

Pension Fund Committee

Meeting to be held on Friday, 12 March 2021

Electoral Division affected: (All Divisions);
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Lancashire County Pension Fund - Admission and Termination Policy/ Inter-valuation contributions review policy

(Appendices 'A' and 'B' refer)

Contact for further information:

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Executive Summary

The latest review of the admission and termination policy incorporates further changes to reflect the employer flexibilities now available to the Fund. As such an updated draft of the admission and termination policy, and a new draft inter-valuation contribution review policy has been completed after consultation with the Fund Actuary.

Recommendations

The Pension Fund Committee is asked to:

1. Approve the changes to the admission and termination policy set out in Appendix 'A' to this report to enable a short consultation with the employers in the Fund.
2. Approve the new inter-valuation contribution review policy set out in Appendix 'B' to this report to enable a short consultation with the employers in the Fund.
3. Agree that a further report on the outcome of the consultations and final drafts of these policies be presented to the Committee on the 18th June 2021.

Background and Advice

The current admission and termination policy has been in place since August 2020 when the policy was amended to incorporate 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 had been amended in March 2020.

The latest review incorporates changes to legislation covering provisions introduced by the Local Government Pension Scheme (Amendment) (No.2) Regulations 2020 which were laid on 27th August 2020 with an implementation date of 23rd September

2020. Reference had previously been made to this legislation in the draft admission and termination policy that was presented to the Committee on the 18th September 2020, with a note to state that the Fund would develop a policy in this area once the full impact of these provisions had been reviewed.

That review has now been undertaken in consultation with the Fund Actuary, and the changes made are tracked and highlighted within the full draft admission and termination policy statement set out in Appendix 'A'. The new inter-valuation contribution review policy is set out in Appendix 'B'.

Both these draft policies reflect the employer flexibilities that now exist around employer risk and are intended to allow the Fund to have the flexibility to react appropriately to the wide range of circumstances that may occur, particularly on termination.

In summary the main changes to the admission and termination policy are the inclusion of options to spread termination payments and allowances for deferred debt agreements. The policy on each is broadly similar in that the Fund will consider applications, basing decisions principally on the best interests of the Fund and the covenant and circumstances of the outgoing employer.

In terms of the new Inter-valuation contributions review policy, the new regulations provide the Fund with the ability to review employer contributions between valuations. The Fund and employers now have the following flexibilities:

- The Fund may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
- The Fund may review the contributions of an employer where there has been a significant change in the employer's covenant.
- An employer may request a review of contributions from the Fund if they feel that either point 1 or point 2 applies to them.

The draft policy details the Fund's approach on reviewing employer contributions between valuations, including the circumstances under which a review may take place, and the methodology of that review.

The Fund, in maintaining employer contributions at appropriate levels, aims to mitigate risk as far as possible, within its risk management framework. The inter-valuation contributions review policy reflects this framework.

Finally, it should be noted that the responsibility for the employer risk function will transfer back to the Fund's in-house team from the Local Pensions Partnership Administration team with effect from 1st April 2021. The intention is that the in-house team will then begin to work with these policies, and more widely around employer covenant assessment and associated investment strategies, in consultation with the Fund Actuary moving forward.

Employer consultation period

It is intended to have a short consultation period with employers on the draft policies up to 30th April 2021. It is then proposed that any new policy would have an effective date of 1st July 2021, subject to approval by the Committee on the 18th June 2021.

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 the Fund and participating employers 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		