WYPF
Funding Strategy Statement

January 2021

1. Introduction

1.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

After consultation with all such persons as it considers appropriate, including officers and elected members and other employer representatives, the Administering Authority will prepare, maintain and publish their funding strategy;

In preparing the FSS, the Administering Authority must have regard to:-

- the statutory guidance issued by CIPFA for this purpose;
- the supplementary statutory guidance issued by MHCLG: Guidance on Preparing and Maintaining Policies on Review of Employer Contributions, Employer Exit Payments and Deferred Debt Agreements and
- the Investment Strategy Statement (ISS) published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) ("The Investment Regulations").

The Administering Authority has also considered the Scheme Advisory Board's Guide to Employer Flexibilities for Administering Authorities and Employers in developing the FSS and associated policies at Appendix 2 and Appendix 3.

The FSS must be revised and published in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended), whenever there is a material change in either the policy on the matters set out in the FSS, or ISS.

1.2 Benefits payable under the Local Government Pension Scheme (LGPS) are guaranteed by statute and thereby the pension promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

1.3 The LGPS is a defined benefit scheme under which the benefits are specified in the governing legislation, currently the Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations").

1.4 Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation be completed every three years by the actuary, to include a rates and adjustments certificate. The primary rate of employers' contributions to the Fund should be set so as to "secure its solvency". The actuary must have regard to the desirability of maintaining as nearly constant a primary rate of employer contribution as possible in addition to the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund. The actuary must also have regard to the FSS in carrying out the valuation.

2. Purpose of Funding Strategy Statement (FSS)

2.1 Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will, therefore, determine the rate or pace at which this advance provision is made. Although the regulations specify the fundamental principles on which funding contributions should be assessed, the implementation of the funding strategy is the responsibility of the Administering Authority, acting on professional advice provided by the actuary.

2.2 The purpose of this FSS is to set out the processes by which the Administering Authority:

- 2.2.1 establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- 2.2.2 supports the regulatory requirement that it is desirable to maintain as far as possible stable primary employer contribution rates;
- 2.2.3 ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met;
- 2.2.4 takes a prudent longer-term view of funding the liabilities
- 2.2.5 makes use of the provisions of Regulation 64(7A), 64A,and 64B

Commented [AM1]: Not in the CIPFA guidance yet obviously but seems to make sense to include here given the proposed statutory guidance and requirements of the Regulations

OK agreed

2.3 It should be stressed at the outset that, supplementary to the regulatory requirement to consider the desirability of maintaining a constant primary employer contribution rate as referred to in 2.2.2 above, a key priority for the Administering Authority is to bring stability to employers' total contributions through gradual increases (or decreases) phased in over a number of years. Views will be taken on what is reasonable and appropriate for employer contributions and, therefore, the degree of risk inherent within the funding targets and associated periods for recovery of deficits or return of surpluses.

2.4 The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of all employers will be referred to in the FSS, its focus should at all times be on those actions which are in the best long-term interests of the Fund. Consequently, the FSS must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and Purpose of the Pension Fund

3.1 The aims of the Fund are to:

- 3.1.1 enable primary employer contribution rates to be kept as constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, designating, and admission bodies,
- 3.1.2 enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, designating, and admission bodies whilst achieving and maintaining the solvency of the Fund, which should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers alike;
- 3.1.3 manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due. The Fund has a significant positive cash flow in terms of income received, including investment income, offset by monies payable; and
- 3.1.4 maximise the returns from investments within reasonable risk parameters.

3.2 The purpose of the Fund is to:

- 3.2.1 receive monies in respect of contributions from employers and employees, transfer values and investment income; and
- 3.2.2 pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations and as required in the Investment regulations.

4. Responsibilities of Key Parties

4.1 The sound management of the Fund relies on all interested parties exercising their duties and responsibilities conscientiously and diligently. The key parties in this statement are the Administering Authority, Scheme employers and the actuary.

4.2 The Administering Authority should:-

- 4.2.1 operate a pension fund;
- 4.2.2 collect employee and employer contributions, investment income and other amounts due to the pension fund;
- 4.2.3 invest all monies held in accordance with the ISS;
- 4.2.4 maintain adequate records for each Scheme member;
- 4.2.5 exercise discretions within the regulatory framework, taking into account the cost of decisions;
- 4.2.6 take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- 4.2.7 ensure sufficient cash is available to meet liabilities as they fall due;
- 4.2.8 pay from the pension fund the relevant entitlements as stipulated in the Regulations;
- 4.2.9 provide membership records and financial information to the actuary promptly when required and information required by the Government Actuary's Department in relation to Section 13 of the Public Service Pensions Act 2013;
- 4.2.10 prepare and maintain a Funding Strategy Statement and Investment Strategy Statement in proper consultation with interested parties;
- 4.2.11 monitor all aspects of the Fund's performance and funding and amend the FSS/ISS accordingly;
- 4.2.12 manage the valuation process in consultation with the actuary;
- 4.2.13 effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and Scheme employer;
- 4.2.14 enable the Local Pension Board to review the valuation process as set out in their terms of reference;
- 4.2.15 ensure consistent use of policies relating to revising employer contributions between formal valuations, entering into deferred debt arrangements and spreading exit payments; and
- 4.2.16 ensure the process of applying those policies is clear and transparent to all fund employers

4.3 Each individual employer should:

- 4.3.1 deduct contributions from employees' pay correctly;
- 4.3.2 pay all ongoing contributions, including their own as determined by the actuary, and any additional contributions promptly by the due date (including contributions due under a Deferred Debt Agreement);
- 4.3.3 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework, taking into account the cost of decisions;

Commented [AM2]: Arguably the Government is asking funds not to apply the Regulations as regards redundancy/efficiency early retirements for capped employers but not sure we really want to mention that here.
CB - OK to leave this in
Ok - agreed

Commented [AM3]: Unfortunately the Cipfa guidance is out-of-date and arguably this should be included
CB – happy to include
OK - agreed

Commented [AM4]: Taken from draft MHCLG guidance
CB – happy to include
Ok - agreed

- 4.3.4 make additional contributions in accordance with agreed arrangements in respect of, for example, award of additional pension and early retirement strain;
- 4.3.5 provide adequate membership records to the Administering Authority promptly as required;
- 4.3.6 notify the Administering Authority promptly of all changes or proposed changes to membership which affect future funding;
- 4.3.7 notify the Administering Authority promptly of possible or intended changes that could affect the basis of participation in the Fund which affect future funding;
- 4.3.8 be aware that responsibility for compensatory added years, which the Administering Authority pays on behalf of the employer as a paying agent, lies with the employer which awards and is recharged for the cost of compensatory added years and
- 4.3.9 pay any exit payments required in the event of their ceasing participation in the Fund.

Commented [AM5]: I think this is ok as any payment due at the end of a deferred debt agreement could be viewed as an exit payment?
Ok - agreed

4.4 The Fund Actuary should:

- 4.4.1 prepare triennial valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations;
- 4.4.2 prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs, etc;
- 4.4.3 provide advice and valuations on the exiting of employers from the Fund.
- 4.4.4 provide advice to the Administering Authority on bonds or other forms of security to mitigate against the financial effect on the fund of employer default;
- 4.4.5 assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations, in particular in relation to any review of contributions between triennial valuations under Regulation 64A;
- 4.4.6 provide views in relation to any decision by the Administering Authority to put in place a Deferred Debt Agreement under Regulation 64(7B) or spread an exit payment under Regulation 64B; and
- 4.4.7 ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund.

5. Solvency Issues, Target Funding Levels and Long-term Cost Efficiency

Risk Based Approach

5.1 The Fund adopts a risk based approach to funding strategy. In particular the discount rate (for the secure scheduled bodies) has been set on the basis of the assessed likelihood of meeting the funding objectives. The Administering Authority has considered 3 key decisions in setting the discount rate:

- 5.1.1 the long-term Solvency Target (i.e. the funding objective - where the Administering Authority wants the Fund to get to);
- 5.1.2 the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- 5.1.3 the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

5.2 These three choices, supported by complex (stochastic) risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Solvency Target

5.3 The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

5.4 The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

5.5 For secure Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following cessation, or in the case of community admission bodies, where a suitable guarantee is in place, the Solvency Target is set:

5.5.1 at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,

5.5.2 based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pensions accounts (Consumer Price Index (CPI)).

As at 31 March 2019 the long-term rate of CPI is assumed to be 2% p.a. and a prudent long-term investment return of 2% above CPI is assumed.

As at 31 March 2019 the solvency discount rate is therefore of 4% p.a.

5.6 For Admission Bodies whose liabilities are expected to be orphaned following exit, other than those community admission bodies where a suitable guarantee is in place, a more prudent approach will be taken. The Solvency Target will be set by considering the valuation basis which would be adopted should the body leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds after exit.

5.7 For scheduled bodies with no guarantee from local or central government and Admission Bodies where there is no subsumption commitment but which continue to admit new members to the Fund and are considered by the Administering Authority to be sufficiently financially secure, the Solvency Target will take into account the fact that the employer's exit is not expected to take place for a considerable period of time.

5.8 For deferred employers it is expected that the Solvency Target will be set by considering the valuation basis which would be adopted once the Deferred Debt Agreement DDA) ends. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds at the end of the period of the deferred debt agreement.

Probability of Funding Success

5.9 The Administering Authority considers funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

Commented [AM6]: Need to re-number paragraphs from here

5.10 With effect from 31 March 2019 the discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is a 75% chance that the Fund would reach or exceed its Solvency Target after 25 years (the Trajectory Period).

Funding Target

5.11 The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including future service contributions and any adjustment for surplus or shortfall, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined above). The key assumptions used for assessing the Funding Target at the 2019 Valuation are summarised in Appendix 1.

5.12 Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible, contributions are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members’ pensionable pay over that period. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

5.13 For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire. This approach should lead to more stable employer contribution rates than adoption of the Projected Unit method for closed employers.

Funding Targets and assumptions regarding future investment strategy

5.14 For Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite, Admission Bodies with a subsumption commitment from such Scheduled Bodies, and community admission bodies, where a suitable guarantee is in place the Administering Authority assumes indefinite investment in a broad range of assets of higher risk than risk free assets. This is known as the scheduled and subsumption body funding target.

5.15 For other Scheduled Bodies the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- 5.15.1 the type/group of the employer;
- 5.15.2 the business plans of the employer;
- 5.15.3 an assessment of the financial covenant of the employer;
- 5.15.4 any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.;

- 5.15.5 whether the employer has set up a subsidiary company which does not (fully) participate in the LGPS

Commented [AM7]: We're not aware of any employers in WYPF having done this but it's possible some may still do so, although we understand MHCLG will come forward with a response to the consultation on the future status of HE and FE employers next year

Ok - agreed

At the 2019 valuation by virtue of having taken account of some of the above factors, the Administering Authority has adopted a less risky (more prudent) funding target than the scheduled and subsumption body funding target for scheduled bodies in the HE/FE sector. This is the intermediate funding target and the precise target depends upon the employer's assessed level of risk.

5.16 For Admission Bodies where there is no subsumption commitment but which continue to admit new members to the Fund and are considered by the Administering Authority to be sufficiently financially secure, the Administering Authority may assume continued investment in a broad range of assets of higher risk than risk free assets despite the approach taken on exit. This is known as the intermediate funding target and the precise target depends upon the employer's assessed level of risk. At the 2019 valuation this applies to admission bodies in the housing and HE/FE sectors.

