

## Exit Credit Policy

The below sets out the general guidelines that the Gloucestershire County Council Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”), as amended from time to time.

### Background

Following a revision to the Regulations in May 2018 permitting payment of an exit credit to an employer, the Ministry of Housing, Communities and Local Government (“MHCLG”) issued a consultation to address concerns that the change in Regulations had resulted in employers becoming entitled to an exit credit which did not reflect the level of risk they were exposed to during their participation in the LGPS Fund.

The outcome of that consultation was a further revision to Regulation 64, back-dated to May 2018, allowing the administering authority to exercise its discretion in the payment of an exit credit.

The Regulations state that *“The administering authority must have regard to the following factors*

- *the extent to which there is an excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)(a);*
- *the proportion of this excess of assets which has arisen because of the value of the employer’s contributions;*
- *any representations to the administering authority 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 to these Regulations; and*
- *any other relevant factors.”*

### Fund’s approach

This policy sets out the ways in which the Fund will exercise its discretion in the payment of an exit credit, and in particular the other relevant factors that will be considered in the payment of an exit credit as stated by the Regulations.

Please note that these are guidelines only and the Fund will also consider any other additional factors that are relevant on a case-by-case basis. These considerations may result in a determination that would be different if the below guidelines were rigorously adhered to. In all cases, the Fund will make clear its reasoning for any decision.

### General considerations

The Fund will consider the source of a surplus when determining the exit credit. In particular the Fund may exercise its discretion in the amount of surplus that would be payable where the surplus has arisen as a result of individual membership transfers between employers.

### Admitted bodies

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

- b) 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 and within one month of the admission body ceasing participation in the Fund.
- c) If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in b), the Fund will withhold payment of the exit credit until such disputes are resolved.
- d) The Fund will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.
- e) 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.
- f) 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 difference between employers' contributions paid and the size of any cessation surplus.
- g) The decision of the Fund is final in interpreting how any arrangement described under b), d), e) and f) applies to the value of an exit credit payment.
- h) If an admitted body leaves on a low-risk cessation basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

#### **Scheduled bodies and resolution bodies**

- a) Employers within the Town and Parish Councils Pool will not receive an exit credit on leaving the Fund.
- b) 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.
- c) Where no formal guarantor or 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.
- d) The decision of the Fund is final in the interpreting how any arrangement described under b) and c) applies to the value of an exit credit payment.

- e) If a scheme employer or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- f) If a scheme employer or resolution body leaves on a gilts-based cessation (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

### General

- a) 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.
- b) 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.
- c) The final decision will be made by the Head of Pensions of the Gloucestershire Pension Fund, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- d) 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.
- e) The Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.