CHESHIRE PENSION FUND

Funding Strategy Statement

MARCH 2023

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CHESHIRE PENSION FUND

1 Welcome to Cheshire Pension Fund's Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Cheshire Pension Fund (the Fund).

The Cheshire Pension Fund is administered by Cheshire West and Chester Council, known as the Administering Authority. Cheshire West and Chester Council worked with the Fund's Actuary, Hymans Robertson LLP, to prepare this FSS which is effective from 10 March 2023.

There's a regulatory requirement for the Fund to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact PensionsEmployer@cheshirewestandchester.gov.uk

1.1 What is the Cheshire Pension Fund?

The Cheshire Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

Scheduled Bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers such as academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating Employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission Bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a Scheduled Body.

Some existing employers may be referred to as **Community Admission Bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **Transferee Admission Bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the Fund's Investment Strategy Statement (ISS) which can be found on the Fund's website.

Currently there are four investment strategies in the Fund, with a range of allocation to growth assets and defensive assets. More details of these strategies is available in the ISS.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

Employers are allocated by the Administering Authority and the Fund's Strategy Investment Advisor to the investment strategy which is most appropriate given the employer's funding objective and current funding position.

1.6 How is the funding strategy specific to the Cheshire Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

2 How does the Fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the Fund's expenses.

The Fund Actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	Local Authorities, Police, Fire, Town and Parish Councils	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target[2]	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success[3]	66%	75%	66%[4]	70%	70%	70%
Maximum time horizon	20 years	15 years	20 years	15 years	15 years	Outstanding contract term

Type of employer	Scheduled bodies			CABs and designating employers		TABs[1]
Sub-type	Local Authorities, Police, Fire, Town and Parish Councils	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	Monetary amount for 4 main Councils, else % of payroll	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Stabilised contribution rate?	Yes	No	Yes	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions maintained at primary rate. Reductions may be permitted by the Fund on a case-by-case basis	Preferred approach: contributions maintained at primary rate. Reductions may be permitted by the Fund on a case-by-case basis	Preferred approach: contributions maintained at primary rate. Reductions may be permitted by the Fund on a case-by-case basis		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	May be permitted by the Fund on a case-by-case basis	May be permitted by the Fund on a case-by-case basis	May be permitted by the Fund on a case-by-case basis	None	None

[1] *Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority in the risk sharing agreement. Additionally, in these cases upon cessation the contractor's assets and liabilities will transfer back to the awarding authority with no crystallisation of any deficit or surplus.*
[2] *See Appendix D for further information on funding targets.*

[3] *The Fund, at its discretion, may reduce the likelihood of success requirement where an employer is able to provide additional security to minimise the Fund's exposure to funding risk.*
[4] *The minimum likelihood of success is 66% on conversion to Academy status. The Fund's policy on setting contribution rates for academies is set out in detail in Appendix E.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the Fund's four main councils.

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee being provided by the employer.

2.5 What is pooling?

The Fund operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the Fund Actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the Fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

TABs and CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Town and Parish Councils** – the Fund has allowed town and parish councils to pool for the purpose of setting contributions. The underlying funding position of each of these continues to be individually tracked.
- **Academies** – new academies joining Multi Academy Trusts (MATs) may also pay the MAT contribution rate certified at the most recent triennial valuation of the Fund at the point of conversion. Further detail on the Fund's academy policy can be found in Appendix E.

2.7 Fund discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Fund may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Fund may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The degree of flexibility given may take into account: the extent of the employer's deficit, the amount and quality of the security offered, the employer's covenant and whether the admission agreement is open or closed to new entrants.

The Fund permits the prepayment of employer contributions in specific circumstances. Each request by a participating employer to pre-pay employer contributions will be considered by the Fund on its own merits.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum in the year in which the strain is incurred. Strain payments may be spread if the at the Fund's discretion over a period of no more than 3 years.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

Admission bodies usually have an ill-health allowance. Scheduled bodies may also have an allowance, depending on their agreement terms.

The Fund monitors ill-health for each employer. If the cumulative cost of ill-health retirement in any financial year exceeds the allowance made at the previous valuation, the employer will be charged additional contributions on the same basis as non ill-health cases. Details are included in each admission agreement.

To mitigate this risk, employers may be able to take advantage of external health insurance.