5.17 For all other Admission Bodies whose liabilities are expected to be orphaned on exit, other than those community admission bodies where a suitable guarantee is in place, the Administering Authority will have regards to the potential timing of such exit and any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit. This is known as the ongoing orphan admission bodies funding target. It is not the same as the exit basis.

5.18 For deferred employers where a deferred debt agreement is in place the funding target will take into account any likely change in the notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date the deferred debt agreement is expected to end and any other factors considered to be relevant by the Administering Authority on the advice of the Actuary, which may include, without limitation:

- 5.18.1 the agreed period of the deferred debt agreement;
- 5.18.2 the type/group of the employer;
- 5.18.3 the business plans of the employer;
- 5.18.4 an assessment of the financial covenant of the employer;
- 5.18.5 any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

Commented [AM8]: The intention here is that the ongoing orphan FT is the starting point but if the employer were considered very secure or security were in place then an allowance for some outperformance above gilts yields *could* be used. It's important not to double-count these effects however as they might influence the decision on entering the deferred debt agreement and the period. If a longer period were agreed you could set the discount rate based on market expectations of gilt yields at the end of the period. Hopefully this gives sufficient flexibility whilst being clear that the eventual exit position is still the ultimate target

Ok Agreed

5.19 The Fund is deemed to be fully funded when the assets are equal to or greater than 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

Recovery Periods

5.20 Where a valuation reveals that the Fund is in surplus or deficit relative to the Funding Target, subject to any smoothing of contribution changes employers' contributions will be adjusted to target 100% funding over the Recovery Period. The Fund has a target of achieving the Funding Target within a maximum period of 22 years. Whilst this is longer than the expected average future period of membership of active members, the Administering Authority considers this is reasonable in the context of the LGPS as a statutory scheme and it is a prudent approach when the Fund's assets are greater than the liabilities (sum of the employers' funding targets). The recovery period is also based on the assumption that the Scheme (and the majority of the employers) will continue for the foreseeable future, and that favourable investment performance can play a valuable role in achieving adequate funding over the long term.

5.21 If the assets of the scheme relating to an employer are less than the Funding Target at the date of any actuarial valuation, a recovery plan will be put in place, which is expected to require additional contributions from the employer to meet the deficit. Each employer will be informed of its deficit to enable it to make the necessary allowance in their business and financial plans. The Recovery Period in relation to an employer or group of employers is the period over which any adjustment to the level of contributions in respect of a surplus or deficit relative to the Funding Target for that employer or group of employers is payable.

5.22 Additional contributions to meet any shortfall will be expressed as a monetary amount, and will increase annually in line with the assumption for pay growth used for the valuation unless a different increase rate is agreed between the employer and Administering Authority. The recovery period for which the additional contributions are payable will normally be subject to the following limits:-

- 5.22.1 scheduled bodies whose participation is deemed to be indefinite, designating and open admission bodies with subsumption commitments or suitable guarantees from such bodies - 22 years
- 5.22.2 open admission bodies without a subsumption commitment or suitable guarantee and no fixed or known term of participation and scheduled bodies with no local or central government guarantee - 22 years, although the Administering Authority reserves the right to adopt a shorter period if it has concerns about the employer’s strength of covenant
- 5.22.3 admission bodies with a fixed or known term of participation - remaining period of participation (including those with a subsumption commitment)
- 5.22.4 other admission bodies (i.e. those closed to new entrants) – average future working life of current active members (or period to contract end date if shorter)
- 5.22.5 deferred employers – remaining period of the deferred debt agreement

5.23In determining the Recovery Period to apply for any particular employer, the Administering Authority may take into account, without limitation, the following factors:

- 5.23.1 the type/group of the employer
- 5.23.2 the size of the funding shortfall or surplus;
- 5.23.3 the business plans of the employer;
- 5.23.4 the assessment of the financial covenant of the employer;
- 5.23.5 any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.
- 5.23.6 the views of the subsuming employer where the funding target adopted is dependent upon another employer subsuming the assets and liabilities post-exit.

Employer Contributions

5.24 As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. The Administering Authority also monitors the position and may amend contributions between valuations as permitted by Regulations 64 and 64A. Further details of the Administering Authority's policy in relation to Regulation 64A is set out in Appendix 3 Amending Employer Contributions Between Valuations.

Commented [AM9]: Check that you are comfortable this is a separate appendix. We thought that made more sense so that the rest of this section could focus on the triennial valuation process.
CB – happy to put in Appendix 3

Ok agreed

5.25 Employer contributions required to meet the cost of future accrual of benefits for members after the valuation date (the "primary contribution rate") are assessed based on each employer or group of employers' membership, funding target and appropriate funding methodology.

5.26 The primary rates may be reduced if the employer or group's notional share of the Fund (its assets compared to its funding target) is calculated to be in surplus. Alternatively, additional employer contributions may be required to rectify a shortfall of assets below the funding target. These past service ("secondary") contributions are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy, between the various employers in the Fund, except in relation to death in service and (with effect from 1 April 2014) tier 1 and 2 ill health retirement experience where experience is shared across all active employers. In attributing the overall investment performance achieved on the assets of the Fund to each employer a pro-rata principle has been adopted.

Commented [SO10]: Could remove reference to old dates now in the interests of tidying up
Ok agreed to remove

5.27 It is not envisaged that any deferred employers will be in surplus relative to the relevant funding target. If there were a surplus on the exit basis then, as required by Regulation 64(7E)(e), the deferred debt agreement would terminate and an exit valuation would be carried out.

Commented [AM11]: I haven't said this explicitly but the intention is that if the funding target is less than the exit liabilities we would simply increase the funding target.

Ok Agreed

5.28 The method and assumptions for assessing employer contributions at the 2019 Valuation are set out in Appendix 1.

5.29 The Administering Authority, following consultation with the participating employers, has adopted the following constraints for setting individual employer contribution rates:

- 5.29.1 a maximum Recovery Period of 22 years. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish where their notional share of the Fund is in deficit. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.

- 5.29.2 where changes in employer contribution rates are required following completion of the actuarial valuation, the increase or decrease may be implemented in steps as long as the regulatory objectives of solvency and long-term cost efficiency are met.
- 5.29.3 on the exit of an employing authority's participation in the Scheme, the Fund Actuary will be asked to complete an exit valuation. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution unless it is agreed by the Administering Authority and the other parties involved that:
  - the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.
  - the employer and Administering Authority will enter into a deferred debt agreement or,
  - the exit payment can be spread over a reasonable period as permitted by Regulation 64B

Details of the approach to be adopted for such an assessment on exit, including how any exit credit may be determined and the conditions in which the Administering Authority will consider agreeing to enter into a deferred debt agreement or to permit spreading of any exit payments are set out in the Policy on New Employers and Exit Valuations document at Appendix 2.

5.30 With regard to the funding for early retirement costs, all employers are required to make capital payments to the Fund to cover the costs of early retirements. This excludes the costs involved with deaths in service and ill health retirements which are built into the employer's contribution rate. For deaths in service and tier 1 and tier 2 ill health retirements the experience will be spread across all active employers.

Commented [AM12]: This could be an issue in relation to the exit cap before the MHCLG Regs come in but on balance I think we should leave as is. If we end up in a position where Government's position is overruled and members are entitled to full unreduced pensions but employers can't make payments above the cap, better to deal with it if/when it happens. In effect, we're suggesting that it's better for the FSS to state the Fund's position that all such costs should be met rather than try to anticipate the potential outcome of the legal challenge.
CB – happy with this approach

5.31 Two key principles making up the funding strategy and to be adopted for the 2019 actuarial valuation are to:

- 5.31.provide stability in primary employer contribution rates and secondary employer contribution amounts where possible, avoiding wide fluctuations year on year. To achieve this stability and ensure gradual movements in employers' contribution levels, the practice of phasing any increases or decreases in employers' contribution requirements up to 6 years from 1 April 2020 will be adopted where appropriate and required;
- 5.31.2 retain a maximum 22 year recovery period for meeting any deficit (or using up any surplus) as adopted at previous valuations.

5.32 It may not be possible to adopt the two principles outlined in paragraph 5.31 for some or all of the employers identified in paragraphs 5.22.2, 5.22.3 and 5.22.4, although wherever possible they will be applied. Individual decisions may have to be taken for each employer featuring in these three groups with regard to an appropriate recovery period and whether the phasing of increases or decreases in contribution rates is feasible. Decisions on these issues will have regard to the Administering Authority's views on the strength of an employer's covenant, to its membership profile, and to its anticipated future period of participation in the Fund.

5.33 The strategic aim of the Fund is to operate within a funding range of 90% to 110%. Whenever the Fund as a whole is operating within this range of funding then for the majority of 'high covenant' employers it is anticipated that their contribution rates will remain stable as long as the requirement for contributions to be set so as the ensure the solvency and long-term cost efficiency of the Fund are still met. For other employers the Administering Authority will have regard to the potential for participation to cease, and require changes in contribution rates accordingly.

Long-term cost efficiency

5.34 The Administering Authority believes that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund. In particular, retention of a 22 year recovery period for the majority of employers ensures any surplus is not used up too quickly (through certifying contributions below the primary contribution rate).

Smoothing of Contribution rates for admission bodies

5.35 The Administering Authority recognises that a balance needs to be struck as regards the financial demands made of admission bodies. On the one hand, the Administering Authority requires all admission bodies to be fully self-funding, such that other employers in the Fund are not subject to expense as a consequence of the participation of those admission bodies. On the other hand, requiring achievement of full funding over a short time horizon may precipitate failure of the body in question, leading to costs for other participating employers.

5.36 Where the Administering Authority considers it necessary to relax the requirement that the contribution rate targets full funding for admission bodies temporarily, the Administering Authority will engage with the largest employers in the Fund with a view to seeking agreement to this approach.

5.37 The implication of this is that, where justified on affordability grounds, contribution rates for admission bodies subject to the ongoing orphan funding target may be relaxed i.e. set at a level lower than full funding would require. However, where contribution requirements have been relaxed, the bodies should be aware

Commented [AM13]: This refers to admission bodies with no reference to deferred employers. We need to reflect on whether underwriting would fall away in the deferred debt agreement. Arguably it should, but if it's a charity which can't afford the ongoing orphan funding target the Fund might be better off with a deferred debt agreement and no future accrual than an unmet exit deficit. Alternatively, you might decide spreading the exit deficit is your preferred solution in such cases. For discussion.

Ok agreed.

that, all things being equal, this will lead to a higher contribution requirement in future. It is expected such bodies should pay contributions equal to the cost of benefits accruing for their members calculated on the ongoing funding target plus a contribution towards any shortfall. Should an employer exit the Fund during the period when contribution rates have been relaxed, the full value of the employer's liabilities in the Fund will be taken into account in the exit valuation, i.e. the employer will, in effect, be required to make up any additional underfunding by virtue of contributions having been relaxed.

Notional sub-funds (unitisation)

5.38 In order to establish contribution rates for individual employers or groups of employers the Fund Actuary notionally subdivides the Fund assets between the employers, as if each employer had its own notional sub fund within the Fund.

5.39 This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

5.40 With effect from 1 April 2016 a unitised approach has been taken to track the notional employer sub-funds. The unitisation model will use the notional sub-funds as at 31 March 2016 (the date of the last actuarial valuation) as its starting point and allocates all Fund cashflows between employers on a monthly basis as agreed with the Administering Authority. The Administering Authority believes this results in a more accurate and transparent allocation of assets to employers and reduces the likelihood of unintended cross-subsidies between employers than other approaches. Further information on the model and how it operates is available on request.

