picked up by other employers within the Fund.

Given that employers being admitted and subsequently leaving the Fund can be a regular event, it makes sense to have a standardised policy for determining the basis under which employers are admitted to the scheme and the methodology for dealing with exit payments or credits upon an employer terminating from the Fund.

Having a clear policy ensures the following:

- Providing clarity to all stakeholders.
- Providing a consistent approach, and which is therefore less open to challenge by the leaving employer and their advisers.
- Enabling the admission and termination process to be carried out efficiently.

With regard to the treatment of exit credits, the Funding Strategy Statement currently covers the Fund policy on exit credits. The admission and termination policy is now updated to match this, and includes detail on how the Fund would handle any disputes on exit credits.

Additionally the policy now provides further clarity on how deficit or exit credits would be dealt with on the termination of a scheme employer in circumstances where a guarantor or successor exists and also in circumstances where a risk sharing arrangement is in place. Clarity is also provided on how the exit process will apply to academies in the Fund, whether participating as a stand-alone academy or as part of a multi academy trust.

Mc Cloud

In respect of allowances for McCloud the policy now includes that, for employers newly admitted to the scheme, the future service rate and deficit (where applicable) at the point of admission will not include any employer-specific allowance for the “McCloud” judgment, but will instead be calculated using the 2019 valuation assumptions which included a margin of prudence in respect of the judgment.

The assumptions used to calculate termination positions are also adjusted to allow for McCloud and further to bring them in line with the general assumptions used at the 2019 valuation.

Deferred Debt

Recently the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 were laid on 27 August 2020 with an implementation date of 23 September 2020, and reference is made to this legislation in the draft admission and termination policy. This legislation will introduce “deferred debt” provisions, which would allow employers to continue to participate in the Fund as ongoing employers after their last active member leaves in order to manage an exit payment that may be due. The Fund will develop a policy in this area once the full impact of these provisions have been reviewed, and incorporate it into this policy at a future date.

Employer covenant

Finally a minor amendment is made to re-inforce the Fund's commitment to employer covenant assessments and reinforces the fact that values of any bond or security put in place by scheme employers, may be reviewed by the Fund periodically to ensure they remain at an appropriate level.

Employer consultation period

It is intended to have a short consultation period with employers on the draft policy up to the 31 October 2020. It is then proposed that any new policy would have an effective date of 1 December 2020, subject to approval by the Committee on the 27th November 2020.

Consultations

Mercers – fund actuary

Implications:

This item has the following implications, as indicated:

Risk management

It is good practice to review the policy to ensure it is up to date and that employers in the Fund are protected from the downside risk of an employer exiting.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate
N/A