If an employer provides satisfactory evidence the existence of a current external insurance policy covering ill-health early retirement strains, then: the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total cost of is unchanged, and there is no need for monitoring of allowances.

The employer must keep the Fund notified of any changes in the insurance policy's coverage or premium terms or inform the Fund if the policy is ceased.

4 How does the Fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's Employer Asset Tracker (HEAT) system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see Section 5).

4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. These future benefit payments are then expressed as a single value in today's money – the liabilities – by discounting them back in line with expected future investment returns.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. This snapshot of the current funding position is a useful high-level health check metric. However it does not consider, amongst other factors, the cost of future benefits and the level of future funding volatility and risk. Therefore, it is not a direct driver of contribution rates which, for most employers, is the main consideration. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former Council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If an academy is part of a MAT, the new academy can be combined with the other MAT academies to set contribution rates at the Fund's discretion.

An individual new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities (DLUHC) or the Department for Education (DfE). Any changes will be communicated and reflected in future funding strategy statements.

The Fund's full policy on academy participation is detailed in Appendix E.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a Council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. More details on outsourcing options can be found from the Administering Authority.

The Fund's policy is to require all new admission bodies to be set up with a pass-through arrangement. Should a letting employer wish to outsource on an alternative basis (e.g. a "standalone" basis with no risk sharing), the Fund may permit this at its sole discretion

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

As per the Academy Trust Handbook, academies must seek permission from the Education and Skills Funding Agency before providing a guarantee as a letting authority. The Fund will expect academies to evidence that they have sought and received permission to act as a guarantor before permitting an admission body to join the Fund.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available from the Administering Authority.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the fund. The Fund, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time;
- insolvency, winding up or liquidation of the admission body;
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction;
- failure to pay any sums due within the period required;
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor; or
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is set out in Appendix F.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount;
- the proportion of the surplus due to the employer's contributions;
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support; and
- any other relevant factors.

The Fund's policy on payment of an exit credit policy is set out the Cessations Policy in Appendix F.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or spread over an agreed period, if the employer enters into a Deferred Spreading Agreement (DSA).

if an exiting employer enters into a Deferred Debt Agreement, they remain a participating employer in the Fund and pay contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy regarding employer flexibilities on exit is set out in the Cessations Policy in Appendix F.

7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund Actuary will portion the liabilities on a pro-rata basis at successive formal valuation

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other Fund employers on a pro-rate basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a Section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Fund may consider absolute and relative factors.

Relative factors include:

- comparing LGPS funds with each other
- the implied deficit recovery period
- the investment return required to achieve full funding after 20 years.

Absolute factors include:

- comparing funds with an objective benchmark
- the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
- how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
- the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
- how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the Fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax* raising authorities and representatives of other participating employers'.

The consultation process included issuing a draft version to all participating employers providing a four week window to receive responses from employers

A3 How is the FSS published?

The FSS is published

- on the administering authority's website
- in the full statement of the final accounts

Copies are freely available on request and sent to

- Investment managers and independent advisers.
- Scheme employers and their advisers sending
- Members of the Pension Fund Committee and the Local Pension Board
- Any other interested stakeholders.

FSS is published at https://www.cheshirepensionfund.org/members/about-us/

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the actuarial valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the Investment Strategy Statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at https://www.cheshirepensionfund.org/members/about-us/

Appendix B – Roles and responsibilities

B1 The Administering Authority:

1 operates the Fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and their investment strategies

7 communicates with employers so they understand their obligations

8 safeguards the Fund against employer default

9 works with the Fund Actuary to manage the valuation process

10 provides information to the Government Actuary's Department (GAD) so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the Fund Actuary about changes which could affect funding

13 monitors the Fund's performance and funding, amending the strategy statements as necessary

14 enables the Local Pension Board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the Fund promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the Fund.

B3 The Fund Actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting Fund solvency and long-term cost efficiency

2 provides information to the GAD so they can carry out their statutory obligations

3 advises on Fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the Fund to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the Fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement

2 investment managers, LGPS Central (the Fund's asset pool), custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities (DLUHC), assisted by GAD and the Scheme Advisory Board (SAB), work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The Fund has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the Local Pension Board is set out in the board terms of reference available here

https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/

Details of the key Fund-specific risks and controls are set out in the Fund's Risk Register which is presented annual to the Pensions Committee for approval and approved and reviewed quarterly by the Local Pensions Board and Fund Officers. The Fund's latest Risk Register can be accessed as part of the Pensions Committee agenda papers which are published on the Fund's website.