Former Participating Bodies

5.41 Where an employer ceases to participate in the Fund, the Administering Authority will obtain an exit valuation from the actuary on the assumption that, unless a subsumption arrangement is in place, the assets will be assumed to be invested in low risk investments and this will be sufficient to meet the liabilities. This approach reduces the risk that a deficit could arise on these liabilities in future which would incur a cost for the other employers in the Fund. In certain circumstances it may be agreed to enter into a deferred debt agreement rather than require an immediate exit payment. In that case, the employer would remain a participating body as a deferred employer. Further details of the Administering Authority's policy for exit valuations and deferred debt agreements are set out in Appendix 2.

5.42 Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each valuation. This will be achieved by notionally re-allocating assets within the Fund as required.

6. Link to investment policy set out in the Investment Strategy Statement (ISS)

6.1 In assessing the value of the Fund's liabilities in the valuation, allowance has been made for future investment returns, as described in Appendix 1, which takes into account the investment strategy adopted by the Fund, as set out in the ISS.

6.2 It is possible to construct a portfolio that represents a lower risk investment position and one which closely matches the liabilities should there be no employers to fund the liabilities in future. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

6.3 Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the value of the Fund's assets between successive actuarial valuations. However, if, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to set the discount rate by considering the returns on growth assets such as equities. On this basis the discount rate would be lower, the assessed value of the Fund's liabilities valuation would be significantly higher, and the declared funding level would be correspondingly reduced

6.4 Departure from a least risk investment strategy, in particular to include a significant element of Equity investment, gives the prospect that out-performance by the assets will, over time, reduce the employers' contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

6.5 The Fund's current benchmark investment strategy, as set out in its ISS, is that the biggest proportion of the Fund's investments will be in Equities. This type of investment bias is intended to maximise growth in the value of assets over the long term. The expected rate of return and the target set for investment returns in the ISS are reviewed annually as a matter of course, and the relationship with the requirements of the FSS are considered at the same time.

7. Identification of risks and counter-measures

7.1 Whilst the activity of managing the Fund exposes the Administering Authority to a wide range of risks, those most likely to impact on the funding strategy are investment risk, liability risk, liquidity/maturity risk, regulatory/compliance risk, employer risk and governance risk.

Investment risk

7.2 This covers items such as the performance of financial markets and the Fund's (pool) investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- 7.2.1 assets not delivering the required return (for whatever reason, including manager underperformance)
- 7.2.2 systemic risk with the possibility of interlinked and simultaneous financial market volatility
- 7.2.3 insufficient funds to meet liabilities as they fall due
- 7.2.4 inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- 7.2.5 counterparty failure

7.3 The specific risks associated with assets and asset classes are:

- 7.3.1 equities – industry, country, size and stock risks
- 7.3.2 fixed income - yield curve, credit risks, duration risks and market risks
- 7.3.3 alternative assets – liquidity risks, property risk, alpha risk
- 7.3.4 money market – credit risk and liquidity risk
- 7.3.5 currency risk
- 7.3.6 macroeconomic risks

7.4 The Fund mitigates these risks through diversification, investing in a wide variety of markets and assets, and through the use of specialist managers with differing mandates in addition to the internal investment management team, which has a wide variety of experience within its members.

7.5 The performance of both markets and managers is reviewed regularly by the Investment Advisory Panel, which has the appropriate skills and training required to undertake this task.

Liability risk

7.6 The main risks include discount rates, pay and price inflation, changing retirement patterns, mortality and other demographic risks. Some of these risks will affect the *amount* of benefit payments; others will affect the *value* of benefit payments, i.e. level of assets deemed to be required to meet those benefit payments (the funding target).

7.7 The Administering Authority will ensure that the Fund Actuary investigates demographic experience at each valuation and reports on developments. The demographic assumptions are intended to be best estimate, informed by Fund experience and wider evidence where needed e.g. the mortality assumptions are informed by a postcode analysis carried out by the Fund Actuary's specialist longevity team and the projections model released by the Continuous Mortality Investigations of the Institute and Faculty of Actuaries. If the Administering Authority becomes aware of any material changes in population mortality which may also be reflected in the Fund's experience it will ask the Fund Actuary to report on the effect on the funding position and employer contributions.

7.8 The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements in the Fund, and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position and employer contributions.

7.9 If significant changes in the value of the liabilities become apparent between valuations, the Administering Authority will notify the affected participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require a review of the bonds that are in place for Admission Bodies. It will also consider the extent to which such changes can or should be allowed for in exit valuations, taking advice from the Fund Actuary.

7.10 Where it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation the Administering Authority may consider revising an employer's contributions as permitted by Regulation 64A. Details of the Administering Authority's policy in this area are set out in Appendix 3.

Commented [AM14]: Wording from the Regulations

OK Agreed

Liquidity and Maturity risk

7.11 This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions and employer activity where an employer consolidates its LGPS membership in another fund, leading to a transfer out of the Fund. Changes in the funding position and hence (secondary) employer contributions can also affect the cashflow position since it is not always possible to deliver complete stability of contributions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

- 7.11.1 budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
- 7.11.2 an increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed or scheduled employers establish wholly owned companies which do not fully participate in the LGPS),
- 7.11.3 public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS or in the Fund),
- 7.11.4 scheme changes and lower member contributions, which may be agreed as part of the Scheme Advisory Board cost management process will lead to lower member contributions which may not be immediately matched by higher employer contributions;
- 7.11.5 an increase in the take up of the 50/50 option (whether on affordability grounds or to avoid tax charges) will reduce member contributions to the Fund.

7.12 The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity or other changes leading to cashflow or liquidity issues.

Regulatory and compliance risk

7.13 Regulatory risks to the scheme arise from changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law. There are a number of uncertainties associated with the benefit structure at the current time including:

- 7.13.1 How Government will address the issues of GMP indexation and equalisation beyond expiry of the current interim solution from 6 April 2021

Commented [AM15]: Think this still applies despite the consultation

- 7.13.2 The timing of any final regulations in relation to the McCloud/Sargeant cases which ruled that the transitional protections implemented in the Firefighters' and Judges' Pension Schemes are illegal age discrimination.
- 7.13.3 The outcome of the cost management process as at 31 March 2016 and 31 March 2020, noting the agreement reached in relation to the 2016 Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay, before the process was paused due to the McCloud judgement
- 7.13.4 The Goodwin case in which an Employment Tribunal ruled (in relation to the Teachers' Pension Scheme) that the less favourable provisions for survivor's benefits of a female member in an opposite sex marriage compared to a female in a same sex marriage or civil partnership amounts to direct discrimination on grounds of sexual orientation. Following a written ministerial statement by the chief secretary to the Treasury on 20 July 2020 it is expected that changes will be made to the LGPS Regulations to reflect the ruling, but no changes have yet been proposed.
- 7.13.5 Redundancy early retirement provisions - with effect from 4 November 2020 a cap on exit payments made by public sector employers came into effect, including the cost of early payment of LGPS pensions for those over aged 55. Whilst MHCLG is consulting on changes to amend the LGPS Regulations to allow for the cap these changes have not yet been implemented so there is an inconsistency between the HMT Regulations and the LGPS Regulations.

7.14 Consultations which have been published but not yet taken forward by Government include changes relating to new Fair Deal arrangements, changes to the valuation cycle (although the Administering Authority understands that the 2022 valuation is going ahead as planned) and changes to the status of HE/FE sector employers.

7.15 The Administering Authority will keep abreast of all the changes to the LGPS, both proposed and confirmed and discuss any proposals which may affect funding with the Fund Actuary as required. The Administering Authority will normally respond to consultations on these matters where they have an impact on the Fund, and it would encourage employers, who frequently have a greater interest in proposed changes, to respond independently.

Employer risk

7.16 These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned

Commented [AM16]: There is a risk that by including quite a lot of detail, the FSS needs to be reviewed again once the regulatory changes have been made. However, it feels quite important to set out the Fund's approach given it is an important policy decision.

Remove yellow highlighted

liabilities where employers are unable to meet their obligations to the Scheme. The response to the COVID-19 pandemic may have adverse consequences in relation to employer finances and their ability to make contributions. The Administering Authority monitors employer payments and expects employers in financial difficulty to engage with the Fund, noting that contributions can be reviewed between formal valuations if the conditions in Regulation 64A and the terms of the Administering Authority's policy, as set out in Appendix 3, are met.

7.17 The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS. It has also developed a framework for analysing the risk posed by the larger Tier 3 employers and introduced additional funding targets at the 2019 valuation to reduce the risk of employers failing and exiting the Fund with a material shortfall relative to the exit liabilities. It does not consider it appropriate (or affordable for the employers concerned) to eliminate the risk of an unmet exit deficit and will ask the Fund Actuary to review the funding position and level of risk of the short term and Tier 3 employers between triennial valuations where it believes this is appropriate. In due course it will also ask the Fund Actuary to review the funding position of any deferred employers on a regular basis between triennial valuations, noting that the Regulations specifically provide for a deferred debt agreement to end when the Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation (review) date.

Governance risk

7.18 Governance risk is essentially one of communication between employer and the Fund, where, for example, an employer fails to inform the Fund of major changes, such as the letting of a contract involving the transfer of significant numbers of staff to another employer, including a wholly owned company which does not participate in the Fund, or only participates for some employees, or an admission body closing the scheme to new entrants.

Commented [SO17]: You will need to renumber from here.

7.19 The Fund seeks to maintain regular contact with employers to mitigate this risk, and has Pension Fund Representatives for this purpose. The Fund would also advise employers to pay past service deficit payments as lump sums, rather than as a percentage of payroll, to avoid an under payment accruing as a result of a reduction of the payroll.

7.20 To protect the Fund on the admission of a new employer, the existing scheme employer (which should liaise with the Fund) or the Fund if there is no existing scheme employer, will undertake a risk assessment and determine the requirement for a bond or indemnity, which should be reviewed annually. The Fund will commission triennial reviews of any bonds as part of its risk management.

7.21 The Fund will monitor employers with a declining membership, and may introduce a more conservative funding strategy for such employers. It may also carry out a risk assessment in relation to employers subject to the intermediate funding target between valuations, which will offer the opportunity for further engagement with employers and a better understanding of their future financial plans.

Commented [AM18]: Is there anything else you wish to add in relation to managing governance risks/communications with employers?

Ok agreed

Climate Change

7.22 The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors. The Fund's policy in relation to how it takes climate change into account in relation to its investments is set out in its Investment Strategy Statement and Statement of compliance with the UK stewardship code for institutional investors. In relation to the funding implications, the Administering Authority and Investment Advisory Panel keeps the effect of climate change on future returns under review and will commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

8. Monitoring and Review

8.1 The Administering Authority has taken advice from the Fund Actuary in preparing this Statement, and will consult with senior officials of all the Fund’s participating employers.

8.2 A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

8.3 The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- 8.3.1 if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy.
- 8.3.2 if there have been significant changes to the Scheme membership, or LGPS benefits.
- 8.3.3 if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- 8.3.4 if there have been any significant special contributions paid into the Fund.

APPENDIX 1
Actuarial Valuation as at 31 March 2019
Method and assumptions used in calculating the funding target

1. The actuarial method to be used is the Projected Unit method, under which member benefits are projected to increase in line with the salary increases and revaluation of pension accounts (as appropriate) until that member is assumed to leave active service by death, retirement or withdrawal from service.

