Pension Fund Committee
Meeting to be held on Friday, 27 November 2020

Electoral Division affected: (All Divisions);

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

Contact for further information:
Colin Smith, 01772 534826, Technical Advisor,
colin.smith@lancashire.gov.uk

Executive Summary

The admissions and termination policy was last updated in April 2018. Following a review and consultation with employers a final draft has been completed incorporating recent 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.

Recommendation

The Committee is asked to approve the admission and termination policy as set out at Appendix 'A' to this report.

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 final draft of the revised Policy attached as Appendix 'A' incorporates 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 the actuaries and follows a consultation with the employers in the Fund. There were no responses received from employers and as such the policy statement remains unchanged from the draft approved at the last meeting.

A summary of the key changes reported to the Committee at the previous meeting are set out again below for ease of reference. In terms of the deferred debt policy issue it is intended to revisit this once the full implications of these new provisions are known and will be reviewed together with a general review of employers covenant positions, which will be undertaken when the Employer risk services function returns to the County Council next year.

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. 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. As such current policy will be that the Fund may, at their absolute discretion, allow an employer to become a “deferred-debt” employer when their last active member leaves on terms that the Fund deems appropriate.

Employer covenant

Finally a minor amendment is made in relation to 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.

Consultations

Mercers – Fund Actuary
Employers in the Fund

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	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A