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire, Town & Parish councils	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	Assessments may be commissioned by specialists as appropriate or carried out by Fund Officers	The Fund will review employers periodically or when a significant event occurs

C3 Climate risk and TCFD reporting

The Fund has considered climate-related risks as part of the 2022 triennial actuarial valuation when setting the funding strategy. To consider the resilience of the strategy the Fund has considered climate scenario stress testing as part of an asset-liability modelling exercise. The modelling results under the stress tests were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The modelling was carried out at Fund level. Given that the same underlying model is used for all employers when setting contribution rates, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has further detail on its approach to Responsible Investment and Engagement, including its Climate Change Strategy and latest TCFD report, on its website.

Appendix D – Actuarial assumptions

The Fund's Actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the FSS.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the Fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

The ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund Actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

ESS assumptions are calibrated at each month end. Contribution rate assessments carried out after 31 March 2022 will use the most up to date calibration of the ESS at the date the employer joins the Fund.

D3 What financial assumptions were used?

Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy each employer is allocated to.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon for a given investment strategy. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except Transferee Admission Bodies and closed Community Admission Bodies	1.6%
Low-risk exit basis	Community Admission Bodies closed to new entrants	0%
Contractor exit basis	Transferee Admission Bodies	Equal to the margin used to allocate assets to the employer on joining the Fund (as set out in the actuarial report on joining)

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 3.7% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the fund's assets will future investment returns of 3.7% over the 20 years following the 2022 valuation date based on the Fund's Open investment strategy. Further detail on the Fund's investment strategies can be found in the ISS.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.7% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

For actuarial reference only, the smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	65% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	363.88	813.01	0.00	0.00	0.00	0.00
25	117	0.17	240.35	537.03	0.00	0.00	0.00	0.00
30	131	0.20	170.54	380.97	0.00	0.00	0.00	0.00
35	144	0.24	133.24	297.63	0.10	0.07	0.02	0.01
40	150	0.41	107.28	239.55	0.16	0.12	0.03	0.02
45	157	0.68	100.77	224.96	0.35	0.27	0.07	0.05
50	162	1.09	83.06	185.23	0.90	0.68	0.23	0.17
55	162	1.70	65.41	145.94	3.54	2.65	0.51	0.38
60	162	3.06	58.30	130.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	281.94	467.37	0.00	0.00	0.00	0.00
25	117	0.10	189.71	314.44	0.10	0.07	0.02	0.01
30	131	0.14	159.02	263.54	0.13	0.10	0.03	0.02
35	144	0.24	137.25	227.38	0.26	0.19	0.05	0.04
40	150	0.38	114.23	189.18	0.39	0.29	0.08	0.06
45	157	0.62	106.60	176.51	0.52	0.39	0.10	0.08
50	162	0.90	89.87	148.65	0.97	0.73	0.24	0.18
55	162	1.19	67.06	111.03	3.59	2.69	0.52	0.39
60	162	1.52	54.04	89.37	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.266	7.69	0.00	0.00

Based on guidance issued by the Department of Levelling Up, Housing and Communities on 22 March 2022, the Fund has allowed for the cost associated with the McCloud remedy in the liability calculations at the 2022 valuation (and going forward).

Given the lack of information and/or their relatively small impact, there has been no other allowance for any potential future benefit structure changes that may occur due to ongoing legal cases (e.g. the Goodwin case) or the outcome of the 2020 cost cap valuation.

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

The Fund actuary will allow for expected pension increases in the short term in an employer's cessation valuation.

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Further details of the Fund's Cessation Policy is set out in Appendix F.

Contractor exit basis

Where there is a guarantor (e.g in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the fund.

Appendix E – Policy on Academy Funding

Effective date of policy	
Date approved	
Next review	

Introduction

The purpose of this policy is to set out the Fund's funding principles relating to academies and Multi-Academy Trusts (MATs).