2, Principal assumptions

2,1 Investment return (discount rate)

The discount rates adopted vary according to the solvency target as set out in section 5.

For the 2019 valuation the discount rate is 4.35% p.a (the scheduled and subsumption body funding target), with the exception of:

- Admission Bodies without a subsumption commitment or suitable guarantee, where the discount rate is 3.3% in service (equivalent to the yield on long-dated fixed interest gilts at a duration appropriate for the Fund's liabilities plus an asset out-performance assumption of 2.0%) and 1.6 % (left service), which is intended to be equivalent to the yield on long-dated fixed interest gilts at the valuation date but which has, in the interests of affordability and stability of employer contributions, been increased by 0.3 % in light of the market expectations of future increase in gilt yields. This is the ongoing orphan admission body funding target.

- Housing associations, universities and colleges, where a risk assessment has been carried out and the employer has been allocated to one of the intermediate funding targets, and admission bodies with a subsumption commitment from such employers.

2.2 Inflation (Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation)

The RPI inflation assumption is taken to be the Capital Market Assumption at the valuation date as produced by Aon Solutions UK Limited. In formulating the Capital Market Assumption, both consensus forecasts and the inflation risk premium are considered.

The CPI inflation assumption at the valuation date is set as RPI inflation less 1.1%.p.a. The deduction has been set having regard to the estimated difference between RPI and CPI arising from the difference in the calculation approach between the two indices. This estimate (and hence the assumed difference between CPI and RPI) will vary from time to time.

2.2.1 Salary increases

The assumption for real salary increases (salary increases in excess of consumer price inflation) will be determined by an allowance of 1.25% p.a. over the consumer price inflation assumption as described above.

2.2.2 Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption as determined above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

3 Post-retirement Mortality

3.1Base Rates

Normal Health: Standard SAPS S2N Normal Health tables, year of birth base rates, adjusted by a scaling factor as set based on Fund experience.

Ill-health: Standard SAPS S2 Ill-health tables, year of birth base rates adjusted by a scaling factor as set based on Fund experience.

3.2 Future improvement to base rates

An allowance for improvements in line with CMI_2018 for men or women as appropriate, with a long term rate of improvement of 1.50% p.a, sk of 7.5 and parameter A of 0.0.

4. Other Demographic Assumptions

Allowance is made for withdrawals from service, death on service and retirements due to ill health.

5. McCloud/Cost Cap

0.9% of pay has been added to employer contributions based on Fund-specific calculations carried out by the Fund Actuary. This figure has been calculated across the Fund as a whole on the scheduled and subsumption body funding target assuming the following remedy:

- Compensation will apply to members who joined before 1 April 2014 (see below)
- Benefits will be the better of those accrued in the 2014 Scheme or those accrued in the 2008 Scheme, backdated to 1 April 2014 (i.e. an ‘underpin’ approach).
- Compensation will apply to members who retire from active service with immediate pension benefits, through normal health or ill health retirement (this is because transitional protections only applied to member retiring from active service with immediate pension)
- The remedy will not apply to spouses’ or dependants’ benefits. This is because transitional protections only applied to members’ benefits.

The cost is split 0.2% of pay in respect of past service and 0.7% of pay in respect of future service where the past service cost has been spread over a recovery period of 22 years.

6. Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (primary contribution rate) will be calculated using the same actuarial method and assumptions as used to calculate the funding target.

7. Funding method

For most employers, the actuarial method to be used is the Projected Unit method with a one year control period. For employers who do not permit new employees to join the Fund, the actuarial method to be used is the Attained Age method. Under both funding methods member benefits are protected to increase in line with revaluation of pension accounts until that member is assumed to leave active service by death, retirement or withdrawal from service.

8. Assumptions used in calculating contributions payable under the Recovery Plan

The contributions payable under the Recovery Plan are calculated using the same assumptions as those used to calculate the funding target

Summary of key whole Fund principal financial assumptions used for calculating funding target and cost of future accrual (the “primary contribution rate”) for the 2019 actuarial valuation

Discount rate (in service)	4.35% for Secure Scheduled bodies 4.1% Intermediate (low risk Scheduled Bodies) 3.95% Intermediate (low risk Admission Bodies and medium risk Scheduled Bodies) 3.8% Intermediate (medium risk Admission Bodies and higher risk Scheduled Bodies) 3.3% Ongoing Orphan Admission Bodies Orphan Admission Bodies and Intermediate funding target (see paragraph 5.15)
Discount rate (left service)	4.35% Secure Scheduled Bodies 4.1% Intermediate (low risk Scheduled Bodies) 3.95% Intermediate (low risk Admission Bodies and medium risk Scheduled Bodies) 3.8% Intermediate (medium risk Admission Bodies and higher risk Scheduled Bodies) 1.6% Ongoing Orphan Admission Bodies
Rate of general pay increases	3.35%
Rate of price inflation (RPI)	3.2%
Rate of price inflation (CPI)	2.1 %
Rate of pension increases (on benefits in excess of GMPs)	2.1%
Rate of pension increases on post-88 GMPs	1.9%
Rate of deferred pension increases	2.1%

Rate of GMP increases in deferment	3.35%

APPENDIX 2: Policy on New Employers, Exit Valuations and Employer Flexibilities

Commented [AM19]: Extend? Have suggested another appendix relating to reviewing contributions between valuations under Reg 64A
Ok Agreed

1. Background

Commented [AM20]: It might make it easier to follow if the paragraphs were numbered, as for the main body of the FSS
CB - Agree

1.1 This Document explains the policies and procedures of the West Yorkshire Pension Fund ("the Fund"), administered by City of Bradford Metropolitan District Council ("the Administering Authority"), in the treatment of employers including:

- considerations in respect of the participation of employers, including Admission Bodies on commencement or admission,
- the methodology for assessment of an exit payment on the exit of employers from the Fund; and
- the Administering Authority's policy in relation to Deferred Debt Agreements and spreading of exit payments as permitted by Regulation 64 and 64B.

1.2 This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in relation to the calculation of assets and liabilities on admission and exit as well as use of the flexibilities within Regulation 64 and 64B.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

1.3 The Administering Authority's aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund.

1.4 The Administering Authority has an obligation to pursue all liabilities owed so any shortfall from an individual employer does not fall back on other employers.

2. New Employers

Types of Admission Body

2.1 The following bodies are types of potential admission body -

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of-

- (i) any Scheme employers, or
- (ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of-

- (i) the transfer of the service or assets by means of a contract or other arrangement,
- (ii) a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),
- (iii) directions made under section 497A of the Education Act 1996;

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

2.2 An employer who wishes to join the Fund may apply to the Administering Authority for admission. If admitted, that employer becomes an Admission Body and specified categories of its employees can participate as members of the Fund.

2.3 The Administering Authority is responsible for deciding whether an application from an employer to become an Admission Body within the Fund should be declined or accepted. The employer must meet the requirements set out in Part 3 of Schedule 2 to the LGPS Regulations, and, where appropriate, the additional requirements set out by the Administering Authority.

2.4 The Administering Authority will generally only consider admission if the body in question is based wholly or mainly in West Yorkshire or has clear links to an existing Scheme employer of the Fund, the body has a sound financial standing and appropriate security is in place (see section on bonds, indemnities and guarantees below). The Administering Authority's preference is for a Scheme employer to provide a subsumption commitment in respect of any new admission bodies wishing to join the Fund. Where a subsumption commitment is in place, the funding target for the admission body will generally be the same as that appropriate to the subsuming employer, unless the circumstances dictate otherwise. Where such a commitment is not available, the orphan body funding target will generally be adopted, for the new admission to protect the Fund as set out in paragraph 5.6 of the Funding Strategy Statement and explained further below. In the extreme, the Administering Authority may exercise its discretion to refuse admission to the Scheme for any admission bodies with no subsumption commitment if this is considered appropriate to protect the interests of the Fund. However, for paragraph 1(d) admissions where the body undertakes to meet the requirements of the regulations the Administering Authority must admit the eligible employees of that body to the Fund.

2.5 With effect from 1 April 2020 the Administering Authority is also prepared to admit new contractors on a "pooled pass through" basis which means that for funding and contribution rate purposes the admission body will be grouped (or pooled) with the Scheme employer. It will operate as follows:

- There will be no notional allocation of assets from the Scheme employer to the admission body on commencement of the contract
- On admission the contractor will pay the contribution rate payable by the Scheme employer (with any monetary secondary contributions converted to a % of pay as appropriate)
- Contributions will be set at each triennial valuation (and any other time as appropriate) based on the combined funding position and primary contribution rate for the group/pool (i.e. there will be no separate calculation of funding position or employer contributions for the admission body)
- There will be no payment due from or to the contractor on exit, with responsibility for funding its liabilities assumed to remain with the Scheme employer unless there is a transfer to another employer.

2.6 The contractor will be assumed to be liable for any strain costs or other payments due to the Fund where it grants additional pension under Regulation 31 and strain costs. All other experience will be shared between the members of the Scheme employer group/pool.

2.7 Should there be any need to provide a notional asset value for the contractor, e.g. for accounting under FRS102/IAS19, this will be on a pro rata basis, i.e. the group/pool's notional asset share will be allocated to the employers in the pool in proportion to their liabilities calculated on assumptions appropriate to the group's funding target.

2.8 A pooled pass through arrangement will be the default option for all new admissions under paragraph1(d) where the initial contract length is less than 5 years and there are fewer than 100 members transferring to the new admission body.

2.9 The Admission Body is required to have an "admission agreement" with the Fund, which sets out (in conjunction with the Regulations) the conditions of participation and which employees (or categories of employees) are eligible to be members of the Fund. The Administering Authority has a template admission agreement which it will generally expect to be entered into without amendment. This will include specific provisions relating to pass through as outlined above. Details are available on request.

2.10 Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to a new employer, whether an admission body or otherwise, will be re-charged to the employer. These costs will include, where appropriate, the cost of actuarial advice relating to any risk assessment required under the Regulations (see next section).

3 Bonds, Indemnities and Guarantees

3.1 The Administering Authority will seek to minimise the risks that a new Admission Body might create for the Fund and the other employers in the Fund. These risks will be taken into account by the Administering Authority in considering the application for admission, and the Administering Authority may put in place conditions on any approval of admission to the Fund to minimise these risks, such as a satisfactory guarantee, indemnity or bond and a satisfactory risk assessment. An indemnity / bond is a way of insuring against the potential cost of the Admission Body failing by reason of insolvency, winding up or liquidation and hence being unable to meet its obligations to the Fund.

3.2 Admission bodies under paragraph 1(d)(i) of Part 3 of Schedule 2 to the 2013 Regulations (generally admissions as a result of a Best Value transfer), are required to carry out an assessment of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. This assessment has to be to the satisfaction of the Scheme employer (i.e. the employer letting the contract) and the Administering Authority. Where the Administering Authority is satisfied as to the strength of covenant of the Scheme employer, it will not usually require a minimum level of cover in order to be "satisfied" with the risk assessment, as the risk on premature termination will fall on the Scheme employer. the Administering Authority's policy is to seek actuarial advice in the form of a “risk assessment report” provided by the Fund’s Actuary which can be shared with the Scheme employer on the understanding that the Fund Actuary cannot provide advice to the Scheme employer. Based on this assessment, the Scheme employer and the Administering Authority should decide whether or not to require the admission body to enter into an indemnity or bond and if so at what level. The risk must be kept under review throughout the period of the admission and assessed at regular intervals and otherwise as required by the Administering Authority.

