Pension Committee

25th September 2020

Exit Credit Policy

1.1 Regulation 64 (2) of the Local Government Pension Scheme Regulations 2013 requires the Administering Authority to obtain a cessation valuation from the fund actuary for any employer exiting the fund.

1.2 The LGPS Regulations were amended in May 2018 which required Administering Authorities to pay a cessation funding surplus to any employer that exited the fund. Prior to 2018, there was no ability to refund a cessation surplus.

1.3 This change caused problems for some LGPS funds, as some employers (not within the Gloucestershire Fund) were deliberately ending service contracts early and leaving the fund just so they could receive payment of the funding surplus. In some cases this amounted to millions of pounds.

1.4 This issue was further complicated where there was an element of pension cost sharing agreed between the admitted body and the scheme employer, which reduced the risk to the admitted body. Despite this, under the regulations amended in May 2018, the full surplus would still be paid to the admitted body.

1.5 To address this issue, amending regulations were therefore introduced in March 2020 with retrospective effect to May 2018. These amendments created a discretion for the Administering Authority to determine the amount of funding surplus that could be payable to an employer exiting the fund. This allows consideration to be given to any cost sharing arrangements that the exiting employer benefitted from whilst participating in the fund.

1.6 The new Regulations state that when determining the amount of exiting surplus, the Administering Authority must have regard to:

- The extent to which there is an excess of assets in the fund relating to the exiting employer over the liabilities
- The proportion of this excess which has arisen because of the value of the employer’s contributions
- Any representations made by the exiting employer and any guarantor
- Any other relevant factors

1.7 In order to be fully transparent, and to ensure that all employers exiting the fund are treated in an equitable way, the actuary to the Gloucestershire Fund, working with officers have produced an exit credit policy, which is attached as Appendix 1.

1.8 If approved by the Committee this policy will be followed in determining whether an exit credit payment is due and, if so, to which employers the exit credit will be paid to, and how much will be paid.

1.9 No exit credit will be payable in respect of admission bodies who joined the Fund before 14 May 2018. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority.

1.10 Where an exit credit payment is due, the actuary will be asked to advise on the level of the exit credit to be paid taking into account the total amount of employer contributions paid by the employer since it joined the Fund. The actuary will also be asked to advise as to whether, in their opinion, the credit should be paid to one employer or be shared between employers in accordance with the policy.

Recommendation

That the Committee approves the Exit Credit policy.

Contact Officer

Paul Blacker – Director of Finance (01452 328999)