E1 Aims and Objectives

The Fund's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

E2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

E3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

E4 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- Where the academy is part of a MAT that already participates in the Fund, the academy's assets and liabilities will be calculated individually, but may, for the purpose of setting contribution rates, be combined with those of the other academies in the MAT

- academies must consult with the Fund prior to carrying out any outsourcing activity. The Fund also expects academies to obtain permission (and evidence it) from the Education & Skills Funding Agency (ESFA) before agreeing to act as guarantor for any outsourcings
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation exercise.

E5 Policies

E5.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy initial contribution rates for the first year ending 31 March from the conversion date will be as per the ceding council's rate. Thereafter, contribution rates from 1 April are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below).

E5.2 Review at triennial valuations

A key aim of the Fund is the stability of contributions for its employers. In recognition of the long-term nature of academies, and reflective of the lower risk the Fund is exposed to in respect of these employers, the Fund may offer a freeze in contributions when a formal review has been carried out.

At triennial valuations, the Fund Actuary will test the likelihood of success resulting were the academy (or MAT) to continue paying their current contribution rate over the time horizon set out in Table 2 of the FSS. Where this likelihood falls within an acceptable range, the Fund will permit an academy to continue paying this level of contributions until the next triennial review.

Likelihood of success calculated	<60%	60%-72%	>72%
Contribution rate resulting from likelihood test	Increased to contribution rate calculated in accordance with funding strategy set out in Table 2	Maintained at current rate until next valuation	Reduced to contribution rate calculated in accordance with funding strategy set out in Table 2

Where the tested likelihood of success of an academy's current contribution rate falls outside the corridor of acceptability for maintaining this rate, the contribution rate certified from 1 April will immediately change to the contribution rate yielding a 66% likelihood of success at the end of a 20-year time horizon.

E5.3 Multi-academy trusts

Asset tracking

The Fund's current policy is to individually track the asset shares of each academy within the fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate.

Contribution rate

If an academy is joining an existing pooled MAT (within the fund), in general, the transferring academy will pay the certified contribution rate of the MAT it is joining.

At the discretion of the Fund, a new contribution may be calculated by the Fund Actuary to allow for impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

E5.4 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation.

Alternatively, as per Regulation 64 A (1)(b) (iii), the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

E5.5 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the Fund, the Fund Actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in E5.3 above.
- In all other circumstances a cessation valuation will occur as set out in Section 7 of the FSS and, following payment of any cessation debt or settlement of any exit credit, section 7.5 of the FSS would apply.

E5.6 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund they would need to seek approval from the Secretary of State to consolidate their liabilities (and assets) into one LGPS fund. It is the Fund preference that academies do not seek to consolidate and the Fund would generally not be supportive of any application to join the Fund, due to the level of additional administrative work.

If an academy (or MAT) did seek to consolidate into another LGPS fund, the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

E5.7 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. The Fund's policy is for new academy outsourcings to be set up under a "pass-through" arrangement.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract if it is acting as a guarantor to the admission. It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications.

It is the Fund's policy that the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate as calculated at the most recent formal valuation of the Fund on a more prudent likelihood of success of 75%.

In all cases, it is necessary to seek approval from ESFA before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members).

Where a local authority school outsources to another organisation and subsequently converts to an academy (or joins a MAT), any outsourced contracts at the point of conversion will be treated by the Fund as having been let by the academy. The obligation to pay for transferring members benefits will revert to the academy (or MAT) at the end of the contract.

E5.8 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

E6 Related Policies

The Fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?". Other policies that may apply:

- Policy on cessations – Appendix F

Appendix F – Policy on cessations

Effective date of policy	
Date approved	
Next review	

Introduction

The purpose of this policy is to set out the Fund's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described in F5).

F1 Aims and Objectives

The Fund's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund.
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the Fund, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

F2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the fund, the Fund will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

F3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the Fund is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the Fund is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.

- Regulation 64 (2ZAB) – the Fund must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  a) Notify its intention to make a determination to-
     (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
     (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the Fund and the exiting employer agree.

- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the Fund must have regard to the following factors-
  a) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)
  b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  c) Any representations to the Fund made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  d) Any other relevant factors

- Regulation 64 (2A) & (2B)– the Fund, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining Fund employers may be amended.

- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the Fund may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the Fund from the exiting employer.