3.3 Where, for any reason, it is not desirable for a 1(d)(i) admission body to enter into an indemnity or bond the admission body must secure a guarantee from the Scheme employer. In the event of unfunded liabilities on the termination of the admission, the Scheme employer’s contribution rate to the Fund would be revised accordingly. In most cases it is expected that the Scheme employer will provide a subsumption commitment whereby the assets and liabilities of the outgoing admission body post-exit are "subsumed" into the Scheme employer's liabilities and notional pool of Fund assets.

3.4 Where the liabilities cannot be fully met by a guarantor or insurer, the Regulations provide that:

- the letting employer will be liable in an outsourcing situation; and
- in all other cases the liabilities will fall on all the other employing authorities within the Fund.

3.5 Other admission bodies are required to carry out an assessment of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body. This assessment has to be to the satisfaction of the Administering Authority. The Administering Authority's policy is to seek actuarial advice in the form of a “risk assessment report” provided by the Fund’s Actuary. Based on this assessment, the Administering Authority will decide whether or not to require the admission body to enter into an indemnity or bond and if so at what level. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or body the admission body must secure a guarantee from:

a) a person who funds the admission body in whole or in part;

b) a person who-

- (i) owns, or

- (ii) controls the exercise of the functions of, the admission body; or

c) the Secretary of State in the case of an admission body-

- (i) which is established by or under any enactment, and
- (ii) where that enactment enables the Secretary of State to make financial provision for that admission body, or

(iii) which is a provider of probation services under section 3 of the Offender Management Act 2007 (power to make arrangements for the provision of probation services) or a person with whom such a provider has made arrangements under subsection (3)(c) of that section.

Ultimately, an indemnity or bond or guarantee is designed to protect the Fund in the event that unfunded liabilities are present after the termination of an admission body.

3.6 When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund, either deferred benefits or immediate retirement benefits. Early retirements can, in particular, create a strain on the Fund and so give rise to unfunded liabilities.

3.7 In the event that unfunded liabilities arise that cannot be recovered from the admission body, the indemnity or bond provider or guarantor these will normally fall to be met by the Scheme employer in the case of paragraph 1(d) admission bodies or the Fund as a whole (i.e. all employers) in the case of other admission bodies. In this latter case the shortfall would normally fall on the employers pro-rata to their liabilities in the Fund. Unless the shortfall amount were material, the allocation of the shortfall to all employers in the Fund would be carried out at the next formal actuarial valuation. Alternatively, if the guarantor for the outgoing admission body was also a participant in the Fund, the outgoing admission body's assets, liabilities and the funding deficit could be subsumed by the guarantor within the Fund.

4. Funding Target

4.1 The funding target for a new employer depends upon what will happen to the liabilities in respect of the employees of the employer on exit of that employer.

4.2 Subsumed liabilities

Where an admission body ceases its participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the

Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them is subsumed by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally, if the subsuming employer is considered to be of sufficiently sound covenant and likely to participate in the Fund indefinitely, e.g. being one of the 5 main Councils, this will mean assuming continued investment in more risky investments than Government bonds.

4.3 Scheduled Bodies

Commented [AM21]: Given a lot of the provisions above relate to ABs I thought another sub-heading might be useful

Ok agreed

New academies are currently considered to qualify as indefinite participants in the Fund with full taxpayers backing, as they have a guarantee from the Department for Education. However, this guarantee is subject to review and where the Administering Authority believes the guarantee is no longer sufficient to cover the risks posed by the number of academies in the Fund, the Administering Authority will review the approach taken to the Funding Target for new academies and any admission bodies for which an academy provides a subsumption commitment and also the default approach taken to the notional assets transferred to academies upon conversion.

For any new scheduled bodies joining the Fund, the Administering Authority may, without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- whether the employer is a part 1 Schedule 2 or Part 2 Schedule 2 employer and if the latter. The likelihood of new members joining the Fund
- any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to a scheduled body joining the Fund will be re-charged to the employer.

4.4 Orphan liabilities

4.41 Where an employer ceases its participation in the Fund such that it will no longer have any contributing members, or a Deferred Debt Agreement ends, unless any residual liabilities are to become subsumed liabilities, the Administering Authority will act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

4.4.2 The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arises on the orphan liabilities such that this creates a cost for those other employers to make good the deficiency. To give effect to this, the Administering Authority will seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government bonds.

4.4.3 To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term, the returns achieved on the Fund's assets will be allowed for when calculating the employer's notional assets for the purpose of the tracking of any future surplus or deficit in relation to the orphan liabilities.

4.4.4 The Administering Authority ensures that it has sufficient investment in Government bonds to cover the orphan liabilities and at each triennial valuation the Fund Actuary notionally allocates assets to ensure the orphan liabilities are met in full, where those liabilities are measured by reference to the yield on gilts.

Commented [AM22]: Note that I checked this was the case in recent discussions regarding investment strategy, noting Fund officers had little to no appetite for increasing gilt investments at current prices.

Ok

4.4.5 Ongoing calculations for deferred employers (i.e. those where a Deferred Debt Agreement has been put in place), and employers subject to the ongoing orphan funding target will be carried out using assumptions which are intended to broadly target the eventual exit position.

5. Initial notional asset transfer

5.1 When a new employer commences in the Fund, and members transfer from another employer in the Fund, a notional transfer of assets may be needed from the original employer to the new employer.

5.2 Unless a pass through approach applies, when a new admission body starts in the Fund, they will usually start as fully funded. This means that any past service surplus or deficit for the members who are transferring to the new employer remains with the original employer and does not transfer to the new employer.

5.3 Another option for the initial notional asset transfer (where required) is to allow for the funding level of the original employer, and therefore to transfer any past service surplus or deficit in respect of the transferring membership to the new employer. For new admission bodies the Administering Authority will only agree to a deficit transferring to the new admission where a subsumption commitment is in place from a long-term secure scheduled body or other appropriate security is in place. This share of Fund approach would normally apply to new scheduled bodies where members are transferring from another employer in the Fund, such as new academies upon conversion to Academy status.

5.4 Unless specific instruction is received in relation to a new academy and the agreement is reflected in the Commercial Transfer Agreement, the Administering Authority's policy is that an unadjusted share of Fund approach is adopted by the Actuary in notionally re-allocating assets from the Local Education Authority to the academy on conversion in respect of the transferring liabilities subject to a maximum transfer of assets equal to the transferring liabilities. This unadjusted share of the Fund approach means there is no prior allocation of assets to fully fund any deferred and pensioner liabilities. The policy has been discussed and agreed with the 5 main Councils in the Fund which have education responsibilities.

5.5 Where the new employer will participate in a pool of employers, for example where a multi-academy trust has requested that its academies be treated as a single employer, the notional asset transfer would be to the relevant pool of employers.

5.6 In calculating the notional assets to transfer to a new employer the Actuary will consider the liabilities based on the confirmed benefits of the LGPS at the date of joining. However, for new employers joining after 31 March 2019 it may be necessary for the asset transfer to be revisited once the current uncertainties relating to the benefit structure of the LGPS from 1 April 2019 (see paragraph 7.13 above) are resolved.

Commented [AM23]: Check references before finalising

6. Employer Contribution Rate

6.1 Initial Rate

6.1.1 When a new employer joins the Fund, unless a pass through approach is in place when the employer will pay the same contribution rate as the Scheme employer, the Fund's Actuary determines the initial employer contribution rate payable.

6.1.2 An interim contribution rate may be set pending a more accurate calculation by the Fund Actuary of the employer contribution rate payable. Currently the interim contribution rate is 20% of pay. The Administering Authority will change these interim contribution rates following each triennial Actuarial Valuation and at any other time at its discretion.

6.1.3 When a new academy joins a multi–academy trust (MAT) where a single contribution rate applies, it will pay a minimum of the employer's contribution rate applicable to the MAT until the next triennial Actuarial Valuation at which time the contributions for the MAT will be reviewed. Where the new academy is material relative to the MAT, the contributions for the MAT may be reviewed under Regulation 64A. Where the new academy is not material, the MAT may elect to increase the contributions for all employers in the MAT before the next triennial Actuarial Valuation where the addition of a new academy is likely to lead to an increase as advised by the Fund's actuary. In other cases, the Fund's actuary will calculate an individual contribution rate for the new employer to be paid from commencement.

Commented [AM24]: I've changed this principally because all academies are academy trusts so I thought it would be clearer to refer to them as MATs

Ok agreed

6.1.4 The employer contribution rate will be set in accordance with the Funding Strategy Statement, taking into consideration elements such as:

- Any past service or transferred liabilities
- Whether the new employer is open or closed to new entrants
- The funding target that applies to the employer
- The funding level on commencement and, where there is a surplus or deficit, whether the admission agreement is fixed term or not, whether open or closed and the period of any fixed term contract period or average future working lifetime of the employee membership (as appropriate)
- Other relevant circumstances as determined by the Administering Authority on the advice of the Fund Actuary and following discussion with the ceding employer as appropriate.

6.2 Review of Employer Contribution Rates

6.2.1 The Regulations require a triennial Actuarial Valuation of the Fund. As part of each Actuarial Valuation the contributions paid by each employer in the Fund are reviewed and may be increased or reduced.

6.2.2 The employer contributions payable by employers may also be reviewed outside of the triennial Actuarial Valuations where:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Details of the Fund's policy on reviewing employer contributions under these provisions are set out in Appendix 3.

6.2.3 The Administering Authority monitors the active membership of closed admission bodies and will commission a valuation from the Actuary under Regulation 64(4) where it has reason to believe that the admission body may become an exiting employer before the next triennial Actuarial Valuation.

In addition, in exceptional circumstances contributions may be reviewed between valuations where this is indicated in the Rates and Adjustments Certificate.

7.Cessation of participation, Deferred Debt Agreements and Exit Payments

7.1 An employer can cease participation in the following circumstances:

- an active employer ceases to be a Scheme employer (including ceasing to be an admission body participating in the Fund), or has no active members contributing to the Fund and does not enter into a Deferred Debt Agreement,
- a deferred employer ceases to participate where the Deferred Debt Agreement ends.

7.2 Where participation ceases, an exit valuation will be carried out in accordance with Regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund. When employees do not transfer to another employer they will retain pension rights within the Fund, i.e. either as a deferred pensioner or immediately taking retirement benefits.

7.3 The assumptions adopted to value the departing employer's liabilities for the exit valuation (including on termination of any Deferred Debt Agreement) will depend upon the circumstances. In particular, the cessation valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target on exit will anticipate investment in low risk investments such as Government bonds. This is to protect the other employers in the Fund, as upon exit, the employer's liabilities will become "orphan" liabilities within the Fund, and there is no recourse to that (former) employer if a shortfall emerges in relation to these liabilities after the exit date.

7.4 For subsumed liabilities the exit valuation will generally anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities, i.e. if the outgoing employer has a subsumption commitment from another employer in the Fund, the Administering Authority's policy is that the funding target for assessing the liabilities on exit is the ongoing funding target appropriate to the subsuming body, updated for financial conditions at the exit date.

7.5 In exceptional circumstances the funding target for subsumed liabilities may be varied if deemed appropriate by the Administering Authority, on the advice of the Fund Actuary.

