

Exit Credit Policy

Introduction

The LGPS Regulations 2013 were recently updated to address issues that were arising as a result of previous changes, which requires Administering Authorities to pay exit credits when an employer ceases to be a participating employer while in surplus on their respective exit basis. Previously, the Fund's Actuary would determine the level of any exit credit to be paid. However, the updated Regulations, while still requiring the Actuary to carry out an exit valuation, place the responsibility for determining the level of any exit credit, having considered various factors, on the Administering Authority. To meet this responsibility, the London Borough of Redbridge in its capacity as Administering Authority to the London Borough of Redbridge Pension Fund ("the Fund") commissioned Hymans Robertson LLP (as Fund Actuary) to assist the Fund in developing a policy in respect of exercising its discretion on the payment of exit credits.

Policy statement

The statement below sets out the general guidelines that the Administering Authority will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). Please note that these are guidelines only and the Administering Authority will also consider any other factors that are relevant on a case-by-case basis. These considerations may result in a determination that would be different if these guidelines were rigorously adhered to. In all cases, the Administering Authority will make clear its reasoning for any decision.

Admitted bodies

- 1 No exit credit will usually be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per point 3 or where representations from interested parties make it clear an exit credit should be paid. Prior to this date, the payment of an exit credit was not permitted under the Regulations and the Administering Authority assumes this was reflected in the commercial terms agreed between the admission body and the letting authority (the London Borough of Redbridge or another Scheduled body employer e.g. an

academy). This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' on the same terms that applied on joining the Fund.

- 2 No exit credit will be payable to any admission body who participates in the Fund via a fixed contribution rate approach (or "pass through") as set out in the Funding Strategy Statement.
- 3 The Administering Authority will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Administering Authority in a clear and unambiguous document with the agreement of both the admission body and the letting authority within one month of the admission body ceasing participation in the Fund.
- 4 If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in 3, the Administering Authority will withhold payment of the exit credit until such disputes are resolved.
- 5 The Administering Authority will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.
- 6 Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Administering Authority will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- 7 If the admission agreement ends early, the Administering Authority will consider the reason for the early termination, and whether that should have any relevance on the Administering Authority's determination of the value of any exit credit payment. In these cases, the Administering Authority will take particular note of the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- 8 The decision of the Administering Authority is final in interpreting how any arrangement described under 3, 5, 6 and 7 applies to the value of an exit credit payment.

- 9 If an admitted body leaves on a Gilts-exit basis (because no guarantor is in place) as set out in the Funding Strategy Statement, then any exit credit will normally be paid in full to the employer.

Scheduled bodies and designating employers

- 1 Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Administering Authority will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- 2 Where no formal guarantor or risk-sharing arrangement exists, the Administering Authority will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- 3 The decision of the Administering Authority is final in interpreting how any arrangement described under 1 and 2 applies to the value of an exit credit payment.
- 4 If a scheduled body or designating employer becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- 5 If a scheduled body or designating employer leaves on a Gilts-exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

The Administering Authority will notify the exiting employer as well as the letting authority and/or other relevant scheme employers of its intention to make an exit credit determination under Regulation 64.

Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position, the Administering Authority will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Administering Authority and the respective investment returns earned on both.

The Administering Authority will also factor in if any contributions due or monies owed to the Fund that remain unpaid by the employer at the cessation date.

The final decision will be made by the Administering Authority, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in accordance with this policy and the Regulations.

The Administering Authority accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations, the Administering Authority will discuss its approach to exercising its discretion in determining an exit credit with all affected parties.

Where it is determined that an exit credit is payable, the Administering Authority will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Administering Authority requires prompt notification of an employer's exit and all data and relevant information as requested. The Administering Authority is unable to make any exit credit payment until it has received all data and information requested. Please note, a longer time period may be agreed between the Administering Authority and the exiting employer where necessary.

If the exiting employer or letting authority wishes to dispute the determination of the amount of an exit credit, this must be routed through the Fund's internal dispute resolution process in the first instance.

Review of policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Corporate Accounting (Pensions), in the first instance, at London Borough of Redbridge, 9th Floor, Lynton House, 255-259 High Road, Ilford, Essex, IG1 1NN. Email corporate.accounting@redbridge.gov.uk