- Regulation 64 (7A-7G) – the Fund may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

F4 Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.
- the Fund's preferred approach is to request the full payment of any exit debt (an exit payment by the employer), which is calculated by the Fund actuary on the appropriate basis (as per Section 7 of the FSS and F below). This would extinguish any liability to the Fund by the exiting employer.
- the Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

F5 Policies

On cessation, the Fund will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 30 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see F5.2 Repayment flexibility on exit payments below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see F5.3 Exit credits below).

If there is any doubt about the applicable LGPS benefit structure at the date of exit, the Fund's actuary may include an estimate of the possible impact of any resulting benefit changes when calculating an employer's pension liabilities to determine the level of any exit payment or credit.

F5.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low-risk basis[1]	Shared between other Fund employers
Colleges & Universities	Low-risk basis	Shared between other Fund employers
Academies[2]	Low-risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis / contractor exit basis[3]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low-risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low-risk basis	Shared between other Fund employers (if no guarantor exists)

[1] Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2] Further details about academy cessations are set out in the Fund's policy on academies (see Appendix E).

[3] Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

F5.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation. Written requests to be considered for a DSA must be submitted by the employer at least 3 months prior to them becoming an exiting employer.

In this exceptional case, the Fund's policy is:

- The agreed spreading period is no more than five years from the date of the last active member leaving, but the Fund could use its discretion to extend this period in extreme circumstances.
- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the Fund with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA will be subject to an interest charge.
- The Fund will only consider written requests within three months of the employer exiting the Fund. The exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases. Covenant strength will be monitored by the Fund over the spreading period and may consider amending or terminating the DSA if there are material changes to covenant strength.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the Fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, security offered by the employer, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with Fund officers if an urgent decision is required between Committee meetings.
- All costs of the arrangement are to be met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Deferred debt agreement (DDA)

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

Where a DDA is in place, the employer must continue to meet all regulatory and Fund-specific requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA at least 3 months prior to them becoming an exiting employer.

- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the Fund.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the initial annual payments due, the frequency of actuarial review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation valuation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the employer's covenant and subsequent contribution requirements and security requirements.
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active members within the Fund.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The Fund serves a notice on the employer that the Fund is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

F5.3 Exit credits

The Fund's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund after 14 May 2018. This provision therefore is

retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme (Amendment) Regulations 2020].

The Fund may determine the amount of exit credit payable to be zero, however, in making a determination, the Fund will take into account the following factors.

a) the extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Fund made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

Admitted bodies

i. If an employer becomes an exiting employer on or after 14 May 2018 under Regulation 64 of the 2013 Local Government Pension Scheme (LGPS) Regulations (as amended) it may be entitled to receive an exit credit

ii. No exit credit will normally be payable to any admission body who participates in the Fund via a pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

iii. Employers within a funding pool (e.g. the Town and Parish Councils pool or a multiacademy trust with more than one school in the Fund) will not normally receive exit credits upon leaving the Fund provided the remaining participants of the pool take responsibility for the residual assets and liabilities after the employer has exited.

iv. The Fund 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 Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.

v. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.

vi. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund 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.

vii. If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

viii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

ix. The decision of the Fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies and designating bodies

i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund 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.

ii. Where no formal guarantor or risk-sharing arrangement exists, the Fund 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.

iii. The decision of the Fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.

iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund 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 Fund and the respective investment returns earned on both.

iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

iv. The final decision will be made by the Pension Fund Manager, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

v. The Fund 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 Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 1 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

vii. None of the above should be considered as fettering the Fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

F6 Practicalities and process

F6.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (a minimum 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Fund which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

F6.2 Responsibilities of Administering Authority

The Fund will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.

- complete membership data for the outgoing employer and identify changes since the previous formal valuation.
- the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).

- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the Fund actuary determines that there is an excess of assets over the liabilities at the cessation date, the Fund will act in accordance with the exit credit policy above. If payment is required, the Fund will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the Fund requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

F6.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the Fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

F6.4 Timing adjustment

Where a deficit has been calculated and there is a delay in the date of cessation and an employer paying this amount, the Fund may adjust the exit position to allow for the time elapsed. This adjustment may be taking account of known changes in underlying market conditions or investment returns affecting an employer's assets or liabilities since the cessation date – which will subsequently impact on their cessation deficit.

F7 Related Policies

The Fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.