7.6 Where any of the liabilities are transferring to a successor body, e.g. on a contract being re-let, the funding target of that successor body will not influence the assumptions adopted for the exit valuation. Any shortfall between the value of the liabilities assessed on the appropriate exit basis and the funding target for the successor body (e.g. if this is being set up fully funding on an orphan admission body funding target) will generally be assumed to be met by the letting authority unless otherwise agreed between the parties, to the satisfaction of the Administering Authority.

7.7 For exits where the calculations are carried out on or after 1 January 2021, the following refinements will be made to the approach at the 2019 funding valuation:

- allowance will be made for the proposed McCloud remedy as set out in MHCLG's consultation on draft Regulations[1]
- allowance will be made for the expected changes to GMP indexation and equalisation as set out in Government's response to the consultation[2], i.e. extension of the interim solution of paying full pension increases from the Fund.

Commented [SO25]: To be confirmed – this may need to be approximate if we don't have all the required pay data
Ok agreed

7.8 Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position disclosed by the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of an exit payment being required from the outgoing employer.

7.9 However, where agreed between the parties the deficit (or any exit credit) may be transferred to the subsuming employer or guarantor, in which case it may be possible to simply transfer the former admission body's members and assets to the subsuming body, without needing to crystallise any deficit or pay an exit credit. Where the guarantee only covers the exit deficit, i.e. it does not extend to subsumption of the exiting employer's assets and liabilities, it is assumed that the departing employer's liabilities will still become orphaned within the Fund.

7.10If there are liabilities which cannot be recovered from the exiting employer or any bond/indemnity. These will fall to be met by the Fund as a whole (i.e. all other employers) unless there is a guarantor or successor body within the Fund.

7.11At successive triennial Actuarial Valuations the Actuary will allocate assets within the Fund equal to the value of the orphan liabilities so that these liabilities are fully funded. This may require a notional reallocation of assets from the ongoing employers in the Fund.

7.12Employers should be aware that advisory and other costs incurred by the Administering Authority in relation to the exit of an employer from the Fund will be re-charged to the exiting employer.

8. Exit payments

8.1 Any deficit would normally be levied on the departing employer as a single capital payment although, the Administering Authority may, allow phased payments as permitted under Regulation 64B. The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64B is set out below.

It is envisaged that spreading of exit payments will only be considered at the request of an employer. The Administering Authority will then engage/consult with the employer to consider its application and determine whether or not spreading the exit payment is appropriate and the terms which should apply

8.2 In determining whether or not to permit an exit payment to be spread, the Administering Authority will consider factors including, but not limited to:

Commented [AM26]: I am in two minds about whether this should be carved out or kept here as it's quite long. Any thoughts/preferences?

Commented [AM27]: Requirements from MHCLG statutory guidance:
18.An administering authority's policy on spreading exit payments should cover the following matters:

i.The key factors that the authority will use to determine, (taking account of actuarial advice plus covenant, legal and other advice as necessary), whether an employer's exit payment should be spread
ii.Any circumstances where the administering authority considers it will not be appropriate to spread an exit payment.
iii.How the administering authority will consider the appropriate length of time for an exit payment to be spread, including its view on the maximum length of any spreading period
iv.The process the authority will adopt for consulting the fund employer in question under regulation 64B(2)(a)
v.The evidence an administering authority will require from a fund employer to consider the spreading of an exit payment.
vi.How an administering authority will inform an employer of its decision, and matters such as:
–the spreading period
–the annual payments due
–interest rates applicable
–other costs payable and
–the responsibilities of the employer during the exit spreading period
The administering authority's approach to monitoring an exit payment that has been spread, and the circumstances in which the spreading of the exit payment for a particular employer may be reviewed again (for example, as a result of a change in an employer's covenant).

Commented [AM28]: See Jonathan's comment below

- the ability of the employer to make a single capital payment;
- whether any security is in place, including a charge over assets, bond, guarantee or other indemnity;
- whether the overall recovery to the Fund is likely to be higher if spreading the exit payment is permitted.

8.3 In determining the employer's ability to make a single payment the Administering Authority will seek actuarial, covenant or legal advice as required. Where the Administering Authority considers that the employer is financially able to make a single capital payment it will not normally be appropriate for the exit payment to be spread.

8.4 The employer will be required to provide details of its financial position, business plans and financial forecasts and such other information as required by the Administering Authority in order for it to make a decision on whether or not to permit the exit payment to be spread. This information must be provided within 2 months of request.

8.5 In determining the appropriate length of time for an exit payment to be spread, the Administering Authority will consider the affordability of the instalments using different spreading periods for the employer. The default spreading period will be three years but longer periods of up to ten years will be considered where the Administering Authority is satisfied that this doesn't pose undue risk to the Fund in relation to the employer's ability to continue to make payments over the period.

8.6 Whilst the Administering Authority's preference would be for an employer to request spreading of any exit payment in advance of the exit date, it is acknowledged that a final decision by the employer (and the Administering Authority) on whether this will be financially beneficial/appropriate may not be possible until the employer has exited. Exiting employers will be advised of the exit deficit and the spreading of any payment will only be considered at the request of the employer. Where there is a guarantor, the guarantor will also be consulted and any agreement to spread the exit deficit may be conditional on the guarantee continuing in force during the spreading period.

8.7 The amount of the instalments due under an exit deficit spreading agreement will generally be calculated as level quarterly amounts allowing for interest over the

Commented [AM29]: We've drafted this on the basis that spreading an exit payment is most likely to be appropriate for exiting employers which can't afford a one-off payment. In those cases covenant advice may not add much value so we haven't suggested you would take such advice in all cases.
Ok agreed

Commented [AM30]: Need to consider whether that's reasonable and it may even be worth seeking employer input on an appropriate period when consulting on the policy.
I haven't considered the deadline for the information being requested – it would be worth reflecting on the exit process and whether there should be agreed deadlines for requesting the exit valuation, it being provided and the results passed on to employers etc.

Ok agreed

Commented [AM31]: Ten years seems like a long time but may be justified in some circumstances – e.g. for employers like the Arts Council

Ok agreed

Commented [AM32]: The SAB guide appears to envisage that agreements would be put in place before the employer exits but there may be employers which have already exited where this may be useful and given the volatility of the exit amounts it's possible employers may not know whether or not they want to request this until after they've been advised of the final exit amount. It may be worth reflecting on this.
Ok agreed

Commented [AM33]: In practice we can provide information on spreading options in the Results Schedule (not the employer supplement) if that would be helpful and you envisage a reasonable number of such requests.

Commented [AM34]: Is this too long given potential covenant concerns? If the employers/deficit are small, monthly payments might not be worth it from an administrative perspective spreading period in line with the discount rate used to calculate the exit liabilities. Where the exit amount is significant, monthly payments may be required or the Administering Authority may require a higher initial payment with lower annual payments thereafter to reduce the risk to the Fund. Alternative payment arrangements may be made in exceptional circumstances as long as the Administering Authority is satisfied that they don't materially increase the risk to the Fund.

8.8 Where it has been agreed to spread an exit payment the Administering Authority will advise the employer in writing of the arrangement, including the spreading period; the annual payments due; interest rates applicable; other costs payable* and the responsibilities of the employer during the spreading period. Where a request to spread an exit payment has been denied the Administering Authority will advise the employer in writing and provide a brief explanation of the rationale for the decision.

*Employers will be asked to pay all advisory costs associated with the spreading agreement as well as calculation of the exit deficit (these costs will not be spread).

8.9 The Administering Authority will generally review spreading agreements as part of its preparation for each triennial valuation and will take actuarial, covenant, legal and other advice as considered necessary. In addition, employers will be expected to engage with the Administering Authority during the spreading period and adhere to the notifiable events framework as set out in the Pensions Administration Strategy. If the Administering Authority has reason to believe the employer's circumstances have changed such that a review of the spreading period (and hence the payment amounts) is appropriate, it will consult with the employer and a revised payment schedule may be implemented. Whilst this review may also consider the frequency of payments, it should be noted that it is not envisaged that any review will consider changes to the original exit amount nor interest rate applicable. An employer will be able to discharge its obligations under the spreading arrangement by paying off all future instalments at its discretion. The Administering Authority will seek actuarial advice in relation to whether or not there should be a discount for early payment given interest will have been added in line with the discount rate used for the exit valuation.

9. Exit Credits

Commented [AM35]: Note that our understanding is that it is not the intention to revisit payments due under any spreading arrangements at future triennial valuations.

Commented [AM36]: 19. Policies should also set out:
–indicative timetable for a review, noting that there may be circumstances where timings may vary
–that the administering authority will take actuarial, covenant, legal and other advice as necessary in considering a case, and
–the process for employers to share updated information if/when their circumstances change to allow effective monitoring of the arrangement

Commented [AM37]: See later comments (this is referred to in the SAB guide in relation to reviewing contributions as well as spreading exit payments). It will require the PAS to be updated too. I've kept the monitoring light touch as I'm not sure you want/need a detailed framework for this (and this can be subject to further development as and when there are more employers making use of these flexibilities)

9.1 Where an exit valuation discloses that there is a surplus in the Fund in respect of the exiting employer, and an exit credit is due to be paid to the exiting employer, the Administering Authority will, unless otherwise agreed with the employer, pay the exit credit to the employer within 6 months the exit date. Where the employer has not provided all the necessary information required by the Administering Authority to enable the Fund Actuary to calculate the final liabilities on exit within 2 months of the exit date, the employer will be deemed to have agreed that the 6 month period should run from the date all the necessary data has been provided.In determining the amount of any exit credit payable the Administering Authority will take the following factors into consideration:

(a) the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities (i.e. a surplus)

(b) the proportion of the surplus which has arisen because of the value of the employer's contributions

(c) any representations 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 2013 Regulations, and

(d) any other relevant factors, which include any legal, actuarial or other costs incurred by the Administering Authority in relation to the exit, the circumstances in which any subsumption commitment was granted, and any risk sharing arrangements in place.

9.2 For exits where there is a subsumption commitment and hence the ongoing funding target appropriate to the subsuming employer is adopted on exit, the Administering Authority's default approach will be to pay an exit credit which is the lower of the surplus amount and the amount of contributions paid by the exiting employer.

9.3 For exits where there is no subsumption commitment and hence the orphan (i.e. gilts-based) funding target will apply, the Administering Authority's default approach will be to pay an exit credit equal to the amount of the surplus on exit less any costs incurred by the Administering Authority in relation to the exit.

10 Multi-academy trusts

10.1 Where an employer within a multi-academy trust (MAT) fails, unless that academy is an employer in its own right there is no power within the Regulations for the Administering Authority to commission an exit valuation under Regulation 64, unless it considers that the MAT itself may become an exiting employer and so a valuation under Regulation 64(4) is appropriate. In that case, where an employer within the MAT has failed, irrespective of whether or not the Department for Education guarantee applies, the liabilities of the exiting academy will fall to be funded by the remaining employers within the MAT rather than becoming orphaned liabilities. The Administering Authority may direct the Fund Actuary to carry out a valuation of the liabilities of the exiting academy in the fund at the date of exit in order to assess the effect of its failure on the remaining employers within the MAT, and ensure the remaining MAT employers (and any new employers joining the MAT) are aware to the extent of these liabilities. The Administering Authority may direct the Fund Actuary to take this failure into account and adjust the contributions payable by the remaining employers within the MAT at the next triennial Actuarial Valuation, or earlier if considered material and the circumstances meet the criteria for a review of contributions under Regulation 64A - see Appendix 3 for details of the Administering Authority's policy in this area.

