CHESHIRE PENSION FUND

Exit Credit Policy

Background

In April 2018, Government announced a change to LGPS Regulations to allow exit credits to be paid to employers for the first time.

Exit credits arise when an employer is leaving the LGPS, and an actuarial assessment shows their pension liabilities have been overfunded and there is a funding surplus at the date of exit. Prior to this change, no exit credits were payable, but employers were responsible for meeting any funding shortfall on exit.

In the months after exit credits were introduced, concerns were raised about unforeseen impacts, specifically where scheme employers had outsourced services or functions and had included specific pensions risk provisions in service agreements.

Under these agreements, the contracting authority may have shared the pensions risk with their contractors in various ways, for example by picking up the risk of contributions increasing beyond a certain amount or by picking up the risk of an exit payment arising at the end of the contract, in exchange for a lower contract price.

It became clear that service providers were becoming entitled to exit credits where this was not the intention of the parties when the services were tendered, and service agreements made.

In May 2019 the Govt launched a further consultation on amending the exit credit provisions to enable an LGPS administering authority to consider a range of factors in determining whether an exit credit is payable, including the level of pension risk that an employer has borne.