10.2 Where employers within a MAT are individual scheme employers for the purpose of the Regulations, and an academy within the MAT leaves or fails, an exit valuation will be carried out as at the date of exit. Where there is no successor body and the Department for Education guarantee does not make good any shortfall on exit, the Administering Authority would seek to recover any unpaid deficit from the remaining employers within the MAT where those employers participate in the Fund. Rather than requiring a lump sum payment, the Administering Authority may instead act on the assumption that the remaining MAT employers have provided a subsumption commitment, which includes subsumption of the unpaid deficit which would then fall to be recovered from ongoing contributions. In that case the Administering Authority will instruct the Fund Actuary to allocate the assets and liabilities of the outgoing academy across the remaining employers in the MAT.

10.3 Where academies move between multi-academy trusts, for example where a MAT winds up and its academies transfer into different MATs (whether existing MATs within the Fund or newly-established MATs), the Administering Authority may direct the Fund Actuary to carry out a valuation of the liabilities of any academy moving between MATs and of all academies within the exiting MAT. Where the exiting MAT is the scheme employer, and hence an individual funding position has not been maintained for the constituent academies, the assets notionally allocated to each of its academies will be derived by assuming each has the same funding level as the MAT as a whole. The calculation of the assets and liabilities in these circumstances is to ensure that both the former and new MAT are aware of the value of the assets and liabilities transferring and to ensure that the residual position of the exiting MAT (if any of its liabilities are not transferring to a new academy or MAT) is correctly assessed for the purpose of invoking the Department for Education guarantee.

11. Suspension notices

11.1Regulation 64(2A) permits the suspension of an employer's liability to make an exit payment for up to 3 years where the Administering Authority believes that the employer is likely to have one or more active members contributing to the Fund within the period specified in the suspension notice. The Administering Authority considers that it is appropriate to exercise that discretion in relation to Town and Parish Councils where there is a reasonable expectation that a member will join in the near future (e.g. before the next triennial Actuarial Valuation). In that case, the Fund will advise the employer of the exit amount calculated by the Actuary and serve a written suspension notice on the employer. Whilst under such a suspension notice, the employer must continue to pay any deficit payments certified to the Fund as if it were an ongoing employer and the actuary will recalculate any deficit and contributions due at the next Actuarial Valuation. If there are no new members by the time the suspension notice expires the Fund Actuary will carry out an exit valuation as at the date the suspension notice expires.

12. Deferred Debt Agreements (DDAs)

12.1 Regulation 64(7A) permits the Administering Authority to enter into a written agreement with an exiting Scheme employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the secondary rate ("a deferred debt agreement").

12.2 The Administering Authority's policy in relation to the spreading of exit payments under Regulation 64(7A) is set out below.

In determining whether or not to enter into a DDA with an employer the Administering Authority will take into account the following factors, including but not limited to:

- the materiality of the employer and any exit deficit in terms of the Fund as a whole;

Commented [AM38]: MHCLG stat guidance:
20. An administering authority's policy on entering into deferred debt agreements (DDAs) should cover the following matters:

i.The key factors which the authority will use to determine, (taking account of actuarial advice), whether to enter into a DDA with an employer
ii.Any circumstances where the administering authority considers it will not be appropriate to enter in a DDA with an employer
iii.The process the authority will adopt for consulting the exiting fund employer in question under regulation 64(7B)(c)(i)
iv.The evidence an administering authority will require from a fund employer to consider a DDA, including the cost and timing of an application, noting the requirement for actuarial advice and any covenant, legal or other advice as applicable
v.The matters, aside from those required by regulations, which the administering authority will expect to include in the DDA, including:
-the responsibilities of the deferred employer
-conditions triggering the implementation of a recovery plan
-circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable
vi.The administering authority's approach to monitoring a DDA and the circumstances in which the administering authority may consider:
-approaching the fund employer to seek to agree a variation to the length of the agreement under regulation 64(7D), and
-serving notice on the fund employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d)

Commented [AM39]: I am in two minds about whether this should be carved out or kept here as it's quite long. Any thoughts/preferences?

Ok agreed

- the risk to the Fund of entering into a DDA, in terms of the likelihood of the employer failing before the DDA has ended, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser
- the rationale for the employer requesting a DDA, particularly if the Administering Authority believes it would be able to make an immediate payment to cover the exit deficit; and
- whether an up front payment will be made towards the deficit, and/or any security is, or can be put, in place, including a charge over assets, bond, guarantee or other indemnity, to reduce the risk to other employers.

12.3 Where it is expected that the employer's covenant may materially weaken over time the Administering Authority is very unlikely to consider entering into a DDA with that employer. Further, where an employer can demonstrably meet the exit payment in a single instalment, the Administering Authority would be unlikely to enter into a DDA unless it was clear that this wouldn't increase risk to the Fund, e.g. if the employer was fully taxpayer-backed and sufficient assurance was in place that all contributions due, including any residual deficit at the end of the DDA, would be met in full.

It is envisaged that DDAs will only be entered into at the request of an employer. The Administering Authority will then engage/consult with the employer to consider the application and determine whether or not a DDA is appropriate and the terms which should apply

12.4 As part of its application for a DDA the Administering Authority will require information from the employer to enable the Administering Authority to take a view on the employer's strength of covenant. Information will also be required on an ongoing basis to enable the employer's financial strength/covenant to be monitored. Employers should be aware that all advisory fees incurred by the Fund associated with a request for a DDA, whether or not this results in an agreement being entered into, and its ongoing monitoring, will be recharged to the employer.

12.5 The Administering Authority has a template agreement for DDAs, which it will require employers (and any guarantors) to sign up to. The matters which the Administering Authority will reflect in the DDA, include:

- an undertaking by the employer to meet all requirements on Scheme employers, including payment of the secondary rate of contributions, but excluding the requirement to pay the primary rate of contributions;

Commented [AM40]: You could make the argument that the employer would be on the hook for future deficits arising but where the gilts exit basis is being used it's not obvious what benefits there would be to the administering authority (although where it's an employer fully funded by taxpayers there may not be much risk either).

Commented [AM41]: I am assuming there are no other costs you would wish to pass on, e.g. officers' time etc?

Commented [AM42]: We're assuming this would be the case, noting that the SAB guide includes a very basic starting point drafted by Eversheds.

Commented [AM43]: From the Regulations and MHCLG's guidance – I've edited down the wording from the Regs a little. You could argue that there is no need to include the matters set out in the Regs as the guidance refers to additional matters

- a provision for the DDA to remain in force for a specified period, which may be varied by agreement of the Administering Authority and the deferred employer;

- a provision that the DDA will terminate on the first date on which one of the following events occurs-

  (a) the deferred employer enrols new active members;

  (b) the period specified, or as varied, elapses;

  (c) the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;

  (d) the Administering Authority serves a notice on the deferred employer that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months; or

  (e) the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover the exit payment that would have been due if the employer had become an exiting employer on the calculation date.

- the responsibilities of the deferred employer

- conditions triggering the implementation of a recovery plan, i.e. when the secondary contributions payable and/or the period of the DDA may be varied

the circumstances triggering a cessation of the arrangement leading to an exit payment (or credit) becoming payable, in addition to those set out in Regulation 64 (7E) and above.

it is expected that the consultation process with the employer will include discussions on the precise details of the DDA, although the purpose of developing a template agreement is to make the process easier, quicker and cheaper and therefore it is not envisaged that there will be material changes to the Administering Authority's template.

12.6 The Administering Authority will monitor the funding position and risk/covenant associated with deferred employers on a regular basis. This will be at least triennially and most likely annually, but the frequency will depend on factors such as the size of

Commented [AM44]: It's not very clear what this actually means since by definition the employer is in deficit and the secondary contributions are payable over the recovery plan? It may relate to when secondary contributions/the period of the DDA would be amended, i.e. at triennial valuations and more frequently if determined appropriate based on any monitoring of the funding position and/or employer covenant. I think it's ok to leave this vague, and for it to be covered in the DDA rather than set out here. Do you agree?

Ok agreed

Commented [AM45]: Seems a bit repetitive given the bullet points above but this is a separate requirement of the MHCLG guidance so I've included it the employer and any deficit and the materiality of movements in market conditions or the employer's membership.

12.7 The circumstances in which the Administering Authority may consider seeking to agree a variation to the length of the agreement under regulation 64(7D) include:

- where the exit deficit has reduced (increased) such that it is reasonable to reduce (extend) the length of the recovery period and associated period of the DDA assuming that, in the case of the latter, this does not materially increase the risk to the other employers/Fund

- where the deferred employer's business plans, staffing levels, finances or projected finances have changed significantly, but, in the case of a deterioration, the Administering Authority, having taken legal, actuarial, covenant or other advice as appropriate, does not consider that there is sufficient evidence that deferred 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

- where the level of security available to the Fund has changed in relation to the DDA, as determined by the Administering Authority, taking legal, actuarial or other advice as appropriate

12.8 At each triennial valuation, or more frequently as required, the Administering Authority will carry out an analysis of the financial risk or covenant of the deferred employer, considering actuarial, covenant, legal and other advice as necessary. Where supported by the analysis and considered necessary to protect the interests of all employers, the Administering Authority will serve notice on the deferred employer that the DDA will terminate on the grounds that it is reasonably satisfied that the deferred employer's ability to meet the contributions payable under the deferred debt arrangement has weakened materially, or is likely to weaken materially in the next 12 months, as set out under regulation 64(7E)(d).

12.9 Employers should be aware that all advisory fees incurred by the Fund associated with consideration of a DDA for an exiting employer, whether or not this results in a DDA being entered into, will be recharged to the employer. This will include actuarial, legal, covenant and other advice and the costs of monitoring the arrangement as well as the initial set up. Estimated costs can be provided on

Commented [AM46]: Again feels a little repetitive but the MHCLG guidance does require this to be included

Commented [AM47]: I deliberately haven't said what the notice period should be as you may wish to take legal advice on this and I would expect the default period to be set out in the DDA.

Commented [AM48]: MHCLG stat guidance:

21.Policies should also set out:

–how the costs of the exercise would be calculated and met,
–indicative timetable for entering a DDA, noting that there may be circumstances where timings may vary
–that the administering authority will take actuarial, covenant, legal and other advice as necessary in considering a case
–the process for employers to share information if/when their circumstances change to allow effective monitoring of the arrangement

Commented [AM49]: I am assuming there are no other costs you would wish to pass on, e.g. officers' time etc?

request. All fees must be paid up front and cannot be added to any secondary contributions payable under the DDA.

12.10 It is expected that employers will make a request to consider a DDA before they would otherwise have exited the Fund under Regulation 64(1) and that a DDA should be entered into within 3 months of that date. The employer should continue to make secondary contributions at the prevailing rate whilst the DDA is being considered unless the Administering Authority, having taken actuarial and other advice as appropriate, determines that increased contributions should be payable. In exceptional circumstances, e.g. where there has been a justifiable delay due to circumstances outside of the employer's control, and at the sole discretion of the Administering Authority, a DDA may be entered into more than 3 months after the exit date.

12.11 Deferred employers will be expected to engage with the Administering Authority during the period of the DDA and adhere to the notifiable events framework as set out in the Pensions Administration Strategy as well as providing financial and other information on a regular basis. This will be necessary to support the effective monitoring of the arrangement and will be a requirement of the DDA.

13. Responsibilities of employers in the Fund

13.1Individual employers, whether active or deferred, Multi Academy Trusts or the Department for Education will pay for any legal and actuarial costs incurred by the Fund on their behalf.

13.2 Employers should have regard to the Administering Authority's administration strategy and their responsibilities as set out in the Funding Strategy Statement at all times.

13.3 All employers need to inform the Administering Authority of any changes to their organisation that will impact on their participation in the Fund. This includes changes of name or constitution or mergers with other organisations or other decisions which will or may materially affect the employer's Fund membership, including but not limited to:

- an admission body closing to new entrants
- a scheduled body setting up a wholly owned company to employ new staff, regardless of whether or not that company will participate in the Fund

Commented [AM50]: An arbitrary period. You might wish to consider your deadlines/processes for other arrangements but given the employer will have an exit deficit we didn't think it would be sensible to permit an extended period. Ideally the DDA would come into force on the exit date but where the exit is due to an unexpected event, e.g. the last member leaving it does seem reasonable for there to be a gap between the exit date and the DDA coming into force. Where additional security is being put in place there also needs to be time for that to be arranged.

Commented [AM51]: See later comments (this is referred to in the SAB guide in relation to reviewing contributions as well as spreading exit payments and seems relevant to deferred employers too). It will require the PAS to be updated too. I've kept the monitoring light touch as I'm not sure you want/need a detailed framework for this (and this can be subject to further development as and when there are more employers making use of these flexibilities)

- merging with another organization, whether a participant in the Fund or not (e.g. colleges merging under the Area Review process or housing companies merging)
- an application by a 6th form college to become a 16-19 academy, including whether successful or not
- a material change in the funding of the organization including a reduction in grants from local or central government or a shift in the balance of funding
- a large scale redundancy exercise which could materially reduce the employer's active membership
- any intervention by, or voluntary undertaking provided to, the appropriate regulator

13.4 Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed.

APPENDIX 3: Policy on reviewing Employer Contributions between Triennial Valuations

1. Background

1.1 This Document explains the policies and procedures of the West Yorkshire Pension Fund ("the Fund"), administered by City of Bradford Metropolitan District Council ("the Administering Authority"), in relation to any amendment of employer contributions between formal valuations as permitted by Regulation 64A.

1.2This Policy supplements the general funding policy as set out in the Funding Strategy Statement and should be read in conjunction with that statement. It is intended to provide transparency and consistency for employers in use of the flexibilities within the Regulations.

1.3 The Administering Authority will consider reviewing employer contributions between formal valuations in the following circumstances:

- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or
- Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

For the avoidance of doubt, the Administering Authority will not consider a review of contributions purely on the grounds of a change in market conditions affecting the value of assets and/or liabilities.

2. Factors used to determine when a review is appropriate

2.1 In determining whether or not a review should take place, the Administering Authority will consider the following factors (noting that this is not an exhaustive list):

- the circumstances leading to the change in liabilities arising or likely to arise, for example whether this is the result of a decision by the employer, such as the

Commented [AM52]: Simply copied from the Regulations. Alternatively, you could use the wording from the draft statutory guidance which is slightly different

Commented [AM53]: Requirements from draft statutory guidance:
i.The key factors that the authority will use to determine whether a contribution review for an employer or a group of employers should take place, taking account of actuarial advice
ii.How the administering authority will assess the risk/impact of an employer contribution review on other fund employers
iii.How an employer will be involved in a contribution review and the administering authority's procedure on consulting other potentially impacted fund employers
iv.The periods in the triennial valuation cycle during which the administering authority considers it may be inappropriate to conduct a review
v.That the administering authority will take actuarial advice on the calculation of an employer's revised contribution rate considering the following:
–the scale of the liability change
–changes in the employer's covenant and their ability to meet obligations to the Scheme
vi.The process required for an employer to apply for a review, the evidence they are required to submit, and how the cost to the employer will be calculated

restructuring of a Multi-Academy Trust, a significant outsourcing or transfer of staff, closure to new entrants, material redundancies or significant pay awards, or other factors such as ill-health retirements, voluntary withdrawals or the loss of a significant contract

- the materiality of any change in the employer's membership or liabilities, taking account of the Actuary's view of how this might affect its funding position, primary or secondary contribution rate
- whether, having taken advice from the Actuary, the Administering Authority believes a change in ongoing funding target or deficit recovery period would be justified, e.g. on provision or removal of any security, subsumption commitment, bond, guarantee, or other form of indemnity in relation to the employer's liabilities in the Fund

- the materiality of any change in the employer's financial strength or longer-term financial outlook, based on information supplied by the employer and supported by a financial risk assessment or more detailed covenant review carried out by the Fund Actuary or other covenant adviser to the Fund

- the general level of engagement from the employer and its adherence to its legal obligations as set out in the Pensions Administration Strategy Statement and elsewhere, including the nature and frequency of any breaches such as failure to pay contributions on time and data quality issues due to failure to provide new starter or leaver forms

3. Assessment of the risk/impact on other employers

3.1 In determining whether or not a review should take place, the Administering Authority will generally focus on the materiality of any potential changes in the context of the employer concerned; its financial position and current contribution levels. As a matter of principle, the Administering Authority does not consider that a review is not justified just because an employer is small in the context of the Fund as a whole, noting that failure to act could make discussions at the next formal valuation more difficult and compound the risk to the Fund. However, in determining the extent and speed of any changes to the employer's contributions the Administering Authority will consider the effect on the overall funding position of the Fund, i.e. other Fund employers.

Commented [AM54]: Examples largely taken from the draft SAB status although I've omitted the reference to councils moving to unitary status as your councils are already unitary authorities and added a reference to closing to new entrants.
Note that in separating factors under the employer's control and outside their control the inference is that you might consider these separately – e.g. if there have been material withdrawals or ill-health retirements the employer might replace these leavers (if not closed) and therefore this might be less of a reason to change contributions. Please confirm you agree with this.

Commented [AM55]: Examples largely taken from SAB guide but reference to a subsumption commitment added. Note that in practice I don't believe provision or removal of a bond, guarantee or indemnity would lead to a change in funding target but it might influence the recovery period? Worth further discussion since we need to ensure the policy is transparent without including so much detail we have no flexibility

Commented [AM56]: From SAB guide

Commented [AM57]: Loosely based on wording from SAB guide. Have added reference to the PAS (see also later comment re notifiable events) and data quality. Worth reflecting on whether the reference to the PAS helps or hinders

3.2 Where contributions are being reviewed for an employer with links to another Fund employer, particularly where this is a formal organisational or contractual link, e.g. there is a tripartite admission agreement, an ownership relationship or a formal guarantee or subsumption commitment is in place, the Administering Authority will consider the potential risk/impact of the contribution review on those other employer(s), taking advice from the Fund Actuary as required.

Commented [AM58]: In practice it's possible there are impacts beyond pensions which you might want to take account of so I have tried not to be too prescriptive here (noting again the need to balance transparency and prescription)

4. Employer involvement and consultation

4.1 It is expected that in most cases the employer will be aware of the proposed review of their contributions since this will be triggered by an employer's action and employers should be aware of the need to engage with the Fund in relation to any activity which could materially affect their liabilities or ability to meet those liabilities.

Commented [AM59]: Note that the SAB guide suggests development of a "notifiable events" framework to ensure the AA is informed of relevant changes. (This already exists in the private sector.) The SAB guide suggests this is covered in the PAS so you may wish to revise that document as well as the FSS and these policies.

4.2 In other cases information will be required from the employer, e.g. in relation to its financial position and business plans which could be the catalyst for informing the employer that a review is being proposed. In all cases the Administering Authority will advise the employer that a review is being carried out and share the results of the review and any risk or covenant assessment as appropriate. It should be noted that the fact of a review being carried out does not automatically mean that contributions will be amended (up or down) since that will depend upon the materiality of the changes and other factors such as the outcome of discussions with the employer and any related/linked employer in the Fund and the proximity to the next formal valuation.

Commented [AM60]: Please check you are happy with this. It would be good practice and, as noted, a review doesn't mean contributions will definitely change.

4.3 Where, following representations from the employer, the Administering Authority is considering not increasing the employer's contributions following a review, despite there being good reason to do so from a funding and actuarial perspective, e.g. if it would precipitate the failure of the employer or otherwise seriously impair the employer's ability to deliver its organisational objectives or it is expected that the employer's financial position will improve significantly in the near-term, the Administering Authority will consult with any related/linked employers and, where appropriate, the largest employers in the Fund with a view to seeking their agreement to this approach.

Commented [AM61]: I've tried to mirror the approach to the underwritten employers here. Ideally we wouldn't end up in this position but in practice there will be a consultation and it is likely that employers will push back against any contribution increases.

5. Process for requesting a review

5.1 Before requesting a review, employers should consider the regulatory requirements and the Fund's policy as set out above and satisfy themselves that there has been a relevant change in the expected amount of liabilities or their ability to meet those liabilities. The employer should contact Tracy Weaver – Technical

Services Manager and complete the necessary information requirements for submission to the Administering Authority in support of their application.

5.2 The Administering Authority will consider the employer's request and may ask for further information or supporting documentation/evidence as required. If the Administering Authority, having taken actuarial advice as required, is of the opinion that a review is justified, it will advise the employer and provide an indicative cost. Employers should be aware that all advisory fees incurred by the Fund associated with a contribution review request, whether or not this results in contributions being amended, will be recharged to the employer.

Commented [AM62]: I am assuming there are no other costs you would wish to pass on, e.g. officers' time etc?

6. Other considerations

Commented [AM63]: Other requirements of draft statutory guidance:
17.Policies should also set out:

–indicative timetable for a review, noting that there may be circumstances where the timetable may vary
–how any change in contribution rate and the employer's circumstances may be monitored after its implementation and a statement that employers will be required to support any reasonable information requests in order to allow effective monitoring of the changes in covenant

6.1 The Administering Authority will carry out an annual assessment of the risk for Tier 3 employers and any others as considered appropriate. This will help identify whether a contribution review is required and is expected to be carried out as at each 31 March with any contribution changes effective from the following 1 April. Or such other date as agreed.

Commented [AM64]: We need to consider whether we would carry out a risk assessment as at 30 September following the valuation date.

6.2 More generally, the Administering Authority may carry out a review at any time during the valuation cycle where it becomes aware that a review is required. In such cases the employer will be expected to provide the requested information within one month of request and the review will be completed within 6 weeks of the provision of all requested information, or completion of the risk/covenant assessment if later.

Commented [AM65]: Consider if this is reasonable. Is intended to allow time for collation of information, including membership data and submission to us. Our timetable is likely to be 3-4 weeks although we can provide results earlier for any priority cases.

6.3 The Administering Authority will consult with the employer on the timing of any contribution changes and there will be a minimum of 4 weeks' notice given of any contribution increases. In determining whether, and when, any contribution changes are to take effect the Administering Authority will also take into account the timing of contribution changes flowing from the next formal valuation. As a result, contribution reviews are unlikely to be carried out during the 12 month period from the valuation date although if there were any material changes to the expected amount of liabilities arising or the ability of the employer to meet those liabilities during that period, this should be taken into account when finalising the Rates and Adjustments Certificate flowing from the valuation.

Commented [AM66]: An arbitrary number, assuming it gives them time to make payroll changes as required, noting they should have been aware of the contribution review in advance

6.4 Any appeal against the administering authority's decision must be made in writing to WYPF Director within 6 months of being notified of the decision.

An appeal will require the employer to evidence one of the following:

i) a deviation from the published policy or process by the administering authority, or

ii) Any further information (or interpretation of information provided) which could influence the outcome, noting new evidence to be considered at the discretion of the Administering Authority.